Regulating Minimum Monthly Milk Prices Paid by Processors: What, Why, and Who Cares?

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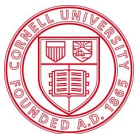

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Outline

1. What is a Milk Marketing Order?
2. Why do we have Marketing Orders?
3. Do the problems we sought to fix or benefits we originally wanted still exist?
4. What are the new problems and benefits, and at what cost?
5. How bad would it be if we just got rid of them?

FEDERAL MILK MARKETING ORDERS
The simple summary

Objectives: create market conditions that will encourage:

1. orderly marketing activity; markets that function smoothly, predictably, and at a reasonable cost
2. price stability (or is it reduce uncertainty)
3. adequate, and wholesome supplies of fluid milk
4. equitable returns to farmers

Methods:

regulate and supervise the terms of trade between farmers and processors, i.e., set minimum farm level prices and trading rules that determine who qualifies for what price, so as to create market (price) incentives that result in desired market behavior or performance

Law: Agricultural Adjustment Act of 1933, Agricultural Adjustment Act of 1935, Agricultural Marketing Agreement Act of 1937, various modifications introduced by subsequent "farm bills"

Current Status: operating daily but growing feeling across the industry that changes are needed in operating procedures and regulatory objectives, ranging from tweaks to wholesale change to elimination.

Basic Issues and Features in MMOs

Classification and Pricing

- How many classes?
  - More classes when we worry about vertical competition, can the processor afford to pay for milk given the product selling price and am I wringing every penny from every processor
  - Fewer classes when we worry about horizontal competition, can the processor from one subsector get milk away from the other subsector, and how come "my" classes are paying as much as "your" classes
- What prices - price discovery?
  - Historically, we have tried it all
    - Competitive pay price
    - Product formula pricing
    - Producer cost indices
  - Prior to 2000 we used competitive pay prices
  - After 2000 we use Product formula pricing
  - Problems with all of the above, just different problems
- The purposes here are primarily two-fold
  - Increase returns to farm milk
  - Coordinate raw milk markets

Basic Issues and Features in MMOs

Pooling

- Primary issue is classified pricing should result in a bigger pie, but producers don't share equally unless there is pooling
- Effected by two fundamental features
  - Geographic size of the market (as a Class I sales area)
  - Pool Qualification requirements (how much non-Class I milk gets to share in the pie)
- Over time, pooling has been made easier
- In 2000, we greatly expanded market size and reduced number of orders. Since then we have also made it a little harder to get in
  - Easy to get into "my" area
  - Hard to get into "your" area

Basic Issues and Features in MMOs

Simplification

- Reduce number of orders (also a pooling issue)
- Move towards more common general provisions across orders
- Administrative procedures

Many believe these are improvements, but critics still feel that it is a mind-boggling system (MEGO phenomenon).

Take a Step Back -

Why Do We Have Classified Pricing and Pooling in the First Place?

First use of classified pricing and pooling was in Boston market in ca. 1896 as a way to:

1. Increase revenue to producers
2. More equitably share revenue among producers

Over the next 40 years, the idea caught on in other markets, primarily significant city markets in the East and Midwest

If classified pricing and pooling was developed by cooperatives and agreed to by processors, does that mean this system is "market oriented"?

Early Pricing Innovations -

Late 1800s and Early 1900s

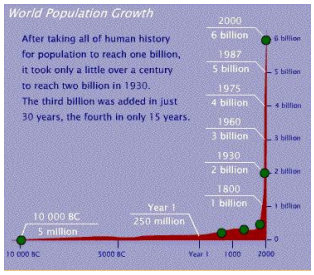
Milk processors introduced pricing systems that rewarded quality and rationalized deliveries - milkfat pricing, quality incentives, seasonal pricing, freight differentials.

Cooperatives focused on getting a better (higher) price for farmers - collective bargaining, classified pricing, base rating

Rationale and conditions for classified pricing and pooling

- Prices offered in 6 month contracts; coops try to be more aggressive in asking for a price
- Some farmers had only seasonal access to fluid market
- Cost of serving that market was high
- Producers intuitively understood that fluid consumers and, hence, fluid processors were less sensitive to price than manufacturers
- Pooling was essential to maintaining market discipline among producers

Underlying Issues: The Technology Treadmill has been going on for a long, long time and is not unique to dairy!



