



Milk Marketing

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John Swain

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Federal Milk Marketing Orders

- A FMMO is a legal document issued to regulate the minimum prices paid to dairy farmers by handlers of grade A milk in a specific geographic marketing area.
- Under the direction of USDA, Agricultural Marketing Service and administered by 10 FMMO administrators.
- 65,000 producers, 70% of the nations milk regulated by FMMOs.

10 FMMO Areas-Map

1. **Pacific Northwest**
2. **Arizona-Las Vegas**
3. **Southwest**
4. **Central**
5. **Upper Midwest**
6. **Southeast**
7. **Mideast**
8. **Florida**
9. **Appalachian**
10. **North East**

Objectives of the FMMO

1. Promote orderly marketing.
2. Improve income situation of Grade A producers.
3. Supervise transactions between producer and handler.
4. Assure consumers adequate supply of milk at a reasonable prices.

How objectives are obtained

1. Establish minimum prices handlers are to pay and at a level that will insure a sufficient quantity of Grade A Milk.
2. Value of milk as utilized by handler is equitably distributed among Grade A producers.
3. Audit handlers books and records.
4. Release of market information to the public.

What FMMOs Cannot Do

1. Set wholesale or retail prices.
2. Set maximum prices to handlers
3. Establish sanitary or quality standards.
4. Regulate producers.
5. Guarantee producers a market.
6. Guarantee fixed level of prices to producers.
7. Regulate from whom handlers buy or sell milk.
8. Be used as a means to restrict production.

Federal Order Reform- Jan.2000

- Prior to January 2000 Basic Formula Pricing (M-W Price).
 - Class III cheese price for all FOs determined by the Class III price in Eau Claire Wisconsin.
 - Class III price increased as miles from Eau Claire increased.
 - 37 FMMOs at that time.
 - Butter Fat Differential.

Reason for the Reform

- **National Milk Producers Federation recommended-**
 - **Movement of cheese production centers.**
 - **Costs of production by region.**
 - **A need to better allocate payment for butter and nonfat dried milk.**
 - **Mid west penalized due to location.**
 - **Butter fat differential to Component Pricing.**
 - **Bring Classes of product under 1 system.**
 - **Reorganization of Order geographical location more in line with movement of milk.**

Current Federal Order System

- Classified Pricing
 - Class II, III and IV set by survey of National Agricultural Statistical Services (**NASS**). Replaces Basic Formula Price System.
 - Prices set by surveys of amount of manufactured product output and marketing's nation wide, two times per month.
 - **Producer Price Differential -Class I price set \$1.00 to \$4.50 above Class III or IV, whichever is the highest, considering costs of production by region.**

Marketwide pooling

- The total value of the milk in all classes in a market is divided by the total milk deliveries to determine a blend price for the market.
 - **Class I** 30% \$13.50 = \$4.05
 - **Class II** 10% \$12.50 = \$1.25
 - **Class III** 30% \$9.70 = \$2.91
 - **Class IV** 30% \$9.80 = \$2.94
 - **Federal Order Blend Price** = \$11.36

Blend Prices in the past 3 year

- Pacific Northwest \$10.94/cwt (\$22.75)
- Western \$10.38/cwt (\$21.19)
- Arizona-Las Vegas \$11.01/cwt (\$25.13)
- Florida \$13.48/cwt (\$29.21)

Milk Price Supports

- Commodity Credit Corporation- purchases cheese, butter and nonfat dried milk to create demand, reduce supply in order to maintain a minimum price to producers.
- Milk price support values
 - **1983- \$13.10/cwt**
 - **1985- \$11.60/cwt**
 - **1990- \$10.10**
 - **Today-\$9.80**

Price support cont.

- **Due to increasing expenditures of milk products, in 1990 congress passed a bill, Food, Agriculture, Conservation, and Trade Act that,**
 - 1. Reduced the support price by \$.50 if CCC purchased > 5 billion pounds of Milk Equivalent product.**
 - 2. No change if purchases were >3.5<5 billion lbs.**
 - 3. Increase support price by \$.25 if purchases were <3.5 billion lbs.**

Price Support Cont.

- **1996- Federal Agricultural Improvement and Reform Act passed to phase out the Dairy Price Support over time by decreasing price support by \$.15/cwt per year.**
 - **1996 - \$10.40**
 - **1999 - \$9.95**
 - **2000 - \$9.80**

Forward Contracting

- **A program that offers producers the opportunity to determine in advance a price for a portion of their sales.**
 - **The handler offers Class III prices daily (Chicago Mercantile Exchange).**
 - **Producer submits a bid for the portion and time period of the proposed offer.**
 - **Handler can accept or reject the bid.**
 - **If accepted, the producer forfeits federal order minimum requirements.**

Forward Contracting cont.

- Current NDA system.
 - Contract 12 months in advance
 - Contract in 10,000lb increments
 - Contract up to 100% of prior months production.

Milk Check

- NASS Commodity prices for Sept.
 - butter - \$1.056/lb (\$2.44)
 - cheese - \$1.1315/lb (\$1.70)
 - nfdm - \$.8066 (\$.94)
 - whey - \$.1856 (\$.28)

 - Mailbox price 2000= \$13.79
 - 2001= \$17.2
 - 2002= \$ 11.10
 - 2003= \$12.68
 - 2004= \$14.10

October Class I Payment

- Pacific Northwest \$1.77 (above class IV)
- Florida \$3.93

- Fixed Differential - Set by cost of production by region.