

# Federal Order Modernization



**Dana Coale**

Deputy Administrator, Agricultural  
Marketing Service Dairy Program  
United States  
Department of Agriculture



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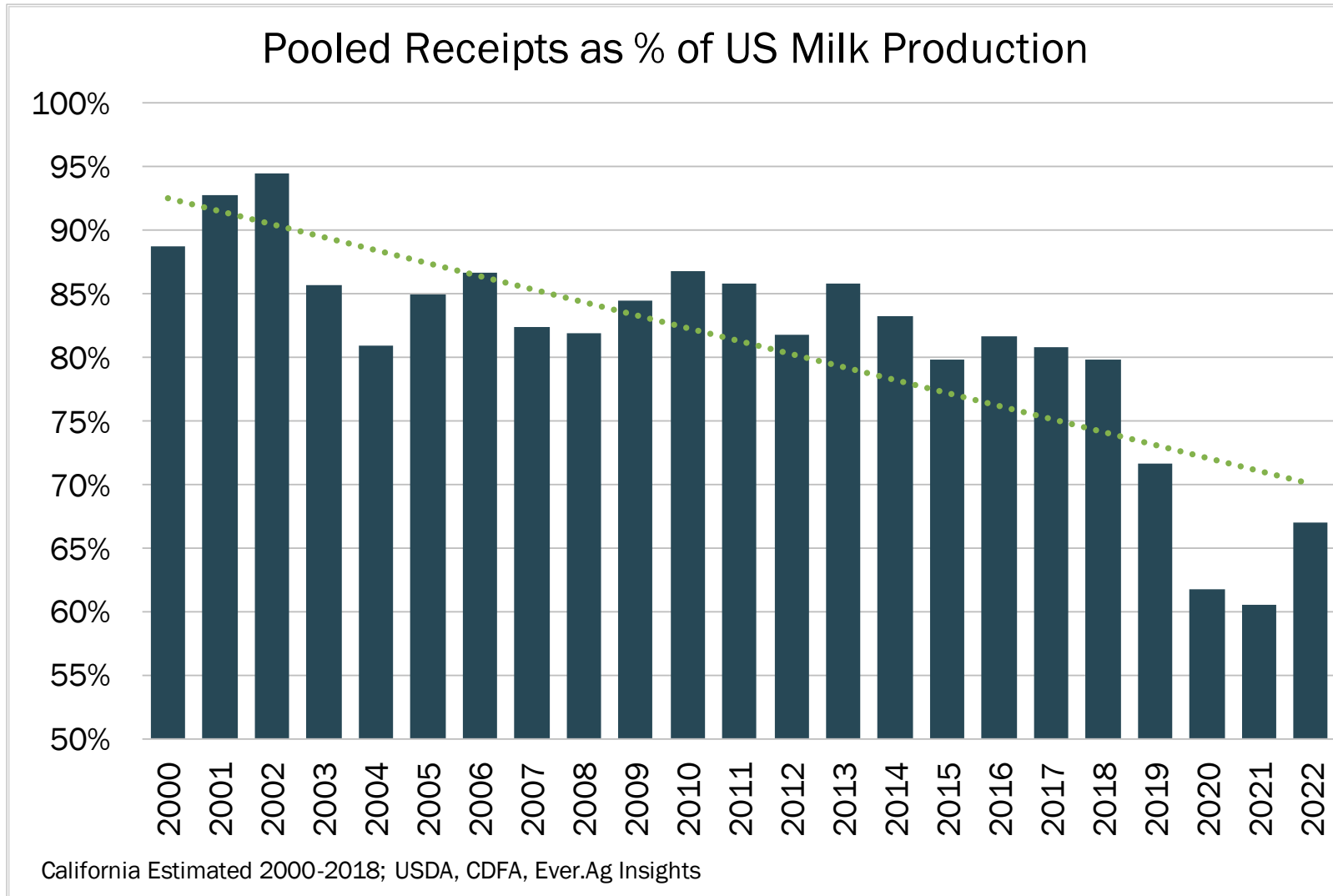
# Thoughts on FMMOs

