
Dairy Policy Brief #9a: Federal Milk Marketing Orders

What are federal milk marketing orders?

Federal milk marketing orders (FMMOs) require regulated milk processors, called handlers, to pay minimum prices for milk and adhere to other specified rules. FMMOs are authorized under the Agricultural Marketing Agreement Act of 1937, as amended. Since the legislation is enabling, producers must request initiation or amendment of an order and grant approval of proposals through a referendum. This is often done through dairy cooperatives representing their membership. Upon producer approval (dairy cooperatives may bloc vote for their members), the Secretary issues the order, which is then binding on handlers within the affected marketing area; that is, handlers—not dairy producers—are regulated. The marketing area is a specified geographical region within which processors compete with each other for sales of fluid (beverage) milk to various retail and institutional outlets; not necessarily where producers shipping to these processors are located.

There are 10 federal milk marketing orders, affecting about 60 percent of all milk marketed in the U.S. California's state order, which operates much like federal orders, accounts for another 20 percent. The rest is priced under other state orders or is not subject to FMMO regulation (primarily Grade B milk).

According to the USDA, the three major objectives of FMMOs are to: (1) assure consumers of an adequate supply of wholesome milk at a reasonable price; (2) promote greater producer price stability and orderly marketing; and (3) provide adequate producer prices to ensure an adequate current and future Grade A milk supply.

What are the issues?

The objectives of FMMOs are achieved through classified pricing, pooling, and setting minimum producer pay prices. There are a number of controversial issues related to how these methods are employed. These are discussed in Dairy Policy Briefs 9b – 9d. Briefly:

Classified Pricing. Classified pricing establishes monthly minimum pay prices for milk and milk components according to what dairy products they are used to produce. Minimum prices for some classes of milk are derived through product price formulas that tie milk prices to market prices for products within the class. Order prices for other classes of milk are not related directly to markets for the products included in the class.

Pooling. Pooling is accomplished under federal orders by obligating each regulated handler in the marketing area to account for milk receipts according to usage by class. Handlers pay into or draw from a *producer settlement fund* depending on the order-determined value of their milk receipts priced at order minimum prices relative to the market-wide average value (uniform price).

Minimum Prices. Federal orders guarantee producers a minimum price for their milk that is an average of the minimum class prices weighted by the proportion of milk used in each class. Within marketing orders, the producer price is the same (for milk of equal quality) regardless of the class of products that are made from the producer's milk. In seven of the ten FMMOs, producers are paid for pounds of milk components (butterfat, protein and other solids), not for pounds of milk. In the other three orders, producers are paid for their deliveries of skim milk and butterfat.