About 10,000 years ago, human beings reorganized how they went about obtaining food – agriculture (farming and husbandry) replaced the Hunter/Gatherer method.

Humanity flourished, but since then the technology treadmill has been in play, with all that is good as well as all that is challenging and frustrating.

(but what about the next 50-100 years)

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The Nineteenth Century began a technological revolution in Agriculture

Prior to the 1800s, farming meant working the land with animal power and crude plows of wood, planting by hand, cultivating with a hoe, harvesting with a sickle, threshing with a flail

- In the 1600s more Africans were brought to the New World to till the soil and tend the animals then there were European immigrants
- Dairy cattle came to New Mexico in 1598 and Virginia in 1611
- The official US population on 2 August 1790 was 3,929,214 (incl. 694K slaves) – 95% lived in rural areas.

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The Nineteenth Century began a technological revolution in Agriculture

1790s brought the scythe and cradle, moldboard and cast iron plow, and the cotton gin

1834 McCormick's reaper, 1840s saw an explosion of the Mechanical Revolution

- 1800: 0.1 acres of wheat cut per day with a hand sickle
- 1830: 0.4 acres of wheat per day with a sweep sickle
- 1840: 2.5 acres of wheat per day with the reaper

1830 - About 250-300 labor-hours required to produce 100 bushels (5 acres) of wheat

1850 - About 75-90 labor-hours required to produce 100 bushels of corn (2-1/2 acres)

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Shifting Supply and Demand

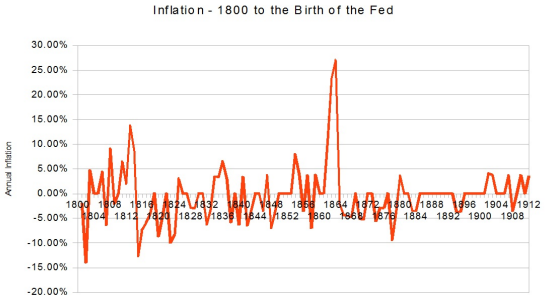
Rapid westward expansion – Manifest Destiny

- 1862 Homestead Act
- Influx of new wave of European immigrants (not British)

Productivity growth tended to exceed population (demand) growth

- US population in 1850 = 23.2 million, 85% rural

With the exception of the Civil War period, the mechanical revolution and scientific agriculture had a largely deflationary effect.



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Changes in Business Climate, Culture, and Conditions

Earliest farm marketing cooperatives began in early 1800s in Northeast and Midwest

- CT Dairy Farmers Cooperative in 1804
- Various other dairy and cheese coops develop
- Other agricultural cooperatives follow

Why? Empowerment at a time of economic challenge and threat – a buyer's market? buyer market power exceeds seller market power.

The coop efforts of the 1800s were largely short-lived and failed expectations, but hope sprung eternal – especially with no other options.

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Slowly Developing Laws Governing Competition

Anti-Trust Policies

Generally intended to prevent or control abusive business practices that tended to favor large entities in the middle of the supply chain

- Unfair competition with suppliers and/or customers
- Tended to ration sales, pitting supplies against each other and shorting customers

The Sherman Anti-Trust Act of 1890 (principles)

The Clayton Anti-Trust Act of 1914 (behaviors)

The Capper-Volstead Act of 1921 (exceptions for cooperatives)

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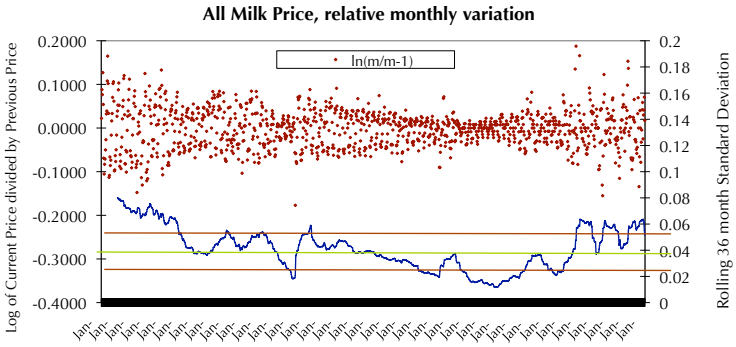
Dairy as a special case of a much larger phenomenon, but with its own, unusual solution

Classified Pricing and Pooling were introduced by Cooperatives in the late 1800s and early 1900s to:

1. Better manage and coordinate huge seasonal variability
2. Increase average revenue to producers
3. More equitably share revenue among producers



Why Classification?

