What Is a Federal Milk Marketing Order?

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A federal milk marketing order does just one thing: in the market area it covers, it regulates the prices paid to dairymen by handlers of Grade A milk.

About 60% of Wisconsin's milk is Grade A, almost all of which is marketed under federal orders. (Of total Wisconsin milk production, including Grade B, about 53% is under federal orders.) For the nation, 80% of all milk is Grade A and 78% of all Grade A milk is marketed under some one of the 52 federal milk marketing orders.

Today's orders have their origin in the Agricultural Marketing Agreement Act of 1937. Federal milk marketing orders are legal instruments issued by the Secretary of Agriculture to define the terms under which handlers who engage primarily in handling fluid milk for specified market areas buy the milk to supply those markets.

Federal milk marketing orders have three goals: orderly marketing, equitable dealings between dairy farmers and milk handlers, and fair prices and dependable supply of wholesome milk for consumers.

To achieve these goals, each order includes the essential of a classified pricing plan, establishes (and regularly brings up to date) minimum prices that handlers must pay producers, and provides for administering the order. The Chicago Regional Order deals with three classes of milk:

Class I: milk used as fluid or beverage milk
Class II: bulk condensed milk and milk sold to commercial food processors to be made into ice cream and frozen desserts, cottage cheese, yogurt, fluid cream and cream products.
Class III: milk used for hard cheese, butter, milk powder and evaporated milk.

A few federal orders in other parts of the country have only two classes, putting all milk except fluid beverage milk into Class I.

For each class, minimum prices are established. Handlers must pay at least these minimum prices, and this is enforced by legal action of the U.S. Department of Agriculture. Each order is administered by a "market administrator" who is an agent of the Secretary of Agriculture. His principal duty is to see that handlers account for milk and pay producers for it in accordance with provisions of the order.

WHAT FEDERAL MILK ORDERS DO NOT DO

Federal milk marketing orders do not:

- set retail prices
- set price ceilings to producers.

CLASSIFIED PRICING

Prices under each federal milk marketing order are established on the basis of a specified relationship to the Minnesota-Wisconsin (M-W) Price Series (the average price paid by cheese, butter and powder plants in the two states).

For orders with three classes of milk, the Class III price is the same as the current Minnesota-Wisconsin price.

The Class III price is a fixed amount higher (perhaps 10 cents) than the M-W price.

The Class I price adds a larger differential ($1.26 a hundredweight in the case of the Chicago order) to the Minnesota-Wisconsin of two months earlier. The June price for Class I milk under the Chicago Order, for example, would be the April M-W price plus $1.26 a hundredweight.

The higher price for Class I milk is justified because:

1. Milk for fluid or beverage purposes must meet Grade A standards, and this involves higher production costs than for milk utilized for manufacturing.

2. In many parts of the country an adequate supply of Grade A milk involves a significant transportation cost from the farm to the consumer. The largest supply of milk over and above local needs is in the Upper Midwest. Thus, if milk could move freely to any market the price at which it could be supplied should be the northern Wisconsin price plus all of the normal costs of getting it to the market where it is to be consumed. This helps explain why Class I differentials range from $1.12 a hundredweight for the Upper Midwest Order to $3.15 for the Southeastern Florida Order.

3. The demand for beverage or Class I milk is more "price inelastic" than for manufacturing milk products. (In other words, a rise in the price of fluid milk causes less drop in sales than a comparable rise in the price of other dairy products would.)

PRODUCER PRICES

Producers in a federal order area receive a single uniform or "blend" price for the Grade A milk they sell to fluid handlers in that area, whether the milk actually is used for beverage purposes or goes into manufacturing.

This blend price is based on the minimum order prices that have been set for each class of milk and the total amount of milk actually used in each class. During 1975, for example, only 34% of the milk in the Minneapolis-St. Paul order sold for Class I use, while 92% of that in the Upper Florida Order was used for fluid or beverage milk (Class I). The Chicago Regional Order had a Class I usage of 36%, and the average nationally for all 52 orders was 58%.
The more of the milk that goes for Class I use, the higher the blend price will be. For 1975 the blend price for the Upper Florida Order averaged $10.05 a hundredweight, compared to $8.05 for the Chicago Regional Order.

