Federal Milk Marketing Order Reform
Final Decision

By
Bob Cropp
University of Wisconsin
Madison, WI
April 8, 1999
The 1996 FAIR ACT mandates USDA to reform the FMMO program

- Must consolidate the number of orders - range of 10 to 14
- Authorizes Secretary to make other reforms

The Secretary is to be complimented for not just consolidating FMMOs, but addressing several major FMMO issues/problems that currently exist
We need to recall what the purposes of FMMOs are:

• Establish and maintain orderly marketing

• Establish fair prices to consumers and equitable returns to producers and fluid milk plants

• Assure an ample supply of wholesome milk to consumers
The objectives of FMMOs are achieved through:

- Classified pricing, and

- Pooling provisions
**FMMOs are **NOT**:  

- A price support program  

- *Classified pricing does provide a degree of price stability and revenue enhancement*  

- *But, FMMOs cannot eliminate the price volatility now experienced nor substantially raise producer prices across the country*
U.S. agriculture is transitioning to a more market-oriented sector

- This final decision is consistent with this trend toward a market-oriented dairy sector
- There will be better price signals to producers
- Established prices are minimum prices
- It does a better job of recognizing the regional shifts in milk and dairy product production and modern procurement, processing, transportation and packaging technologies
We need to keep in mind:

• You can’t make “appropriate” changes in FMMOs and impact every region the same.

• In fact, you can’t make “appropriate” changes and have every region come out better than what currently exists.

• Federal order reform is more than just Class 1 differentials.
Order Consolidation:

• 11 orders
• California could still come in; September 30, 1999 deadline
• Solid criteria: 1) Overlapping route disposition & 2) Overlapping areas of milk supply
• Impact on producer prices “in general” minor
  - combined orders with similar Class utilization; not to make utilization rates more similar between markets.
The Need for BFGP Replacement
Grade B milk in MN & WI

<table>
<thead>
<tr>
<th>State</th>
<th>1990</th>
<th>1998</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>MN</td>
<td>3.4B#</td>
<td>1.4B#</td>
<td>-59%</td>
</tr>
<tr>
<td></td>
<td>14%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>WI</td>
<td>2.4B#</td>
<td>0.7B#</td>
<td>-71%</td>
</tr>
<tr>
<td></td>
<td>24%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5.8B#</td>
<td>8%</td>
<td>-64%</td>
</tr>
</tbody>
</table>
**BFP Replacement:**

- **Multiple component pricing**
  - True MCP, not residual values
  - Protein, butterfat and other solids values
  - Both barrels and blocks in protein price
  - True protein rather than total nitrogen
  - Incorporates the difference in butterfat value between cheese & butter in the protein value
  - With make allowances, aligns with California
BFP Replacement:

Advantages of product price formula:

1) Better short run predictability of prices
2) Product price formulas are transparent

3) Relatively simple to compute and understand
4) Eliminates need for regional yields based on differentials in milk composition

5) Eliminates need for seasonal yield adjustments
BFP Replacement:

- The BFP serves two purposes:
  1) Class III price
  2) Mover of Class I and Class II

- Replacement:
  1) Class III price
  2) Separate mover for Class I and Class II
Class IV:

Separate MCP product price formula -- nonfat solids price and butterfat price.
**Class II pricing:**

- Recognizes alternative inputs to producer milk for Class II products is dry milk products and butterfat

- 70 cents above “advanced” class IV skim milk price

- Class III butterfat price per pound + $0.007
Class I Pricing:

- Combine options 1a and 1b
- Results in an improved national milk price surface
- Provides price incentive to move Grade A milk from points of production to bottling plant
- Recognizes that local milk prices should not exceed the cost of available “distant” milk plus transportation costs
Class I Pricing:

- Addresses major problems associated with:
  - Class price inversion, and

  “negative producer price differential”

- De-pooling
Class I Pricing:

• $0.40 higher base level (Minneapolis $1.20 to $1.60)

• Advanced pricing on skim milk value
  -announced on or before 23rd of the previous month, based on most recent 2-week estimate of class III or class IV, whichever is higher

• Advanced pricing on butterfat value
Have three different butterfat values:

- Advanced Class I butterfat

- Class II butterfat = Class III butterfat price + $0.007

- Class III and Class IV butterfat
Other positive provisions

• Quality adjustment on Class II, III and IV
  - limited to orders with MCP
• Recognizes farm separated milk in pricing
  - Both UF and RO membrane technologies
• Pooling provisions
• Shrinkage
• Some of the changes in product classification
  - cream cheese from Class II to Class III, for ex.