



Information Letter Series

Potential Implications of the Termination of Order 30 for Farm Milk Prices

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Producers and their organizations will face a choice between accepting a modified Federal Milk Marketing Order with new pricing provisions or terminating the Order. This Information Letter (IL) discusses the potential implications of a producer vote that would terminate Order 30 as an example of the implications for other Orders, including reductions in non-price functions, potential impacts on farm milk prices, and the potential to pool milk on other nearby FMMOs (Central and Mideast). Based on previous termination of the former Western Order and national cheese markets, farm milk prices for producers in Wisconsin and Minnesota are likely to approximate Class III prices, and thus be somewhat lower than with an Order in operation. Opportunities to pool milk on the Central and Mideast Orders may be limited by transportation costs and pool qualification requirements.

Introduction

On July 1, 2024, the Dairy Division of the Agricultural Marketing Service of USDA released a Recommended Decision regarding proposed changes to milk pricing under Federal Milk Marketing Orders (FMMO). One key proposed change in the Recommended Decision is to increase the make allowances used in dairy product pricing formulas. Concern about make allowances was a principal motivation for the commencement of hearings in August 2023, and many major dairy organizations—both producer and processor— supported increasing the values of make allowances. Another proposed change in the Recommended Decision is to increase the location-specific component of Class I Differentials used in the pricing formulas for Class I Milk. These differentials vary by the location at which farm milk is received by a fluid milk processor and are added to the Base Class I Price to determine the Class I Price. In addition, the Recommended Decision proposes changes to the formula for

determining the Base Class I Price¹, the use of the “higher of” the Class III and Class IV Skim Milk Prices rather than the average of these two prices plus \$0.74/cwt.

In other Information Letters (IL24-03 and IL24-04) we discussed the implications of these changes for farm milk prices, finding that in general, Federal Order Marketing Areas with high Class III utilization (that is, milk used for cheese) such as Order 30 in the Upper Midwest would experience lower farm milk prices as a result of the changes.

The process for making changes to Federal Milk Marketing Orders (FMMO) has numerous steps², but the final step of the process is an Order-specific vote by producers (or the cooperatives representing them)³ on whether to accept the proposed changes or to terminate the specific Order. In USDA’s language:

Through a referendum process, producers are able to approve the Federal order(s) as amended, or reject the proposed changes, effectively terminating the Federal order(s).

That is, producers and their organizations need to determine whether they accept the proposed changes to milk pricing or wish not to have their milk regulated under an FMMO. Importantly, there is no option to retain the current pricing rather than the proposed changes because USDA has determined that the changes in the Order are an improvement to the existing one. Although the current Recommended Decision may be modified by future steps in the process to a Final Decision, which is what producers and their organizations will vote on, it is likely that any changes to the Recommended Decision will be relatively minor. Thus, it is relevant to begin to consider now the choice between accepting the proposed changes or terminating the Order. This IL discusses the potential implications of terminating the Order to provide perspective on this decision. It is not our purpose (or role) to advocate for a specific decision.

Functions of FMMOs: Pricing and Other Functions

The basic purposes and functions of FMMOs have been discussed in numerous publications⁴ and another Information Letter (IL24-02) summarizes the functions in addition to establishing minimum regulated milk pricing. These functions include:

- **Testing:** FMMOs establish or verify tests of milk components (butterfat, protein, other solids) to ensure farmers are paid for the proper component levels in their milk;
- **Auditing:** of milk and components received, processed and distributed to ensure payments to farmers are accurate and timely;
- **Market Information:** Industry, academia and other government agencies rely on the dairy-related regional and national data collected and analyzed by FMMOs;

¹ Specifically, the changes apply to the Base Class I Skim Milk Price that is used on conjunction with the Class I butterfat price to determine the Class I Price.

² For details, see

<https://www.ams.usda.gov/sites/default/files/media/DairyMarketingOrderAmendmentBrochure.pdf>.

³ Approval of the changes is contingent on a favorable vote either by two-thirds of the eligible producers or by producers who supply two-thirds of the milk sold in the marketing area, either a direct vote by milk producers or through bloc voting of dairy farmer cooperatives.

⁴ For example, See <https://crsreports.congress.gov/product/pdf/R/R45044/3>.