CCOA Annual Meeting  
Phil Plourd

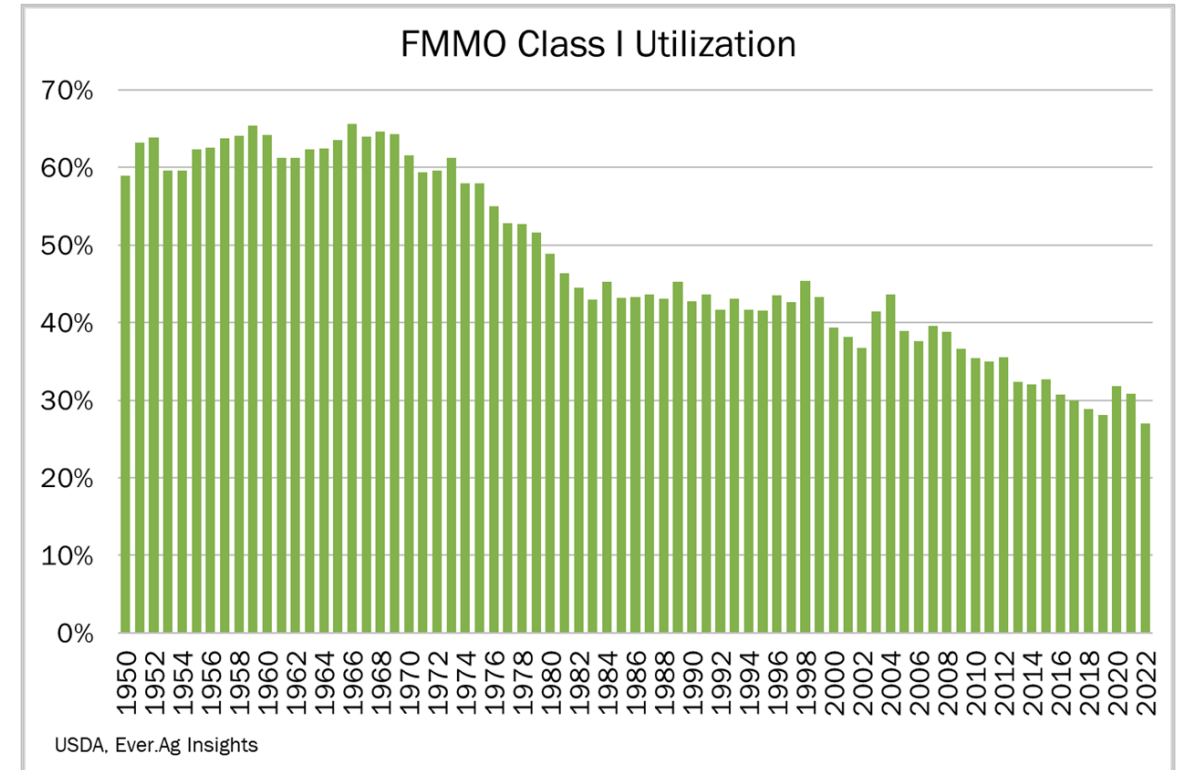
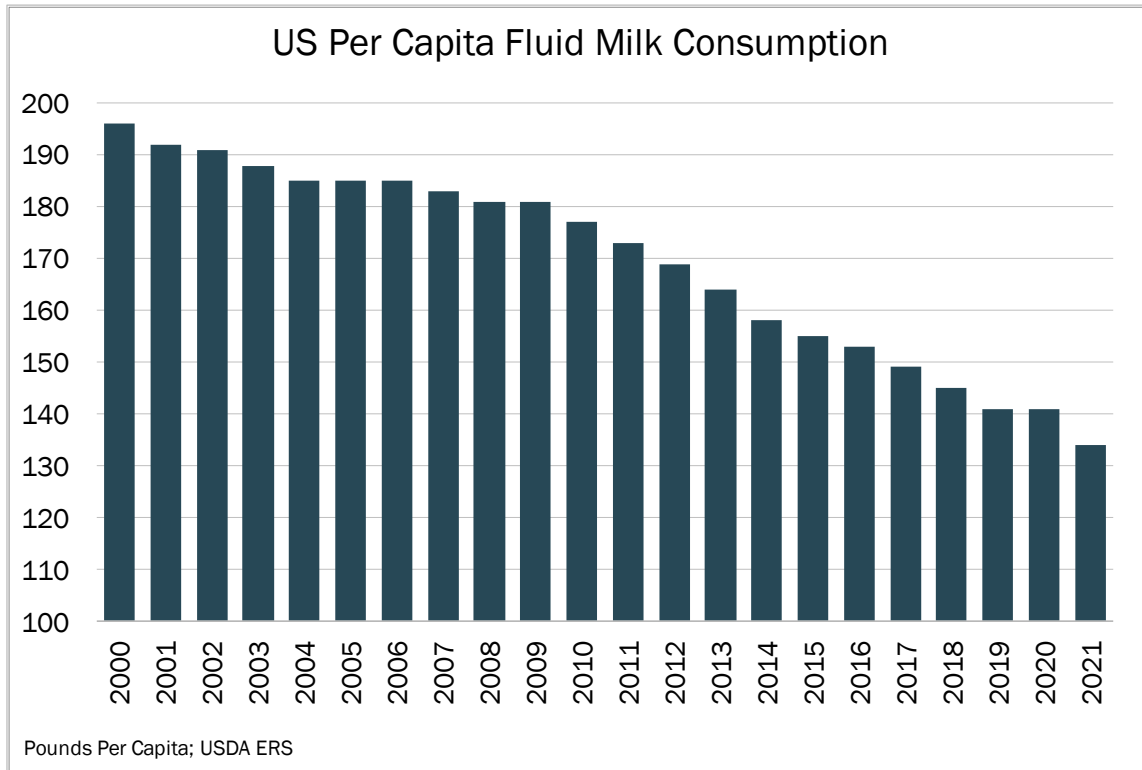
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June 26, 2023

# Declining Share

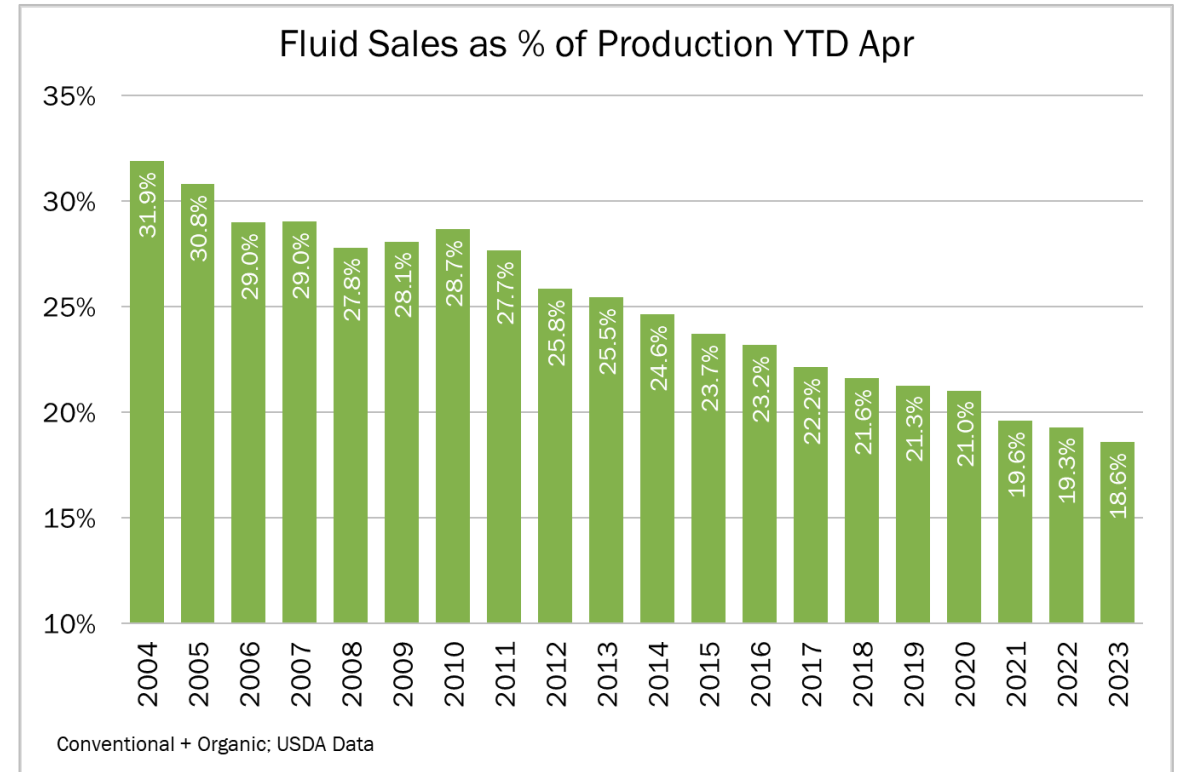
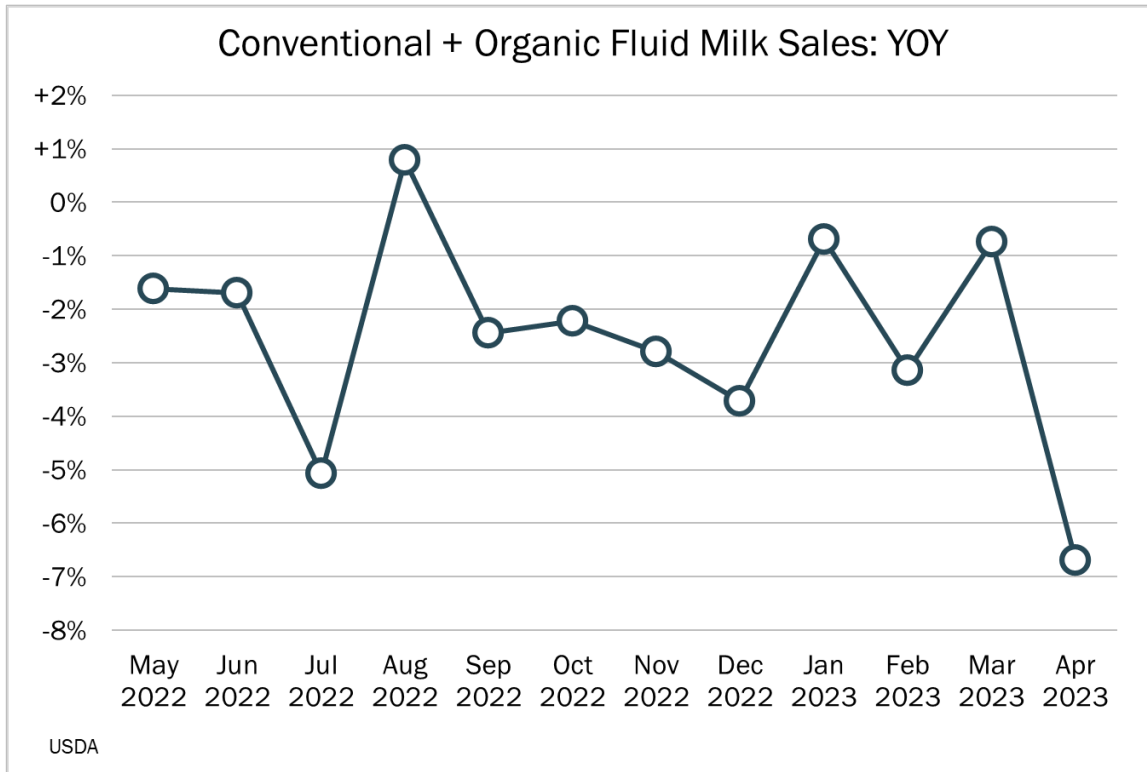


