

Federal Milk Marketing Orders Under Discussion

Federal Milk Marketing Orders (FMMO) were established in the 1930s. The most recent extensive amendments to the system occurred in 2000 when 31 orders were consolidated into 11, and multiple component pricing (MCP) was implemented in seven of the orders. In the intervening 20 years, the dairy industry has undergone significant changes, while relatively few changes have been made to the FMMOs. Producers and processors agree that FMMOs could be reformed again, however there hasn't been consensus as to what those reforms should be.

In January 2019 the American Farm Bureau Federation (AFBF) board of directors approved convening a producer-led committee to review how the FMMOs could be modernized. From June through September the 12-producer committee reviewed background material and interviewed industry experts. The committee released their report in early October, and it can be accessed at <https://www.fb.org/> under Issues, and then Farm Policy. The report focuses on four primary priorities:

1. The voting process for amending FMMOs
2. Updating FMMO make allowances
3. Expanding price discovery
4. Reforming pool qualifications, particularly in the Appalachian and Southeast orders

MCP in Federal Orders 5 and 7

The most prescriptive recommendations can be found in conjunction with milk marketed in the Appalachian (Federal Order 5) and Southeast (Federal Order 7) orders. Of particular interest to producers of high component milk in the region is the proposal to oppose implementing multiple component pricing (MCP) in those orders. The committee's recommendation reverses AFBF's current policy, which is, "Federal milk marketing orders 5 and 7 should be based on multiple component pricing instead of fat/skim pricing."

The report provides no reasons for the reversal, and no data to support changing current policy. "In God we trust; all others bring data." This quote from

author and management consultant W. Edwards Deming comes to mind when reviewing this committee recommendation.

MCP enjoys broad support in the dairy industry, including co-ops and processors serving the southeastern U.S. Adopting MCP in Orders 5 and 7 would increase marketing and hauling efficiencies in the region by standardizing the terms of trade for milk across the orders that serve the region. The current disparity in terms of trade between the fat/skim pricing employed by FOs 5 and 7 and MCP in the surrounding orders erects an economic barrier to trade. It locks out neighboring farms that have chosen to produce the milk components that the marketplace demands. Furthermore, production of manufactured dairy products is expected to increase in the coming years. MCP will assure that processors in the southeast will pay for the components they receive and receive the components they pay for. Finally, analysis by the Market Administrator offices for the two orders showed that MCP will add value to pooled milk. Experience in other MCP orders shows that average producer component levels will increase following the implementation of MCP, further enhancing producer revenue.

FMMO Amendment Process

The most sweeping reform proposed is the elimination of co-op bloc voting when USDA recommends amending a FMMO following a hearing. The bloc voting provision allows a co-op board of directors to cast a vote on behalf of all their producers. AFBF wants to replace bloc voting with individual producer votes. While this approach may have populist appeal, it is an unnecessary change. Co-op boards can only exercise the authority granted to them by their membership, or the delegates elected by the membership. Any time a co-op's membership wants to rescind their board's authority to cast a bloc vote, the members, or their delegates, can simply pass a resolution to that effect.

Bloc voting is provided for in the Agricultural Marketing Agreement Act (AMAA), and to eliminate it will require Congressional amendment of this law. Typically Congress only visits the

AMAA in conjunction with Farm Bill deliberations, which happen every five years. If AFBF follows through with the committee's recommendation, the co-ops will fight the change vigorously. Furthermore, dairy is not the only commodity with marketing orders. Many fruits and vegetables also have USDA-administered marketing orders, and their co-ops will join the opposition should elimination of this provision surface on Capitol Hill.

