



Move to multiple component pricing would erode milk checks

Recently, Agricultural Marketing Service (AMS) Deputy Administrator, USDA-AMS representatives, and Federal Orders 5 and 7 officials held a discussion session on multiple component pricing (MCP) in Knoxville, Tenn. To my knowledge, such a session is rare, and other farmers and I really appreciated efforts to answer questions directly about MCP and market functions.

I am a dairy farm owner with a multifaceted dairy farm in Philadelphia, Tenn. My operations include a traditional dairy farm, with the added business of a farmstead cheese operation, along with an agritourism venture. Periodically, my cheese plant provides the service of processing cheese for bulk and barrel sales for other entities.

Secondly, my compliments to the author who submitted the well-written article about Multiple Component Pricing on page 301 of the May 10, 2018, edition of *Hoard's Dairyman*. However, from the perspective of operating my dairy business in the Southeast region, and living the consequences of FMMO actions through the years via my milk checks, I respectfully disagree with some of Metzger's conclusions outlined in the proposal.

Please consider the following thoughts before I relay my perspective:

1. More milk is qualified into FMMOs 5 and 7 than is needed.
2. There is a severe shortage of markets, especially manufacturing, within 5 and 7.
3. The South has 50-plus years of genetics that have not given protein any priority, and protein is harder to produce due to forage and daily temperatures as one moves farther south.
4. And for the first time in my life, there is no demand or home for a

new producer or expansion. As we all know, several producers within FMMOs 5 and 7 have even lost their markets, and yet outside milk keeps flowing in.

5. Finally, I question the legality of redistributing dollars based on protein when the vast majority of milk (Class I sales) will not contribute dollars to the pool.

Comparing components

I will agree that the few remaining Jersey and high-protein herds do have a disadvantage under the current system, but more manufacturing could help this as much or more than moving to the MCP model. And to enhance my perspective, I have a separate crossbred, high-protein herd, which I compare with my Holsteins.

Now for my alternate opinions per the points that the May 10, 2018, columnist makes:

1. **Enhance hauling efficiencies.** My observation: Hauling costs are terrible and exorbitant in these orders, and in some cases, financially unsustainable, primarily for two reasons. First, there is a lack of cooperation among co-ops to put the closest milk to the closest plant. Secondly, they have done a very successful job of maximizing pooling and diversions. MCP would only aid in this process and would deliver no monies back to producers except the highest of component herds.
2. **Eliminate transaction losses.** My observation: If the milk has greater value in the area in which it is located, then it should stay there. The fact is that our market has to pay these values, but at least it encourages the higher solids milk from not coming.

It would be terrible to bring in higher solids milk only to have the

butterfat and/or protein be reloaded and go back to where it came from. This is where there are dollars that handlers would like to make up, and with this change, more and more higher solids milk would be attached to Orders 5 and 7, thus increasing the drain of dollars from the producers within the order.

3. **Raise regulatory uniformity of manufacturing milk.** My observation: This is an example of some handlers having their cake and eating it too. There are a lot of factors affecting cost and values, so let's not even talk about a level playing field.

Producers and manufacturing plants in FMMOs 5 and 7 have a completely different set of challenges, and if the advantages that the proposal mentions existed, there would be more production and manufacturing here. Four states have almost no dairy industry left at all and three more will soon follow.

4. **SCC adjustments will incentivize improved milk quality.** My observation: I acknowledge that parts of 5 and 7 have the highest SCC in the nation. However, on a weighted average, we have very acceptable SCCs, and it is no secret many of our top herds, including larger herds, have consistently low SCCs that can compete with anyone in the country. There have been financial incentives for some time, and producers have responded with lowered cell counts. This again will only pump monies out of certain states to the surrounding areas around 5 and 7.

Shouldn't there be some concern about producing local milk in local herds rather than serving our markets from farms hundreds of miles away? With periods of escalating transportation costs, such as we have now and have seen in the past,

how is it responsible to consumers in the Southeast to encourage pockets of production hundreds and thousands of miles from the region?

5. **Improve the value of pooled milk.** My observation: I do agree with the author on this one. The total value of pooled milk will increase as higher solids milk get associated with 5 and 7, and the giant sucking sound of dollars will get louder and louder as the local industry within the boundaries gets smaller and smaller until there will be almost no industry left in Kentucky, Tennessee, Virginia, and the Carolinas.

As for the charts used in this article, the first only helps to prove my point that the orders in question have had no incentive to increase protein and are at a tremendous disadvantage if changed. Most of the plants in Orders 5 and 7 run over 80 percent Class I milk, thus contributing very little to the protein price. The dollars paid out will have to come from somewhere, most likely the high-producing, strong summer and fall producing herds. The same herds that are serving the fluid market the most efficiently.

As for the second SCC graph, if 5 and 7 were included, they would show the same trend. However, those orders would be the higher of the group, thus showing that dollars would flow north and away from the local herds.

Finally, let's not move to MCP pricing in these orders. MCP pricing would continue to erode production within the boundaries by moving dollars out. We have just experienced months of producers losing their market while at the same time all this other milk is associated with these orders and continues to flow here. Let's bring some common sense back to milk orders.

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