# Class I Situation Deteriorating



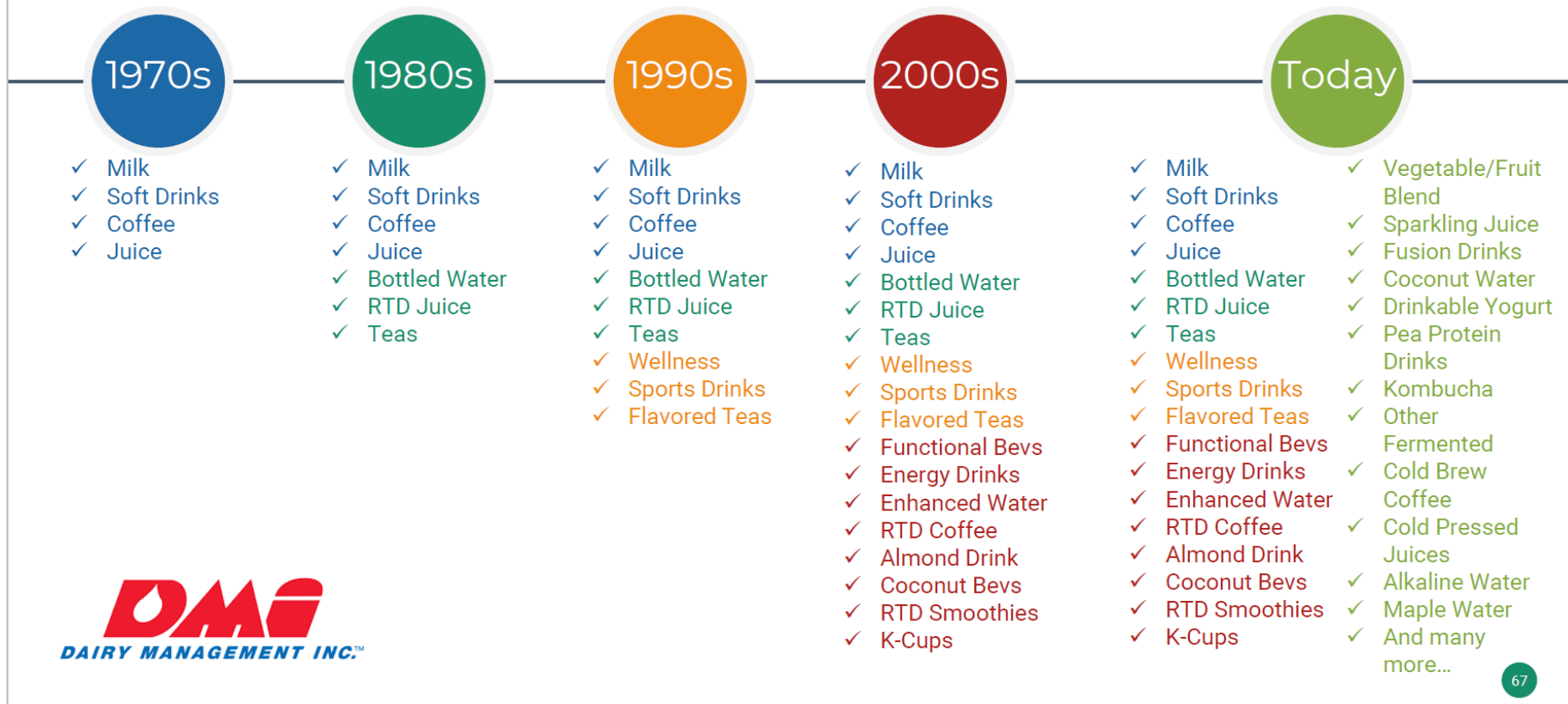
- Fluid sales down to 19% of milk production and less than 30% of FMMO utilization.
- School milk still vulnerable.

