


Federal Orders: Current and Proposed Changes

Calvin Covington
ccovington5@cs.com



Outline

1. Brief review of Federal Orders
2. Federal Order Proposals:
 - Price Discovery
 - National Milk Producers (as understood)
 - Two milk classes
3. Voting on Federal Order changes



“Experience before and since the passage of that legislation has disclosed that the ‘milk problem’ is exquisitely complicated. The city-dweller or poet who regards the cow as a symbol of bucolic serenity is indeed naive. From the udder of that placid animal flows a bland liquid indispensable to human health but often provoking as much strife and nastiness as strong alcoholic beverages.”

**Justice Jerome Frank
United States Circuit Court of Appeals
1943**



Key Federal Order Provisions

1. Classification: 4 milk classes.
2. Minimum prices for all classes.
3. Marketwide pooling of minimum prices.
4. Uniform or blend price.
5. Enforced payment dates.

Price Discovery

- M-W (BFP) – competitive pricing
- End product pricing
price – yield – mfg. cost
- Future ? Back to competitive pricing

NMPF: Federal Order Reform Overview

- Partial regulation
- Minimum price on only Class I milk
- Class I differentials remain the same
- Class II differential \$0.30 instead of \$0.70
- Class I “higher of” Class III or IV
- No minimum blend price on all milk, only Class I milk
- Class III determined by competitive survey
- Producer price differential (pooling of differentials) paid by Market Administrator
- Adjustment for Class IV milk included in pool

NMPF Reform: Class Prices

- Class I: “higher of” national weighted average competitive cheese price (Class III) or advanced Class IV using current formula adjusted for energy + Class I differential
- Competitive cheese – survey five regions
- Class II – no minimum, \$0.30 differential
- Class III – no minimum
- Class IV – no minimum



NMPF Reform: Minimum Prices to Dairy Producers or Cooperatives

- Only buyers of Class I milk pay a minimum price to dairy producers or cooperatives.
- Minimum price = lowest regional competitive cheese price only milk used in Class I

NMPF Reform: Pool

Producer Price Differential paid directly by the Market Administrator composed of:

1. Class I differential.
2. Class II differential.
3. Difference between Class I Mover and lowest regional competitive cheese price.
4. Class IV adjustment.

Appalachian Order (February 2011 Current vs. NMPF Proposed (marketwide)

	<u>Current</u>	<u>NMPF Proposed</u>	<u>Difference</u>
Class III	\$17.00		
minimum from plant on all milk		\$9.00	
producer price differential	\$2.58	\$4.33	
minimum all milk (blend)	\$19.58	\$13.33	-\$6.25

Current vs. NMPF Proposal (plants with different utilizations)

	Handler A	Handler B
Class I Utilization	90%	60%
Total plant lbs.	10,000,000	10,000,000
Class I lbs.	9,000,000	6,000,000
Min. per cwt. on Class I milk	\$13.13	\$13.13
Total minimum	\$1,181,700	\$787,800
Minimum weighted all milk	\$11.82	\$7.88
Producer price differential	\$4.33	\$4.33
Total minimum to producers	\$16.15	\$12.21
Current minimum (blend)	\$19.58	\$19.58
NMPF - current	(\$3.43)	(\$7.37)



NMPF: Federal Order Reform additional proposals

Hold Federal Order hearings to consider:

- Plant balancing credit to manufacturing plants that provide balancing services
- Intra-market transportation credits for long shipments of milk within the marketing area



Two Milk Classes Instead of Four

1. History of milk classes.
2. Why some want two classes:
 - simplify the system
 - move milk to its highest use
3. Impact of two classes:
 - lost revenue without Class II
 - powder plants serving as balancing plants



Voting on Federal Order Changes

1. Vote on order as amended not specific amendments.
2. Agricultural Marketing Agreement Act provides for “bloc” voting if requested by the cooperative.
3. Exceptions to both no. 1 and 2. Class I base plans, advertising and promotion programs.
4. Senator Gillibrand legislation

FINAL WORDS

- READ, STUDY, and make INFORMED DECISIONS.
- Do not let someone else make the decision for you.
- Let your COOPERATIVE leadership and CONGRESSMAN know your position, hold them accountable for their decisions.
- Do not let the CURE be worse than the DISEASE.