Make Allowance Update

FMMO milk prices are based on end-product pricing formulas that convert wholesale prices for cheese, butter, nonfat dry milk and dry whey into component values for butterfat, protein, other solids and nonfat solids. Each of the conversion formulas include fixed make allowances to cover an average manufacturer's cost of converting raw milk into the designated commodities. The make allowances in effect currently are based on a plant cost survey done in 2006 and are:

- \$0.2003/lb. for cheese
- \$0.1715/lb. for butter
- \$0.1678/lb. for nonfat dry milk
- \$0.1991/lb. for dry whey

The committee recommends replacing fixed make allowances with variable make allowances tied to the commodity's value. The concept is that manufacturers will share in price risk along with producers, earning higher returns when commodity prices are high, and lower returns when prices are low. Specifically, the report supports capping make allowances to no more than 10% of the value of wholesale commodities.

This proposal is an illustration of populist appeal at war with economic facts. The report offers no supporting data for why the cap should be set at 10%, nor does it offer evidence that processors could stay in business at that level. Having less processing capacity is never good for producers, who benefit from having as many buyers for milk as possible. Since 2000, Federal Order make allowances have averaged 11% of the wholesale value of butter, 16% of nonfat dry milk, 13% for cheddar cheese and 66% for dry whey. Had the 10% cap been in place during this time, many months processors would not have covered their costs, and either turned away milk or shut down entirely.

Expand Price Discovery

The most progressive concept in the report involves expanding price discovery. Currently the only product prices that are mandated to be reported to USDA are the commodities included in the FMMO price formulas. USDA data show that those four products (cheddar cheese, butter, dry whey, nonfat dry milk) comprise less than 10% of the total milk solids produced nationally. The committee recommends expanding mandatory price reporting to include more value-added products, as well as prices paid for milk and milk components. The working group recognizes that the reported prices for additional products will not be able to be included in FMMO price formulas, at least initially. However, having price data for more products will provide a more complete picture of milk and component values across the country.

Farm Bureau's next step will be for its state organizations to consider the committee's recommendations through their resolutions process. In late January AFBF's delegates to their national convention will consider resolutions that advance from the states.

Changing the complex FMMO program is a massive undertaking. The members of the AFBF committee and supporting staff invested considerable hours of work and contemplation developing their recommendations. In addition, the National Milk Producers Federation (NMPF), representing producers, and the International Dairy Foods Association (IDFA), representing processors, have committees working on concepts and policies to improve FMMOs. The ultimate objective will be to make changes to order provisions through broad-based, carefully considered research that establishes a factual basis that the changes are necessary. Then the orders can function effectively as intended in returning the maximum number of market dollars to producers.

NAJ Milk & Component Outlook - October 2019 Jersey Price Comparisons

<u>OCT '19(STATISTICAL BLEND PRICE</u>		<u>OCT'19 MONTHLY MILK VOLUME</u> (Million #)		<u>OCT'19 JERSEY REGULATED BLEND PRICE</u>	
Northeast (Boston)	\$18.72	Northeast (Boston)	2,223	Northeast (Boston)	\$24.47
Appalachian (Charlotte)	\$20.17	Appalachian (Charlotte)	443	Appalachian (Charlotte)	\$23.28
Southeast (Atlanta)	\$20.65	Southeast (Atlanta)	384	Southeast (Atlanta)	\$22.11
Florida (Tampa)	\$22.00	Florida (Tampa)	218	Florida (Tampa)	\$25.39
Mideast (Cleveland)	\$17.86	Mideast (Cleveland)	1,458	Mideast (Cleveland)	\$23.43
Upper Midwest (Chicago)	\$18.42	Upper Midwest (Chicago)	1,960	Upper Midwest (Chicago)	\$23.93
Central (Kansas City)	\$17.43	Central (Kansas City)	950	Central (Kansas City)	\$22.69
California (Los Angeles)	\$17.13	California (Los Angeles)	1,846	California (Los Angeles)	\$19.72
Southwest (Dallas)	\$17.87	Southwest (Dallas)	824	Southwest (Dallas)	\$23.13
Arizona (Phoenix)	\$18.11	Arizona (Phoenix)	365	Arizona (Phoenix)	\$21.35
<u>Pacific Northwest (Seattle)</u>	<u>\$17.25</u>	<u>Pacific Northwest (Seattle)</u>	<u>634</u>	<u>Pacific Northwest (Seattle)</u>	<u>\$21.95</u>
ALL FMMO MARKET AVERAGE	\$18.69	ALL FMMO MARKET TOTAL	11,304	ALL FMMO MARKET AVERAGE	\$22.86

Prices reflect Federal Order minimum blend prices for city shown.