# Things Not Looking Better in 2023



# More and More Choices!

## The Beverage Landscape Has Grown Exponentially

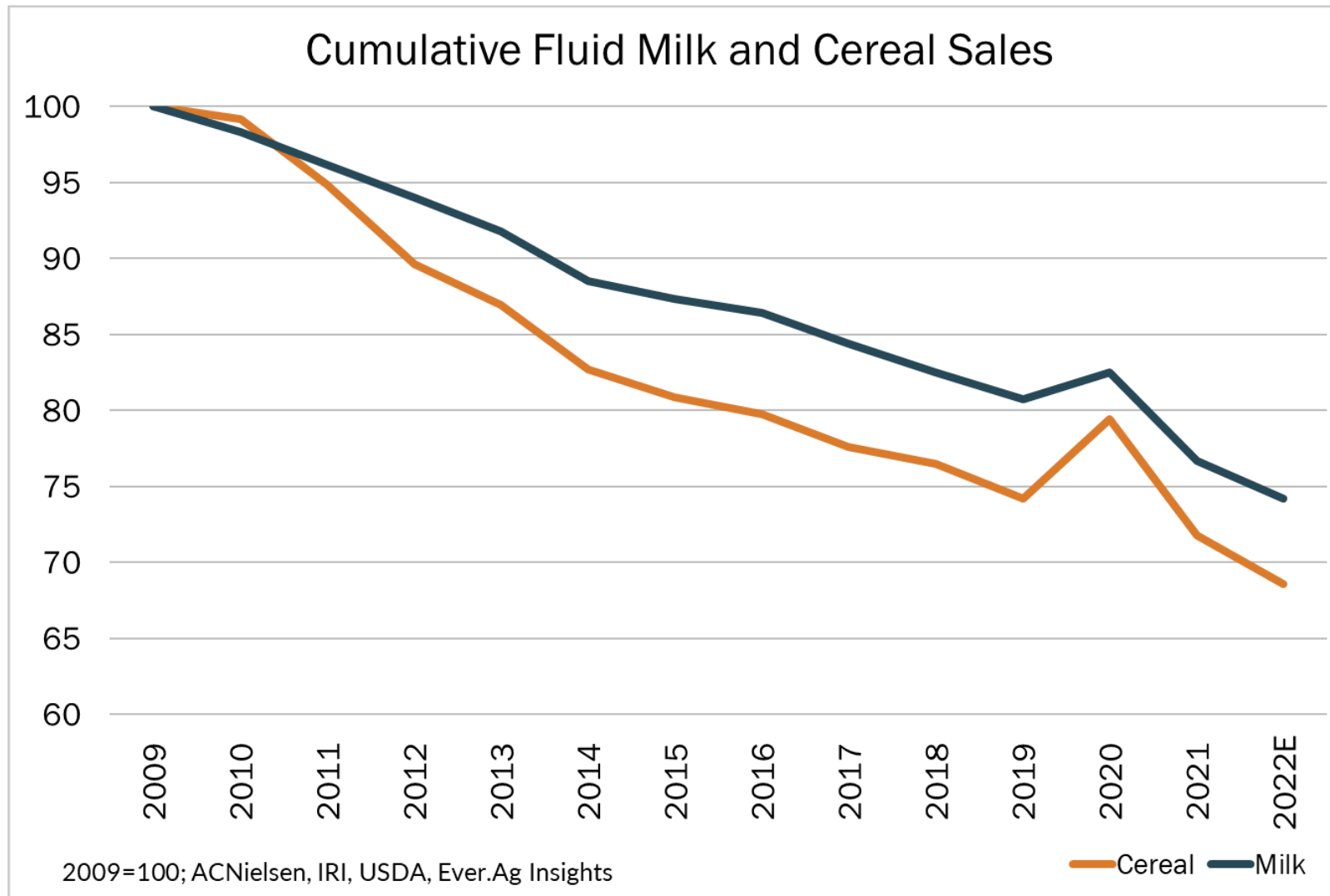


# Some of Milk's Best Friends Got Into Trouble

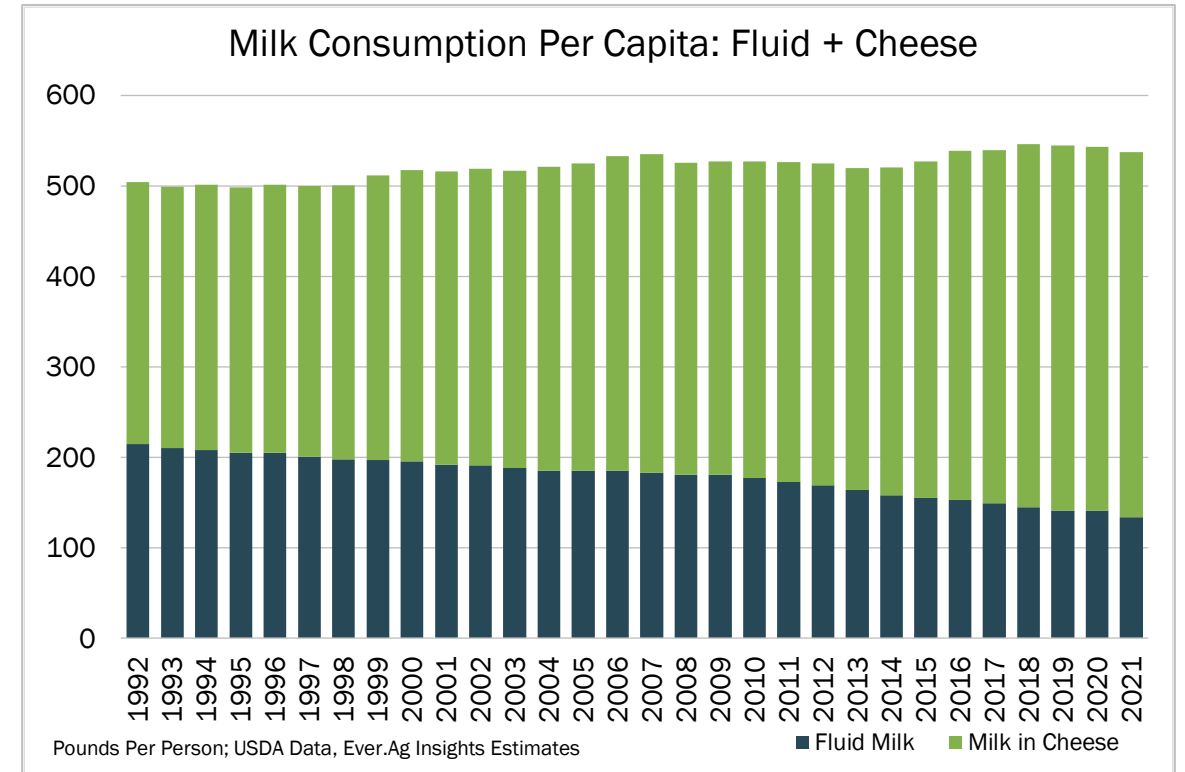
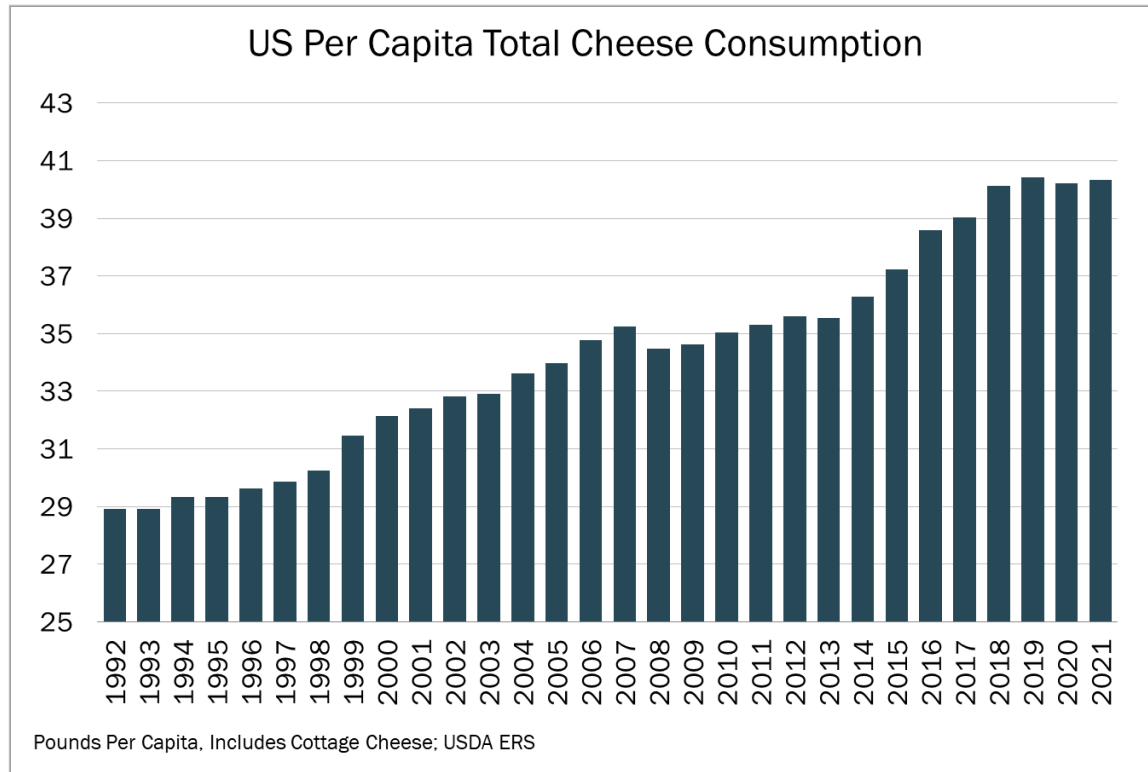