- **Producer Settlement Fund:** FMMOs equitably pay individually producers, or their cooperative, regardless of the type of plant the farm milk was sold to. This happens through the Producer Settlement Fund which receives money from plants (typically fluid processors) whose class price is above the Statistical Uniform Price (SUP) for the month and distributes those funds to plants whose class price is below the SUP. All regulated plants are then able to pay producers the SUP (adjusted for zone).
- **Somatic Cell Count SCC Adjustment:** Producers in Order 30 are paid for milk with SCC values less than 350,000 cells per milliliter milk.
- **Fluid Milk Processor Promotion and the Dairy Research and Promotion programs:** Commonly referred to as “checkoff programs”, FMMOs take in funds to promote dairy product consumption.

These functions help to promote transparency and equity in the setting of producer milk prices. In principle, these functions could be assumed by other organizations in the absence of an FMMO but would require the establishment of appropriate legal authority and alternative payment mechanisms (currently, processor assessments provide the funding for FMMO operations). In addition, the FMMO system has a reputation for integrity that may be difficult to replicate under alternative organizational arrangements.

What is Likely to Happen to Farm Milk Prices Without Order 30?

The impact of a potential termination of Order 30 will depend in part on:

- How closely farm milk prices would align with nearby regulated milk markets?
- Whether substantial additional pooling of milk on other nearby Orders (Order 32, the Central Order and Order 33, the Mideast Order) occurs?

It would be helpful to have well-developed economic models to assess these questions, but for the moment these models don’t exist. Thus, we rely on previous experience with Order termination, as well as other sources of information and logic, to assess the possible impacts of terminating Order 30.

Impacts of Order Termination on Farm Milk Prices

The Western Order—covering Utah, parts of southern Idaho, eastern Oregon, eastern Nevada, and the southwest corner of Wyoming—was terminated in April 2004. Like the Upper Midwest, this was an order with high Class III utilization. The available evidence suggests that after Order termination, farm milk prices for producers previously providing milk regulated under the Western Order approximated Class III prices. Milk buyers in the formerly regulated area tended to establish pricing formulas that, on average if not month-to-month, mirrored Class III prices. This is consistent with the idea that there is a national marketplace for cheese and prices that were markedly out of alignment with Class III would provide incentives to seek alternative milk marketing arrangements. Prices that approximate Class III would seem likely if Order 30 were to be terminated, although it is difficult to assess the impact of order termination on over-order premiums and or payments for other services (such as balancing). If future prices for farms in the Upper Midwest Marketing Area approximate Class III, this would imply that milk prices would be somewhat

lower without Order 30, by roughly the amount of the Producer Price Differential (PPD⁵) and SCC adjustments.

The PPD value in Order 30 has varied markedly from 2018 to 2023 (from negative \$1.66 in 2020 to \$0.30 in 2022) but has averaged about \$0.30/cwt during the past two years (2022 and 2023). SCC adjustments in the past two years have been positive but also considerably smaller (about \$0.001/cwt). This suggests that future farm milk prices without Order 30 could be lower by around \$0.30/cwt if Order 30 is terminated. (This does not account for any potential payments made by producers under alternative mechanisms to provide the functions noted in the previous section.)

Could Milk be Pooled on Other Orders?

A second question is whether milk currently pooled on Order 30 could be pooled on another order if Order 30 no longer existed. This could be possible given that milk under FMMOs is priced not where it is *produced*, but in general where it is *first received for processing*. The extent to which pooling milk on another Order will occur depends in part on:

- Whether other orders are terminated (not supported by producers and their organizations) along with Order 30;
- Relative incentives for pooling, which involve the size of pool draws (e.g., PPD) relative to transportation costs, and the relative manufacturing milk price differences between the regions;
- Pool qualification, that is, meeting the requirements for participation in another Order pool.

Given the geography of FMMO Marketing Areas (Figure 1), the most likely alternative Orders for pooling milk currently pooled on Order 30 are the Central Order (Order 32) and the Mideast Order (Order 33). In 2022 and 2023, more than 90% of the farm milk pooled under Order 30 originated on farms in Wisconsin and Minnesota (Table 1). In addition, relatively small quantities of milk from Wisconsin and Minnesota (Table 1) were already pooled on the Central Order and the Mideast Order in those two years.

⁵ The PPD captures the difference between the total handler obligations to the Order pool and the total Class III component value of milk, and tends to be higher for Order with higher utilization of Class I milk.