Total Grade A milk volume sold under FMMO during month.

Prices reflect FMMO minimum prices at Jersey component values.

<u>OCT '19 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS</u>		<u>OCT'19 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE</u>		<u>OCT'19 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE</u>	
Northeast (Boston)	\$24.74	Northeast (Boston)	\$6.02	Northeast (Boston)	32.1%
Appalachian (Charlotte) (includes protein prem.)	\$23.75	Appalachian (Charlotte)	\$3.58	Appalachian (Charlotte)	17.7%
Southeast (Atlanta)	\$22.11	Southeast (Atlanta)	\$3.39	Southeast (Atlanta)	18.1%
Florida (Tampa)	\$25.39	Florida (Tampa)	\$5.22	Florida (Tampa)	23.7%
Mideast (Cleveland) (includes protein premium)	\$24.09	Mideast (Cleveland)	\$6.23	Mideast (Cleveland)	34.9%
Upper Midwest (Chicago) (includes cy premium)	\$24.20	Upper Midwest (Chicago)	\$5.78	Upper Midwest (Chicago)	31.4%
Central (Kansas City)	\$22.69	Central (Kansas City)	\$5.26	Central (Kansas City)	30.2%
California (Los Angeles)	\$19.72	California (Los Angeles)	\$2.59	California (Los Angeles)	15.1%
Southwest (Dallas)	\$23.13	Southwest (Dallas)	\$5.26	Southwest (Dallas)	29.4%
Arizona (Phoenix) (includes protein)	\$21.84	Arizona (Phoenix)	\$3.73	Arizona (Phoenix)	20.6%
<u>Pacific Northwest (Seattle)</u>	<u>\$21.95</u>	<u>Pacific Northwest (Seattle)</u>	<u>\$4.70</u>	<u>Pacific Northwest (Seattle)</u>	<u>27.2%</u>
ALL FMMO MARKET AVERAGE	\$23.05	ALL FMMO MARKET AVERAGE	\$4.70	ALL FMMO MARKET AVERAGE	25.5%

Includes a protein premium of \$0.05 for every 0.01% increase in protein over the market average.

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

Percent difference in Jersey price with premiums, over the statistical blend price.

<u>ESTIMATED JERSEY MILK COMPOSITION</u>	<u>Oct-19</u>	<u>REGULATED MILK PRICES</u>	<u>Oct-19</u>	<u>AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:</u>	<u>Oct-19</u>
Butterfat	5.11	FMMO Milkfat	\$ 2.4031	FMMO Milkfat Adjustment	\$2.83
TRUE Protein	4.08	FMMO True Protein	\$ 3.1700	FMMO True Protein Adjustment	\$2.67
Other Solids	5.73	FMMO Other Solids	\$ 0.1447	FMMO Other Solids Adjustment	(\$0.00)
Solids Not Fat (SNF)	9.81				
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.85				
CME Block Cheese Price	\$ 2.07				

