



Milk Pricing Reform Priorities

Summary

In its priorities for national milk pricing reform, Edge Dairy Farmer Cooperative is focused on strengthening the relationship between farmers and processors in a way that increases transparency, fairness and competition, and gives farmers a reasonable amount of price certainty. The cooperative's focus is on two principles — flexibility and fairness. These priorities were developed through research, member discussions, participation in a multi-state task force, and engagement with processors and other stakeholders.

Priorities

A more flexible system: Given the wide differences in product mixes across the country, more regional flexibility in the Federal Milk Marketing Orders would benefit everyone. Edge's proposal would give each order the authority to operate its milkshed in a way that is sensible for that order.

- Account for geographic differences in population, farmer base and product mix.
- Avoid unintended consequences of current uniform price rules, such as frequent switching of pooling status, negative producer price differentials and declining share of total area milk production pooled on the order.
- Achieve through "uniform benefits" principle instead of currently used "uniform price."
- Develop mechanics through collaboration of farmers and processors and then formalized in an inclusive USDA hearing after enabling legislation is passed.

Fairness in business: A standard set of "contracting principles" would make the pricing system more fair and equitable and strengthen trust between farmers and processors.

- Certain FMMO requirements, such as regular payment and verification, do not currently apply to depooled milk and would no longer be mandated if the orders were disbanded. The contracting principles would be effective independent of the orders.
- Contracts and supply arrangements constructed in a way that helps processors compete and innovate and strengthens trust dairy farmers and processors.
- Dairy processors invited to continue working with Edge and its farmers to create collaborative policy proposal.

- Edge recommends 10 contracting principles:
 1. Written contracts: All milk supply agreements must be in writing.
 2. Timely Payments: Farmers must be paid in a timely manner, every two weeks, and with no more than three weeks lag. Advance checks should be paid in accordance with what is known about the current month's prices.
 3. Verification of weights, test and samples: Unless a farmer opts out, third-party, certified organizations should be utilized to verify milk weights, component tests and samples. Verification organizations are also allowed to provide other services to farmers.
 4. Transparent pricing formulas: For farmers to be able to effectively manage risk, and understand financial implications of improvement in farm practices, milk composition and quality incentive formulas (such as SCC, protein and volume premiums) must be clearly spelled out in the milk supply agreements, and sufficient advance notice given before incentive formulas change. Processors should be allowed to set pricing formulas as needed to successfully compete in domestic and overseas markets.
 5. Contract termination notice: Other than in extraordinary circumstances, processors must give a reasonable amount of time as notice before contracts can be terminated.
 6. Good faith principle: Processors and farmers must act in good faith, and disputes should be addressed through an arbitration process with meaningful penalties for unfair behavior.
 7. Equal opportunity to all farmers: No special deals should be allowed. Incentive payments offered to one patron must be offered to all patrons meeting the processor's same criteria, including but not limited to differences for farm location, size and quality.
 8. Competitive risk management: Farmers should be able to effectively manage price risk using a combination of processor-specific basis contracts and private or government-supported risk management instruments.
 9. Exclusivity and volume limits: Processors should not impose exclusivity if imposing volume limits or two-tier pricing.
 10. Equal treatment of processors: These terms should apply to all milk buyers in the United States, irrespective of their ownership structure or participation in FMMOs.