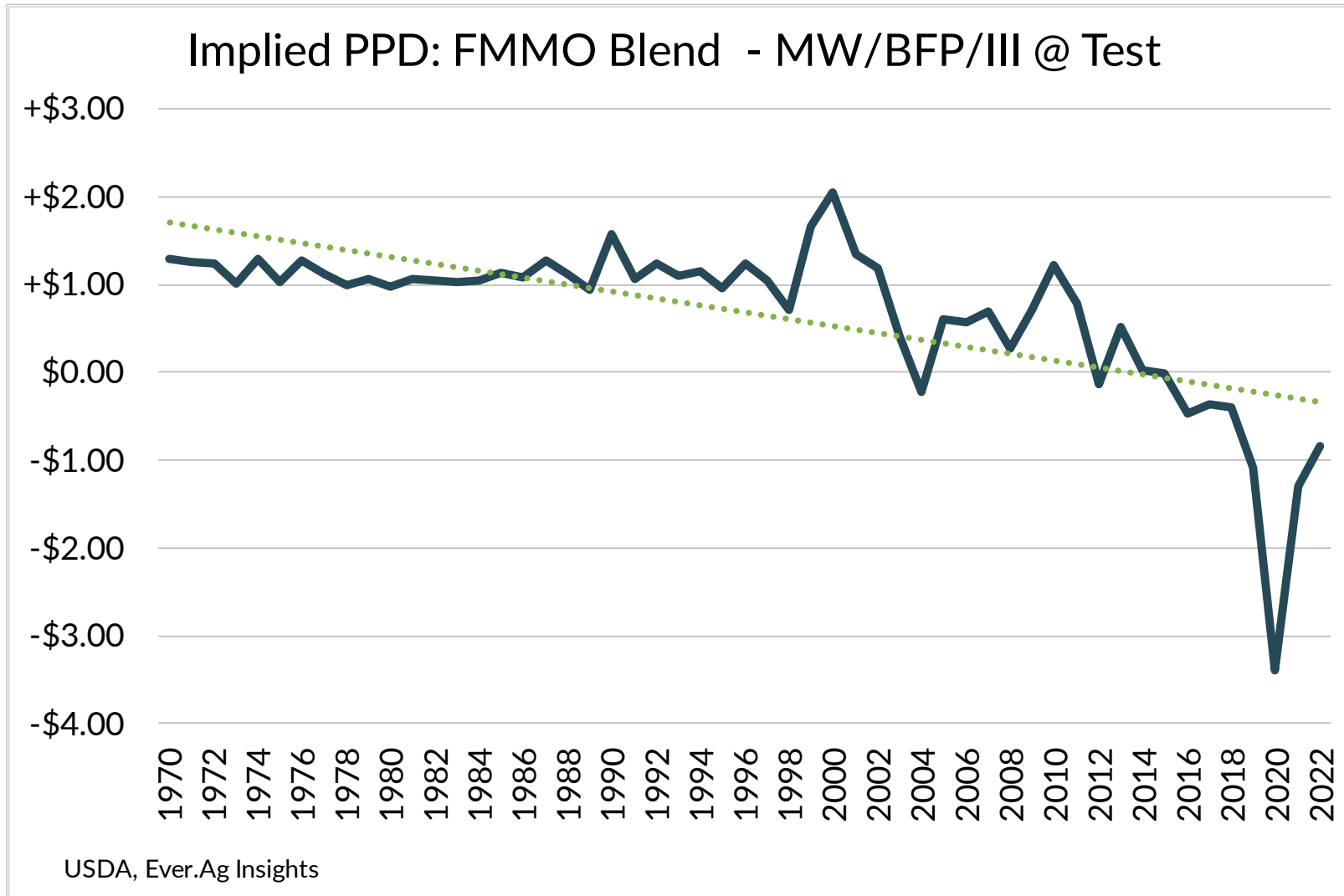
# Some of Milk's Best Friends Got Into Trouble



