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VOLUME 14 | ISSUE 6 | JUNE 2020

THIS ISSUE:

Milk Market Situation and Outlook	1
US Department of Transportation Adjusts 'Hours of Service' Rule for Truckers	3

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Milk Market Situation and Outlook

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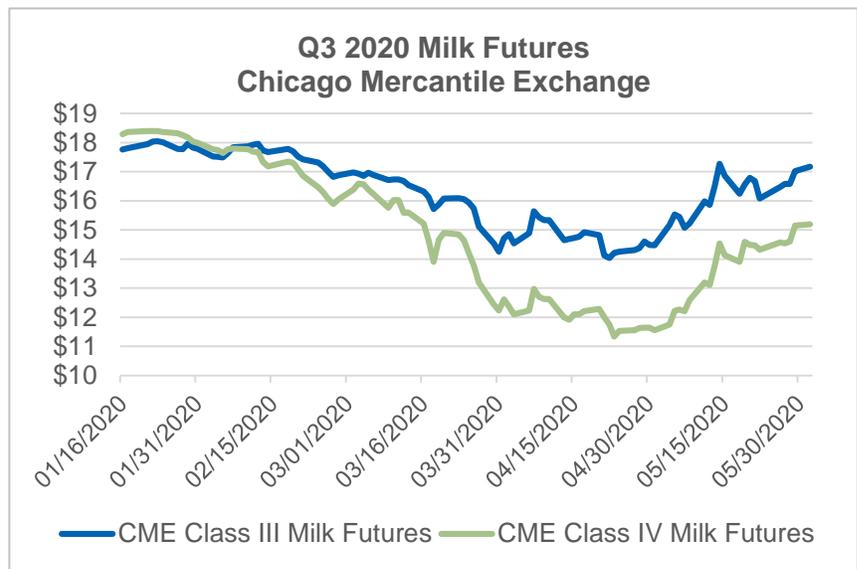


Figure 1: Chicago Mercantile Exchange

The national dairy market entered 2020 fairly balanced. Class III and IV milk futures were predicting average prices in the neighborhood of \$18 per hundredweight. There was optimism that the international trade situation would improve from the situation of recent years, and the balancing in some regions was improving. Of course, we all know what happened in the past few months. The COVID-19 pandemic, which became a reality in the U.S. in March, resulted in a 30% or greater drop in milk prices and about a 10% drop in feed grain prices.

The price declines were the result of increasing concerns about demand affected by drops in employment, incomes and a dramatic decrease in institutional and restaurant sales. In recent years, Americans, on average, have spent more on eating away from home. In addition to spending, the products consumed tend to differ. When eating out, Americans tend to eat more dairy products — particularly cheese. With restaurant, food service and school closings, the away-from-home expenditures dried up.

With the unexpected and sudden change in consumption patterns and accompanying supply chain disruptions, a significant amount of milk was dumped, and more was sold at distressed prices. Unfortunately, dumping milk had become common during flush months in the Northeast region in recent years as the market looked for balance. Given the demand loss from the pandemic, a greater degree of market disruption was expected. However, April 2020 data from the Northeast Federal Milk Marketing Order were staggering. Previous high levels of dumped milk in the Northeast Order were around one percent of producer receipts, mostly attributed to declining class I milk sales. The April 2020 dumped milk share was 5.1% which amounts to about four million pounds of milk per day.

One important note is that the dumped milk, while large, is only part of the market effect on farm milk prices. Prior to dumping milk, cooperatives and processors will work to find a home for the milk even if it is a distant location. In many cases, this milk is sold at what is referred to as “distressed” (heavily discounted) prices. These distressed milk sales are not directly measured in the market statistics but have put downward pressure on farm milk prices.

Both milk supply and demand are what economists refer to as “inelastic” meaning that a small change in quantity leads to a disproportionately large price response. This inelastic supply has had the effect of causing large farm-level milk price declines. Milk supply is generally slow to react to price changes but the cooperative base programs in some regions have contributed to a quicker response.