Table 1. State Origins of Producer Milk Receipts in Orders 30, 32 and 33, 2022 and 2023

Year, Order	Amount				Percentage		
	Wisconsin	Minnesota	Other States	Total	Wisconsin	Minnesota	Other States
2022							
Order 30	22,408.8	6,736.8	2,603.0	31,748.6	70.6%	21.2%	8.2%
Order 32	321.2	278.9	15,037.6	15,637.7	2.1%	1.8%	96.2%
Order 33	164.0	^a	16,632.0	16,796.0	1.0%	^a	99.0%
2023							
Order 30	22,898.3	8,192.8	1,942.8	33,033.9	69.3%	24.8%	5.9%
Order 32	341.0	269.1	15,443.0	16,053.1	2.1%	1.7%	96.2%
Order 33	352.0	^b	17,409.4	17,761.4	2.0%	^b	98.0%

^a Minnesota is included in "Other" with a total of 61.0 million lbs.

^b Minnesota is included in "Other" with a total of 111.2 million lbs.

It is difficult to predict the outcome of producer referendums, but it seems reasonable to assume that if Order 30 were terminated, Orders 32 and 33 would remain in place.

The incentives to pool milk on Orders 32 and 33 depend on the relative size of the benefit (such as the value of the PPD) and the additional costs of transporting milk to plants serving Class I markets in those two orders and differences in the manufacturing value of milk.

The PPD values for Orders 32 and 33 have been considerably larger on average than those for Order 30 during 2022 and 2023 (Figure 2), reflecting generally larger values of Class I differentials and higher utilization of Class I milk. These differences suggest that there would be incentives to pool milk under those orders—to share in the higher average value of the milk pooled. However, the distances from WI and MN farms to processing locations would likely be increased by shipping the quantities of milk required to “qualify” to participate in those pools. (More on this topic shortly.) The relatively small volumes of WI and MN milk that were pooled on Orders 32 and 33 during 2022 and 2023 suggests that when transportation costs are considered, the incentives for moving additional milk to the Central and Mideast Orders may not be sufficient to affect substantive quantities of additional milk⁶. However, the Recommended Decision also increased the value of Class I differentials throughout the US- to address changes in relative milk values based on transportation costs (see IL 24-04). By accounting for higher costs of moving milk to fluid milk (Class I plants) these changes may provide additional incentives for pooling milk on Orders 32 and 33.

⁶ This is consistent with the consensus from focus group discussions with dairy transporters and traders in June 2024.