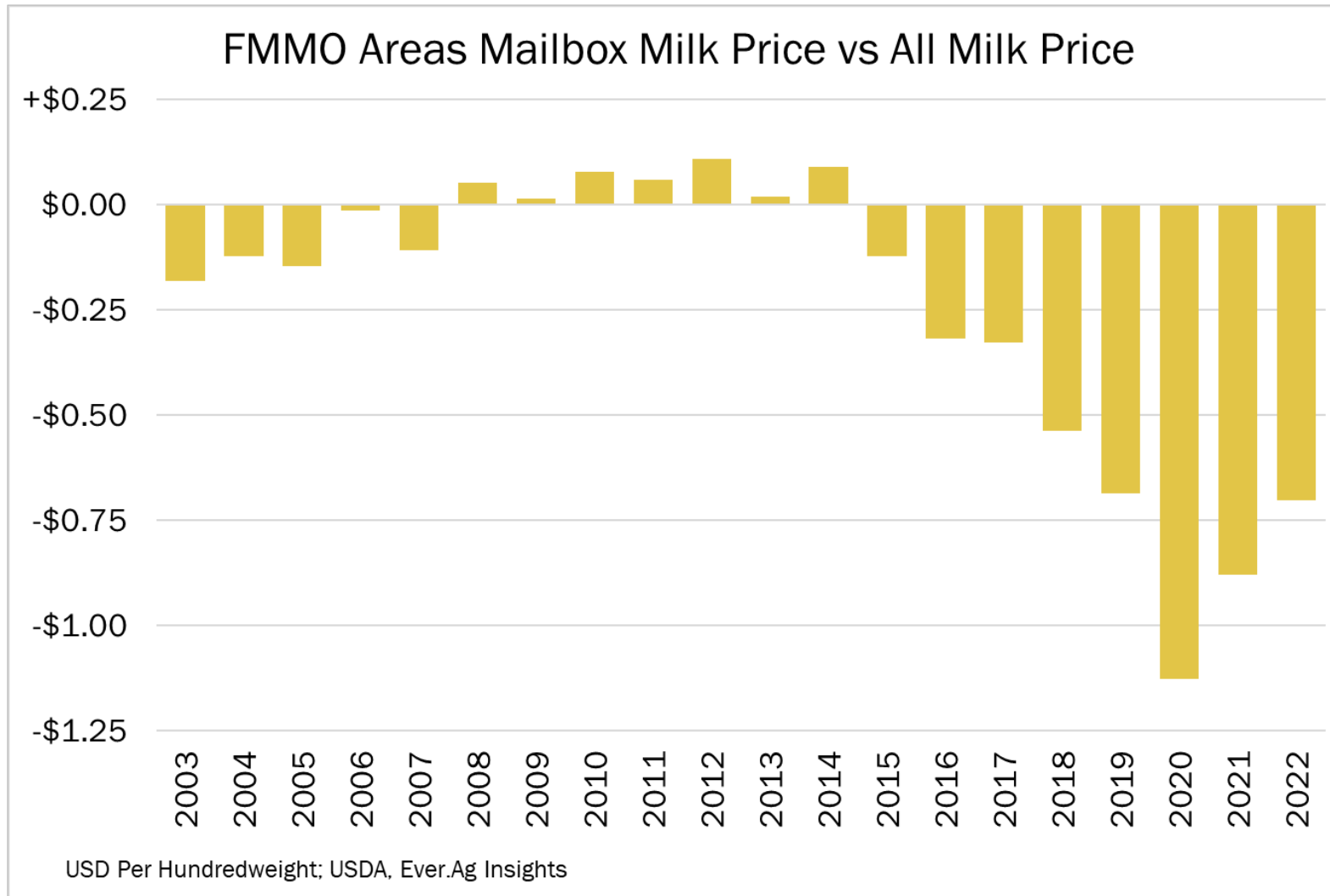
# But Fluid Is Not the Only Story!



# What Does This Tell Us?



# US Mailbox Price vs All Milk Price

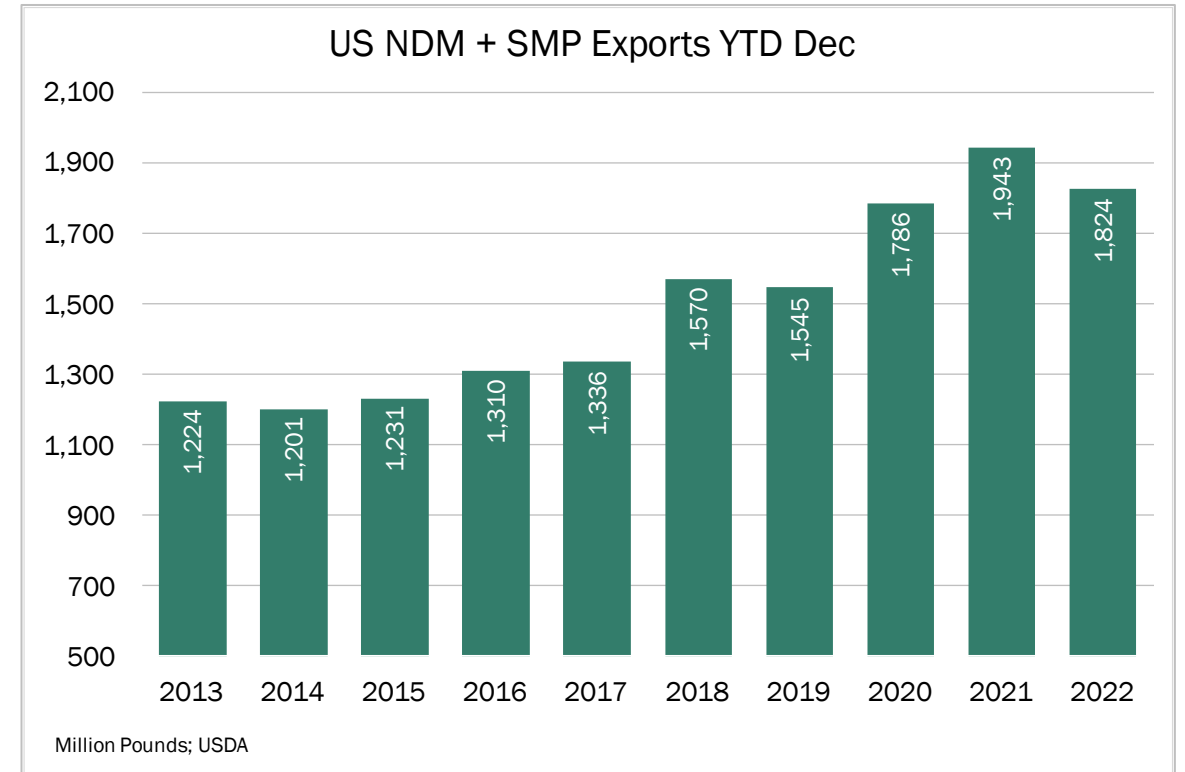
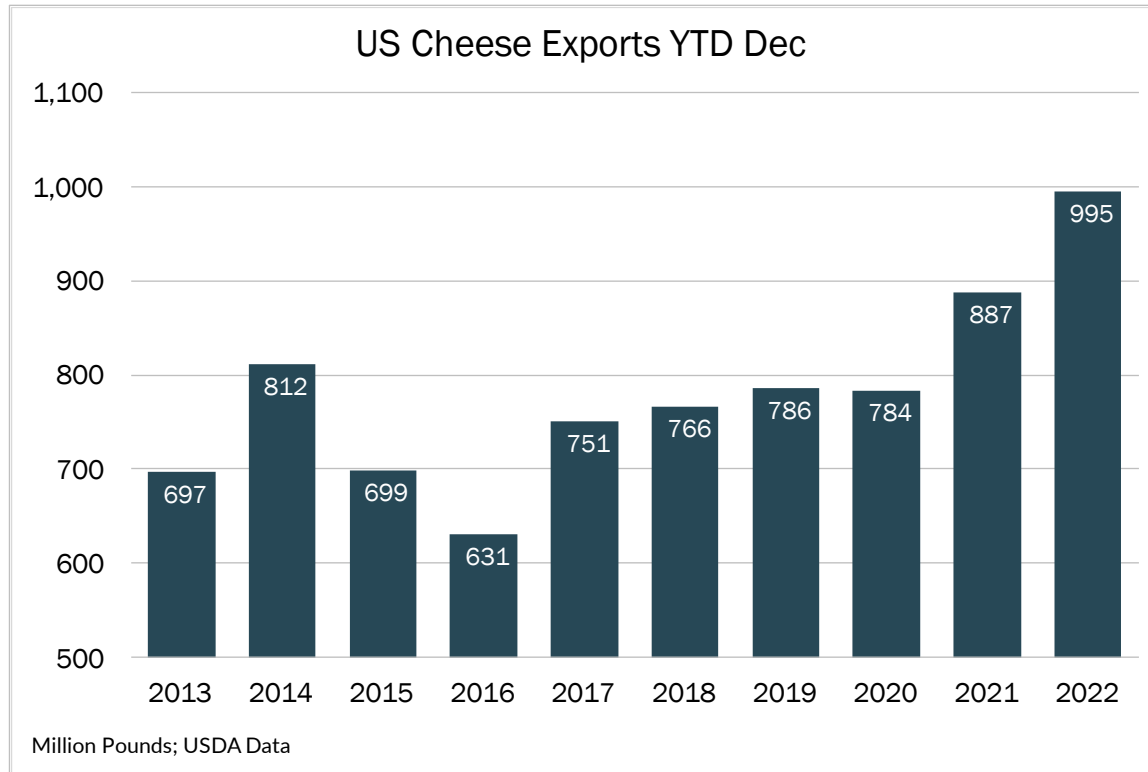