The government response to COVID-19 with respect to dairy has two parts: food purchase and donation and direct payments to farmers. The Food Box Program will purchase \$3 billion in dairy products, meat and produce for donation to food banks and other non-profit organizations. This program both supplies food to needy families as well as replaces a portion of the demand that was lost in the pandemic. One important aspect of the program is that it aims to avoid building government stocks which have the potential to overhang the market and at least partially stifle a price recovery later.

The Coronavirus Food Assistance Program (CFAP) payments are intended to offset market losses caused by the pandemic. CFAP will offer direct payments of up to \$250,000 per individual and a \$750,000 maximum for farms with multiple owners. For milk production, a single payment will be made based on a producer’s certification of milk production for the first quarter of calendar year 2020 multiplied by \$4.71/cwt. The second part of the payment is based on a national adjustment to each producer’s production in the first quarter multiplied by \$1.47/cwt. The net result for milk payments will be \$6.20/cwt on the first quarter milk production. Other relevant commodities include cull cows, corn, corn silage and hay. The intention is to pay 80% of the payment up front, and then assess how much of the total \$16 billion in federal funding is still available before paying the remaining — and potentially pro-rated — 20%.

These programs are in addition to the Dairy Margin Coverage and Dairy Revenue Protection programs, both of which have payments that provide some risk management depending on the coverage level purchased by producers. As of this writing — May 25 — the markets have rebounded substantially for the remainder of 2020. This rebound is a product of the government food purchases and anticipation of re-opening the economy from the demand side as well as the milk supply cut-backs. However, it is clear that a great deal of uncertainty remains surrounding the milk market including the potential for a resurgence of the virus, potential for increased dairy product stocks, trade issues and international demand. As such, there is a continued need for dairy farmers to monitor operating costs and seek risk management solutions where they make sense with their farm financial and market situation.

US Department of Transportation Adjusts 'Hours of Service' Rule for Truckers

The U.S. has long had many regulations to ensure that trucks travel our roads safely. However, it seems that in recent years, the level of complexity of these regulations has dramatically increased. While farm, forest and fishing businesses are not primarily in the trucking business, they still operate commercial vehicles and therefore must comply with the same laws and rules as transportation companies with large truck fleets.

The Federal Motor Carrier Safety Administration (FMCSA) was established within the U.S. Department of Transportation in 2000, pursuant to the Motor Carrier Safety Improvement Act of 1999. The FMCSA, as it is known, has a mission to prevent commercial motor vehicle-related fatalities and injuries, and to support the development of unified motor carrier safety requirements and procedures throughout North America.

The breadth of regulations administered by the FMCSA go far beyond what can be covered in this article, but a significant set of rules apply to "hours of service" (HOS), which relates to the number of hours per week that a driver is allowed to work in order to avoid fatigue-related accidents. Currently, if a driver of a commercial vehicle (which is not the same as a vehicle requiring a commercial driver's license), travels beyond a 100-air-mile radius of their home location, they must comply with HOS regulations. Perhaps the most significant rule change is that this exemption will be extended to a 150-air mile radius.

The following types of vehicles are considered commercial vehicles:

- Vehicles with a gross vehicle weight rating (GVW), or gross combination weight rating, or gross weight, or gross combination weight of more than 10,000 pounds
- Vehicles designed to transport more than 15 passengers¹
- Vehicles transporting hazardous materials in a quantity requiring placards, regardless of the GVW

The Department of Transportation has had HOS rules since 1937. These rules have been revised over the years, with the most recent revision occurring in late 2019.

Based on public comments and input received from commercial drivers, operators and other industry experts, FMCSA's final rule on hours of service offers four key revisions to the existing HOS rules:

- The agency will increase safety and flexibility for the 30-minute break rule by requiring a break after 8 hours of consecutive driving and allowing the break to be satisfied by a driver using on-duty, not driving status, rather than off-duty status.
- The agency will modify the sleeper-berth exception to allow drivers to split their required 10 hours off duty into two periods: utilizing either an 8/2-hour split or a 7/3 hour split with neither period counting against the driver's 14-hour driving window. Previously the two hours out of the sleeper berth counted against the 14-hour window.
- The agency will modify the adverse driving conditions exception by extending by two hours the maximum window during which driving is permitted.
- The agency will change the short-haul exception available to certain commercial drivers by lengthening the driver's maximum on-duty period from 12 to 14 hours and extending the distance limit within which the driver may operate from 100 air miles to 150 air miles.