NAJ Milk & Component Outlook - 2019 Prices through October

2019 AVERAGE STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER		2019 MILK VOLUME (Million #)		2019 AVERAGE JERSEY REGULATED BLEND PRICE	
Northeast (Boston)	\$18.14	Northeast (Boston)	22,426	Northeast (Boston)	\$22.49
Appalachian (Charlotte)	\$19.10	Appalachian (Charlotte)	4,482	Appalachian (Charlotte)	\$22.51
Southeast (Atlanta)	\$19.48	Southeast (Atlanta)	4,174	Southeast (Atlanta)	\$23.11
Florida (Tampa)	\$21.12	Florida (Tampa)	2,110	Florida (Tampa)	\$24.67
Mideast (Cleveland)	\$17.02	Mideast (Cleveland)	16,089	Mideast (Cleveland)	\$21.04
Upper Midwest (Chicago)	\$16.40	Upper Midwest (Chicago)	28,895	Upper Midwest (Chicago)	\$20.66
Central (Kansas City)	\$16.54	Central (Kansas City)	13,361	Central (Kansas City)	\$20.71
California (Los Angeles)	\$16.82	California (Los Angeles)	20,652	California (Los Angeles)	\$18.19
Southwest (Dallas)	\$17.33	Southwest (Dallas)	11,271	Southwest (Dallas)	\$21.23
Arizona (Phoenix)	\$16.97	Arizona (Phoenix)	4,086	Arizona (Phoenix)	\$20.34
<u>Pacific Northwest (Seattle)</u>	<u>\$16.58</u>	<u>Pacific Northwest (Seattle)</u>	<u>7,269</u>	<u>Pacific Northwest (Seattle)</u>	<u>\$20.05</u>
ALL FMMO MARKET AVERAGE	\$17.77	ALL FMMO MARKET TOTAL	134,815	ALL FMMO MARKET AVERAGE	\$21.36

Prices reflect Federal Order minimum blend prices for city shown.

Total Grade A milk volume sold under FMMO.

Prices reflect FMMO minimum prices at Jersey component values.

2019 AVERAGE JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS		2019 AVERAGE DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE		2019 AVERAGE PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE	
Northeast (Boston)	\$22.71	Northeast (Boston)	\$4.58	Northeast (Boston)	25.2%
Appalachian (Charlotte) (includes protein prem.)	\$22.86	Appalachian (Charlotte)	\$3.54	Appalachian (Charlotte)	18.3%
Southeast (Atlanta)	\$23.11	Southeast (Atlanta)	\$3.33	Southeast (Atlanta)	16.9%
Florida (Tampa)	\$24.67	Florida (Tampa)	\$3.71	Florida (Tampa)	17.6%
Mideast (Cleveland) (includes protein premium)	\$21.63	Mideast (Cleveland)	\$4.62	Mideast (Cleveland)	27.1%
Upper Midwest (Chicago) (includes cy premium)	\$20.89	Upper Midwest (Chicago)	\$4.39	Upper Midwest (Chicago)	26.5%
Central (Kansas City)	\$20.71	Central (Kansas City)	\$4.10	Central (Kansas City)	24.7%
California (Los Angeles)	\$18.19	California (Los Angeles)	\$1.37	California (Los Angeles)	8.1%
Southwest (Dallas)	\$21.23	Southwest (Dallas)	\$3.86	Southwest (Dallas)	22.2%
Arizona (Phoenix) (includes protein)	\$20.69	Arizona (Phoenix)	\$3.64	Arizona (Phoenix)	21.5%
<u>Pacific Northwest (Seattle)</u>	<u>\$20.05</u>	<u>Pacific Northwest (Seattle)</u>	<u>\$3.48</u>	<u>Pacific Northwest (Seattle)</u>	<u>21.0%</u>
ALL FMMO MARKET AVERAGE	\$21.52	ALL FMMO MARKET AVERAGE	\$3.69	ALL FMMO MARKET AVERAGE	20.8%

Includes a protein premium of \$0.05 for every 0.01% increase in protein over the market average.

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION	2019	REGULATED MILK PRICES	2019	AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:	2019
Butterfat	5.00	FMMO Milkfat	\$2.5590	FMMO Milkfat Adjustment	\$2.95
TRUE Protein	3.79	FMMO True Protein	\$2.0992	FMMO True Protein Adjustment	\$1.31
Other Solids	5.73	FMMO Other Solids	\$0.1992	FMMO Other Solids Adjustment	(\$0.01)
Solids Not Fat (SNF)	9.52				
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.11				
CME Block Cheese Price	\$1.75				