- Mailbox prices have drifted below the All Milk price as plants struggle to maintain profitability and pool participation diminishes.

# Make Allowance Matters, Myths & Mysteries

- Here's the reality: Very few cheese plants are actually regulated.
- Rising make costs relative to FMMO formulas are almost certainly a factor in premium erosion over the years.
- So... It's theoretically possible that make allowances change but pay prices don't because current day-to-day milk pricing already reflects higher manufacturing costs.
- For farmers shipping to cooperatives that make cheese or Class IV products, dollars shift between milk check and profitability of the plants they own.
- But... Things are different for farmers and cooperatives with no Class III and Class IV manufacturing assets.

# Cheese and Powder Export History

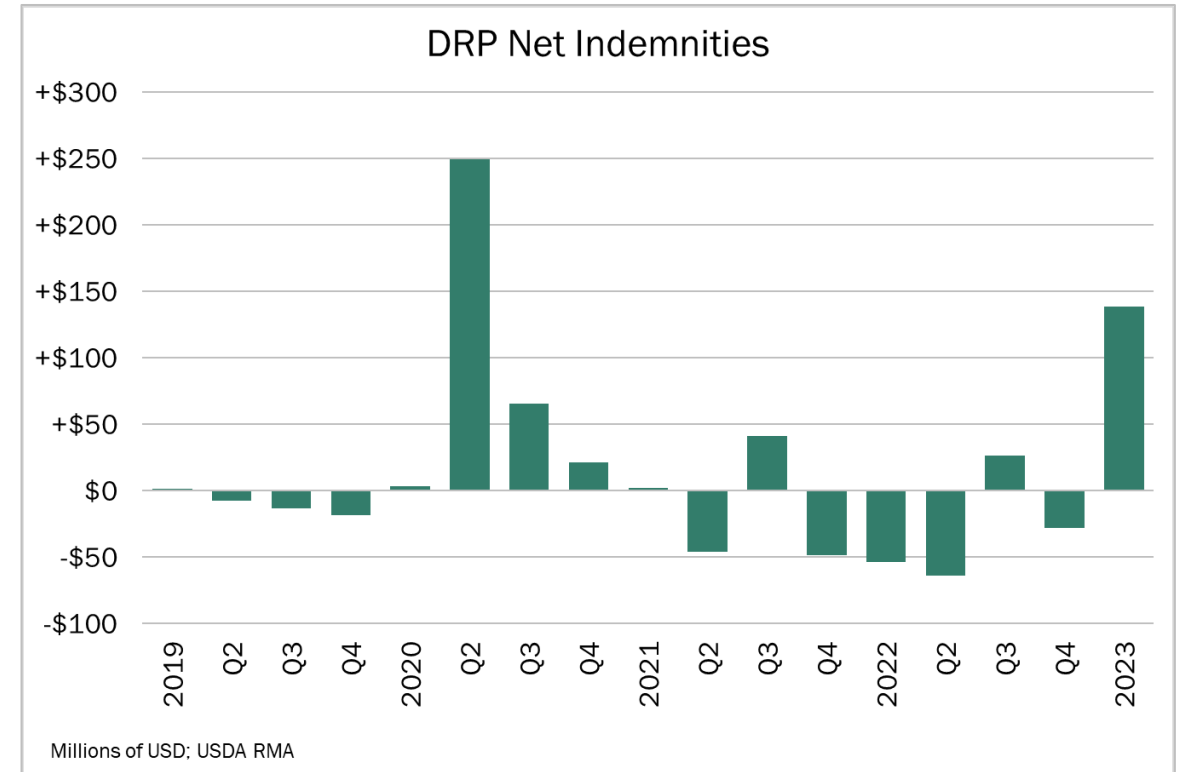
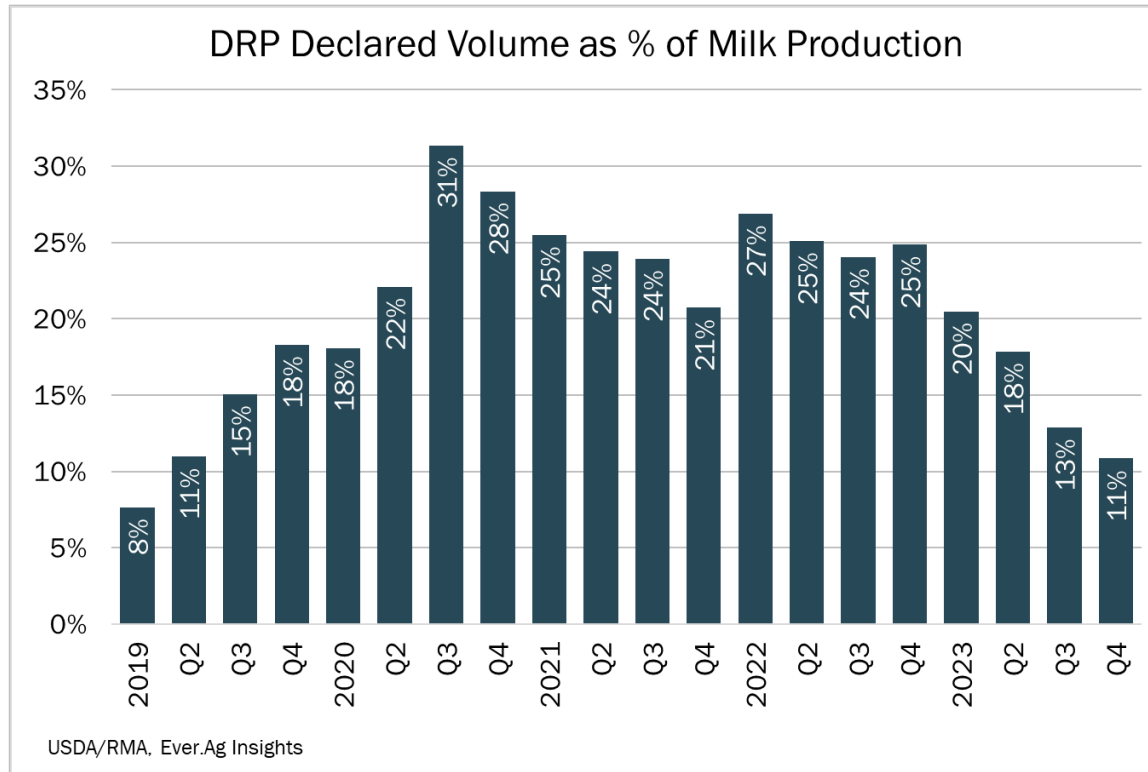