FMCSA estimates that these modifications will result in savings for operators and business owners, and states that the final rule will provide the needed time for operators to keep trucks on the road, keeping the U.S. food and goods supply open and operating safely to meet the growing demand of the U.S. consumer. This new final rule will go into effect in mid-September 2020.

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¹ If passengers are transported for compensation, the limit is 8.

Here is a summary of the hours of service rules before and after the change (for property carrying drivers).²

HOS Provision	Existing Requirement	Revised Requirement	Impacts
Short-Haul	Drivers using the short-haul (100 air-mile radius) exception may not be on-duty more than 12 hours.	<p>Extends the maximum duty period allowed under the short-haul exception from 12 hours to 14 hours.</p> <p>Extends the maximum radius of the short-haul exception from 100 to 150 air-miles.</p>	Increases the number of drivers able to take advantage of the short-haul exemption and allows them more on-duty time.
Adverse Driving Conditions	A driver may drive and be permitted or required to drive a CMV for not more than 2 additional hours beyond the maximum time allowed. However, this does not currently extend the maximum “driving windows.”	Allows a driver to extend the maximum “driving window” by up to 2 hours during adverse driving conditions.	Increases the use of the adverse driving condition provision
30-minute break requirement	If more than 8 consecutive hours have passed since the last off-duty (or sleeper berth) period of at least half an hour, a driver must take an off-duty break of at least 30 minutes before driving.	Requires a 30-minute break only when a driver has driven for a period of 8 hours without at least a 30-minute interruption. If required, the break may be satisfied by any non-driving period of 30 minutes, i.e. on-duty, off-duty, or sleeper berth time.	Increases the on-duty/non-driving time by up to 30 minutes. Drivers continue to be constrained by the 11-hour driving limit.
Split-Sleeper Berth	A driver can use the sleeper berth to get the “equivalent of at least 10 consecutive hours off-duty.” To do this, the driver must spend at least 8 consecutive hours (but less than 10 consecutive hours) in the sleeper berth. This rest period does not count as part of the 14-hour limit. A second, separate rest period must be at least 2 (but less than 10) consecutive hours long. This period may be spent in the sleeper berth, off-duty, or sleeper berth and off-duty combined. It does count as part of the maximum 14-hour driving window.	Modifies the sleeper berth requirements to allow drivers to take their required 10 hours off-duty in two periods, provided one off-duty period (whether in or out of the sleeper berth) is at least 2 hours long and the other involves at least 7 consecutive hours spent in the sleeper berth (together they must still total 10 hours). Neither period counts against the maximum 14-hour driving window.	<p>Allows one hour to be shifted from the longer rest period to the shorter rest period.</p> <p>Potentially increases the use of sleeper berths because drivers using a berth have additional hours to complete 11 hours of driving (by virtue of excluding the shorter rest period from the calculation of the 14-hour driving window).</p>

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² The HOS rules are slightly different for passenger-carrying drivers.

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In addition to the HOS changes listed above, which apply to truckers of all types, agricultural haulers have some additional exemptions, which remain in place, including:

- Haulers of livestock or insects are exempt from the 30-minute break requirement after 8 hours of driving.
- Haulers of “agricultural commodities” only need to count their hours-of-service for the portion of their trip when they are outside the 150 air-mile radius. Hours driven within that radius, or after returning to that radius are not counted, effectively extending their on-duty availability.³

Links for More Information

[The Agricultural Commodity Exception to the Hours of Service Regulations](#)

[Exemptions to the Federal Motor Carrier Safety Regulations](#)

[Final Rule Document from Dept of Transportation-FMCSA](#)

[DOT FMCSA Press Release](#)

³ See [The Agricultural Commodity Exception to the Hours of Service Regulations](#) for more information.

CONTACT INFORMATION

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