**WHO IS REGULATED UNDER AN ORDER?**

Each federal milk marketing order defines its own “marketing area”—the territory within which milk handling is regulated by the order. This is not necessarily the area in which the milk is produced. It is a distribution area in which milk is sold to consumers. The area in which the same milk dealers compete with one another for sales of milk and in which the same sanitary inspection standards are met.

Only milk dealers who sell Grade A milk within the area are regulated. They are the only ones required to pay the minimum class prices set under the order, and it applies only to Grade A milk. This means that someone engaged only in manufacture and using Grade B milk is not regulated.

The “producers” of a marketing area are all of the dairy farmers who sell Grade A milk to any handler regulated by the order covering that area. Producers are not regulated by the order; only the handlers are. But of course all producers are entitled to benefits of the order.

**POOLING**

To calculate the blend price under a federal order, milk is pooled either of two different ways—in a marketwide pool or an individual handler pool.

If a marketwide pool is used, the market administrator totals the milk utilization and milk value for all milk handled by all regulated handlers in the area. He then calculates a single blend price to be paid to dairyman by all regulated handlers.

During any marketing period, some handlers are able to distribute more of their milk for Class I uses than others do. The handler with higher-than-average Class I utilization is required to pay into a producer settlement fund kept by the Market Administrator. The handler who has marketed more of his milk for Class II or III manufacturing purposes then draws from this fund to pay his producers the agreed-upon blend price.

If an individual handler pool is used, a separate blend price is calculated for each handler based on the actual utilization of the milk he purchased. Each handler is required to pay his own dairy farmers a blend price based upon his own utilization, rather than a single price set for the whole market. Producers dealing with different handlers may receive quite different blend prices.

Individual handler pools (there are only four of these) have the effect of restricting the amount of fluid milk that comes into the market. This is because each handler wants to keep his own Class I utilization as high as possible so he can pay his producers a higher blend price. If a dairyman finds no handler in the Grade A market ready to take his milk, he has to sell it at a lower price for manufacturing. A marketwide pool pays a single blend price so that no individual handler gains by limiting the amount of fluid milk entering the market.

**ESTABLISHING FEDERAL ORDERS**

The Agricultural Marketing Agreement Act of 1937 only authorizes federal orders. They are not established unless milk handlers, producer cooperatives or producers take the initiative. The Secretary of Agriculture is asked to make a preliminary investigation. If he concludes that an order would improve the market, he sets a hearing at which all interested parties can give their views. If the U.S. Department of Agriculture then recommends establishing an order, a draft order is mailed to all interested parties and published in the Federal Register. Time is allowed for exceptions to be filed, and the USDA then gives producers a chance to vote. The order goes into effect if two-thirds of the dairymen supplying the market vote for it or if it is approved by those supplying two-thirds of the milk sold there. (Handlers may also agree to the order, but producer approval is all that is needed to put it into effect.)

The Secretary of Agriculture terminates an order or changes its provisions whenever he concludes that they no longer meet the needs of the market. It must be terminated on request of a majority of dairymen producing more than half of the milk supply for the market.

The majority of federal orders came into effect in the 10 years after 1948, and the peak number was 83 in 1962.

By July 1, 1976, although the area covered by orders was as large as ever, the number of orders had dropped to 52 because of consolidations and mergers.

Further decrease in the number of orders can be expected. Technological advances in refrigeration, transportation, and packaging are sharply increasing the size of the area in which the same handlers of packaged milk compete directly with one another. When that happens, the boundaries of areas covered by a federal milk marketing order have to be enlarged. Some dairy leaders believe there will be as few as 10 marketing orders in operation within a decade, regulating the supply of milk for most of the nation's urban population.

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