## Are We Going to Fumble?

- We have a great opportunity to grow our export presence – the US makes great products!
- Do we have a pricing system that helps us grow?
- Americans love cheese. Americans are lazy. How do we make it easier for them to get cheese and other dairy products?

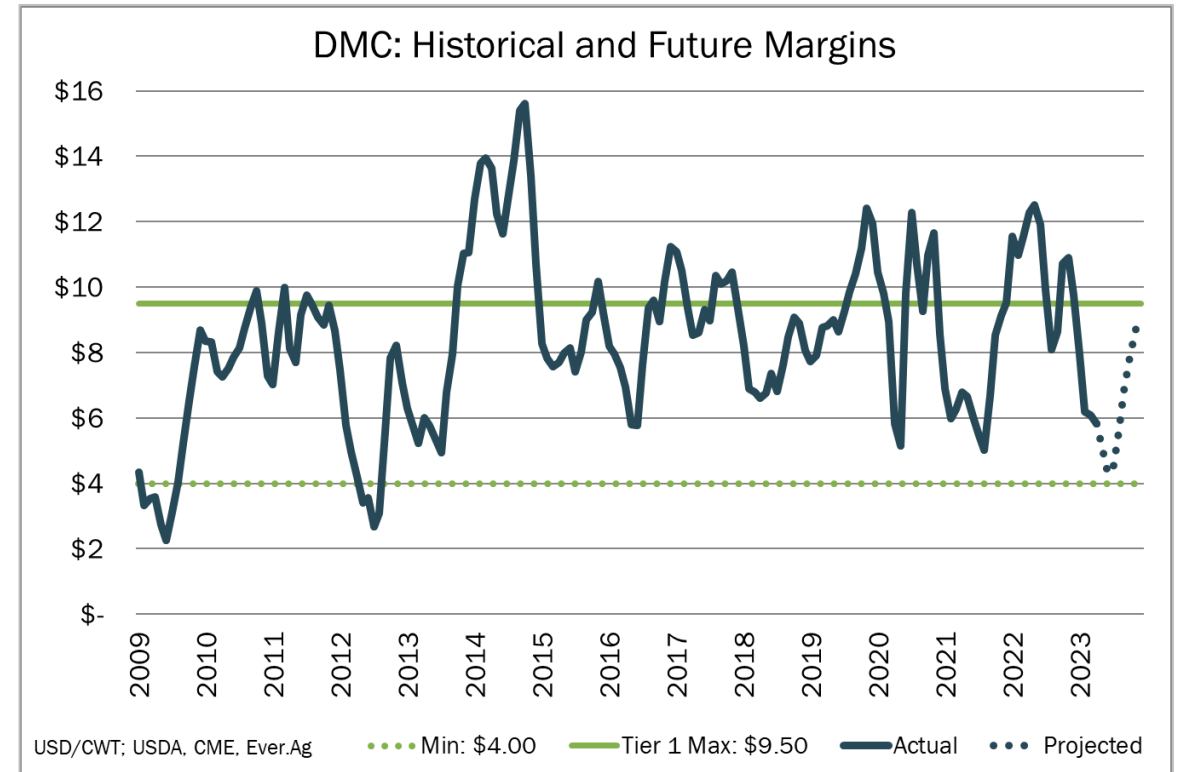
# DRP: Risk Management That Works





# DMC Helps Small Farms

2023 Dairy Margin Coverage Estimates				
\$9.50 Coverage on 5 Million Pounds, Based on 6/9/23 Futures				
	Margin	Payout	Indemnity	Net
Jan	\$ 7.94	\$ 1.56	\$ 6,511	\$ 5,886
Feb	\$ 6.19	\$ 3.31	\$ 13,803	\$ 13,178
Mar	\$ 6.08	\$ 3.42	\$ 14,240	\$ 13,615
Apr	\$ 5.84	\$ 3.66	\$ 15,267	\$ 14,642
May	\$ 5.14	\$ 4.36	\$ 18,146	\$ 17,521
Jun	\$ 4.31	\$ 5.19	\$ 21,617	\$ 20,992
Jul	\$ 4.40	\$ 5.10	\$ 21,244	\$ 20,619
Aug	\$ 5.59	\$ 3.91	\$ 16,300	\$ 15,675
Sep	\$ 6.83	\$ 2.67	\$ 11,114	\$ 10,489
Oct	\$ 7.88	\$ 1.62	\$ 6,747	\$ 6,122
Nov	\$ 8.72	\$ 0.78	\$ 3,240	\$ 2,615
Dec	\$ 8.63	\$ 0.87	\$ 3,605	\$ 2,980
<b>Total</b>		\$ 3.04	\$ 151,834	<b>\$144,234</b>



# “Sustainability” Is Going to Be A Major Issue

- Some people believe that sustainability issues/mandates will create a massive wave of consolidation
- As it stands/looks today, scale is going to be a big factor in complying with methane edicts
- Will climate change concerns drive where milk is produced?
- CPG companies are going to dictate a lot of the terms – many are all-in on major climate/ESG initiatives. Compliance could be table stakes for doing business.
- How many folks in the room know their carbon score? Have you completed the FARM Environmental Survey?

# Real Challenges Confronting the Industry

- Complexity
- Lack of Trust
- We Need A Vision for and Commitment to Shared Prosperity
- “Sustainability” Mandates
- “Lab Grown” Dairy Products and Other Alternatives

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# Empowering Supply Chains to Feed a Growing World

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