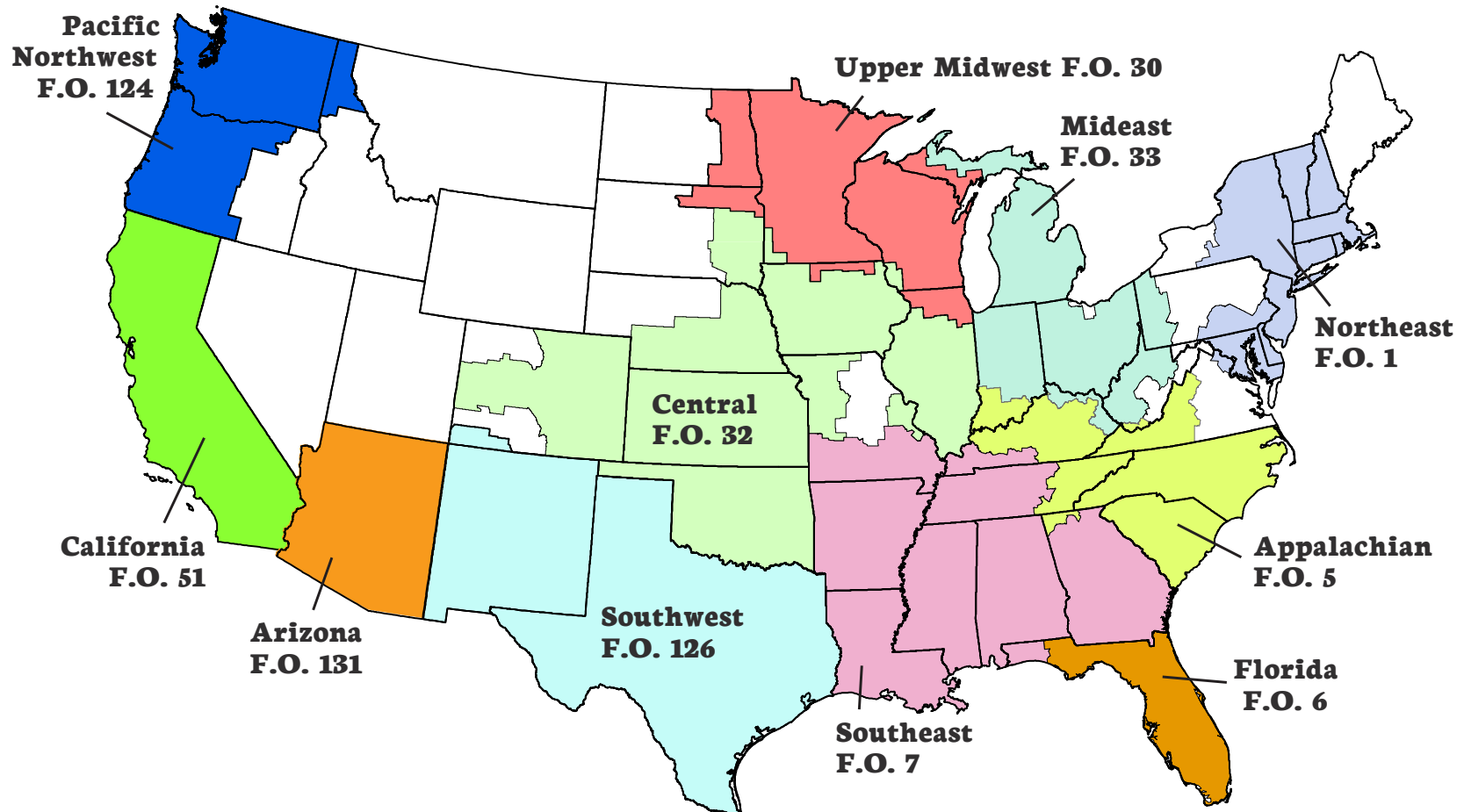


Figure 1. Map of Current Federal Milk Marketing Order Areas

Source: <https://www.ams.usda.gov/sites/default/files/media/Federal%20Milk%20Marketing%20Orders%20Map.pdf>.

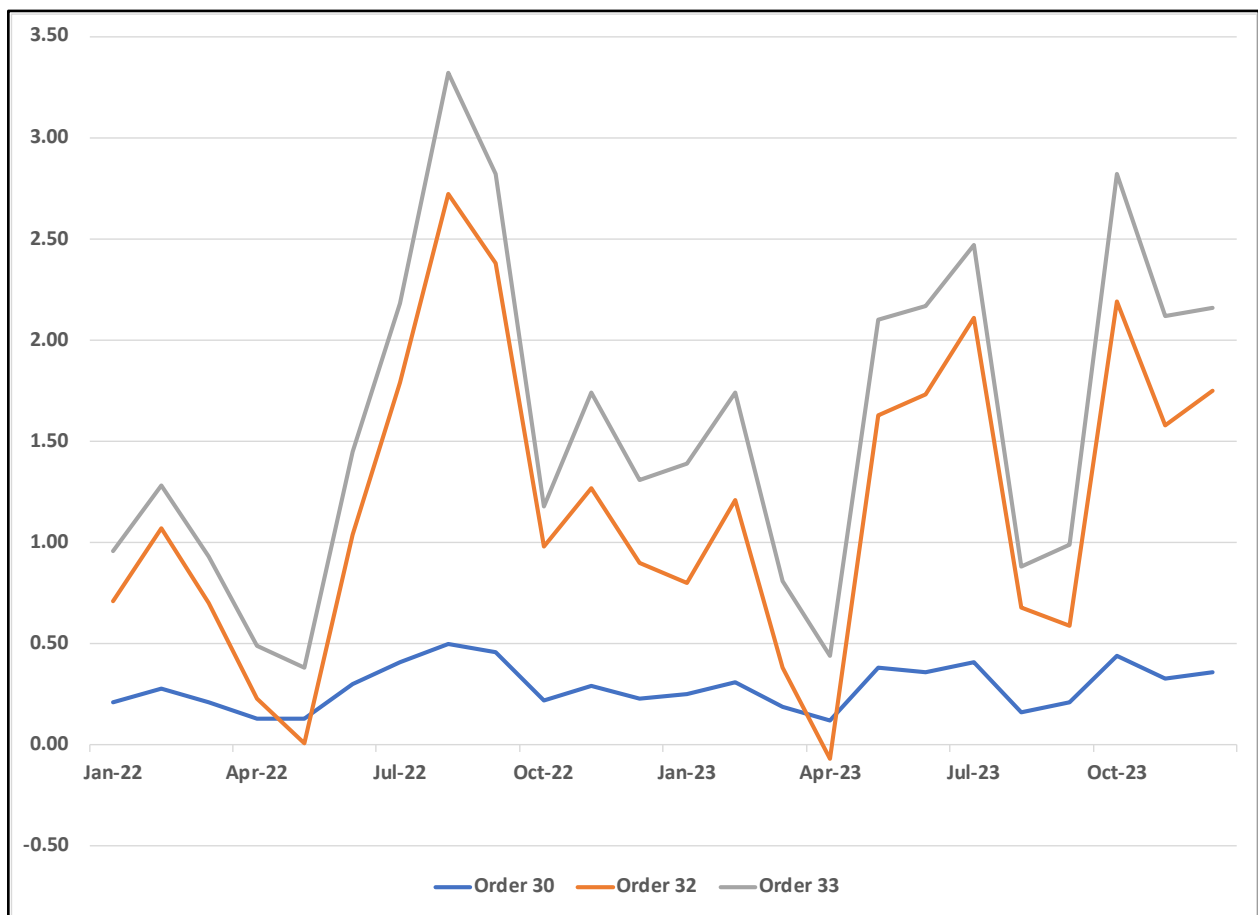


Figure 2. Producer Price Differential Values for Orders 30, 32 and 33, January 2022 to December 2023

However, another important issue concerns “qualification” to be pooled under a specific order. Federal Milk Marketing Order rules stipulate how producers, producer milk and handlers are qualified to participate in an order’s market-wide pool. This is sometimes referred to as “demonstrating performance”. Market-wide pooling allows dairy producers to share in the revenues derived from the sale of milk classified in different FMMO categories and priced within the federal order⁷. FMMO provisions that qualify milk supplies for the market-wide pools are *delivery day requirements*, i.e., touch base requirements, *diversion limits*, and *supply plant shipping requirements*.

Delivery day requirements specify the number of days per month a producer must deliver their milk to an order-regulated Class I plant (whether that plant wants the milk or not) to have their milk pooled on that order. The producer (dairy farm) may be located within or outside the physical FMMO marketing area. In the Upper Midwest Order and the Central Order, the delivery day requirement is 1 day per month. In the Mideast Order, this requirement is larger, 2 days per month. These requirements imply that a farm (perhaps through its cooperative) would need to have a Class I plant marketing beverage milk in

⁷ Information in this section is adapted from “Background on Pool Qualification” prepared for the American Farm Bureau Federation by C. W. Herndon, Jr. of Mississippi State University in September 2019.

Order 32 or Order 33 as a regular customer, and it may be difficult for farms currently shipping to Order 30 to accomplish this.

Supply plants are manufacturing milk plants that help balance milk supplies for a marketing area by sending milk to regulated fluid plants. To qualify as a regulated handler eligible to participate in the FMMO pool, a supply plant must ship a portion of their milk supplies to a regulated plant. At 10% to 20%, supply plant shipping requirements are the lowest in surplus milk production regions such as the Upper Midwest and California. These shipping requirements are higher for the Central and Mideast Order, 25% and 40%, respectively, which could also imply challenges in substantively increasing the amount of milk pooled in those two orders.

Finally, diversion limits constrain the amount of milk in manufacturing classes (like Class III) that can be associated with a FMMO pool. Diversion limits are the maximum amount of pooled milk that a pool plant can divert to a non-pool plant. When milk is diverted, producers can still receive the same price as if their milk had been processed at a plant regulated by their order as long as the percentage of milk diverted stays within the diversion limits. The Upper Midwest has higher diversion limits (90%) than the Central Order (75-80%) and the Mideast Order (50-60%).

Taken together, the differences in qualification provisions between the current Order 30 and Order 32 and Order 33 suggest that there may be significant constraints on markedly increasing the amount of milk pooled on those latter two orders. These factors and the returns of higher pool values relative to transportation costs, probably explain the relatively small amount of WI and MN milk pooled on Orders 32 and 33. It seems likely that the opportunities for additional pooling if Order 30 were eliminated may be limited. In addition, if it were possible to pool more manufacturing milk on Orders 32 and 33, this would also reduce the incentives for future pooling through reductions in the PPD.

Key Points:

- Producers and their organizations will face a choice between retaining a modified Order 30 with new pricing provisions or terminating the Order.
- Unless other arrangements are established, terminating Order 30 could eliminate beneficial aspects of the Order not directly related to milk pricing, including auditing, testing, market information, payments for somatic cell counts, and protection provided by the producer settlement fund, some of which currently are funded by an assessment on fluid milk processors.
- If Order 30 were terminated farm milk prices are likely to mirror Class III prices, based on previous experience with the Western Order and the logic of national cheese markets. This price would likely be lower than the price with Order 30, by approximately the amount of the Producer Price Differential. The PPD for Order 30 has averaged \$0.30/cwt during 2022 and 2023.
- Opportunities to pool milk on the Central and Mideast Orders may be limited by transportation costs and pool qualification requirements.