Classification assigns milk to a category based on how it is used, i.e, the product into which it is made.

1. Beverage products are always Class I, or the highest use class
2. Manufactured products, from skim milk powder to ice cream, have been categorized in as few as one manufacturing class to as many as 8.

Number of classes hinges on whether one thinks different product sectors have different intrinsic values - take advantage or being able to charge more vs. protect against charging too much.

Why Classified Pricing?

Classified Pricing assigns a different price for milk in each utilization class

Class I commands the highest price. Some of premium or differential is cost-based and some is demand-based (*despite official rhetoric*).

1. Higher production and product standards (Grade A)
2. Transportation costs and perishability
3. Consumer value (preference and elasticity of demand)

Farmers want to maximize their earnings by charging what the market will bear (price discrimination)

Exploiting the Elasticities of Demand

In pricing one input (milk) across two or more outputs (fluid and manufactured products), producer total revenue is increased if a higher price is charged in the most inelastic market, meaning a lower price is charged in the more elastic market.

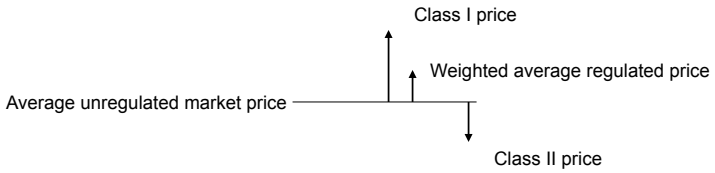
There is a limit to how far one can go.

Why not just charge a higher price in both, especially if both markets are inelastic?

Classified Pricing Can Improve Producer Returns, but It Is Not a Price Support

The price discrimination approach yields higher total producer returns by exploiting inelastic demands, but

- Markets still must clear, can't increase prices across the board without risking surplus
- Sellers gain revenue by lowering price in elastic market and increasing price in inelastic market
- In markets with different degrees of inelastic demand, what you gain in the most inelastic markets is partially offset by what you lose in the less inelastic markets



Why Pooling?

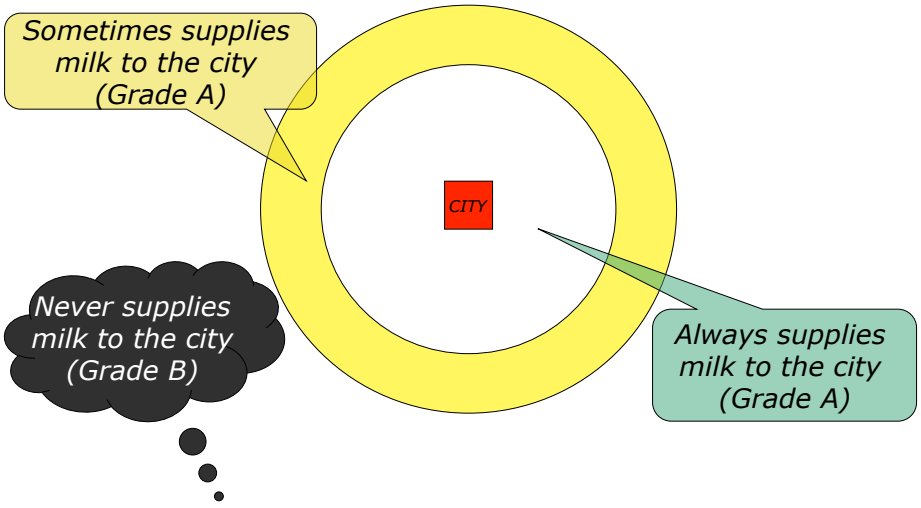
- Farmers seek the highest priced buyer; buyers seek the lowest priced supplier (normal competition).
- Farmers will compete with one another for the privilege of selling in the higher priced, fluid market (normal competition or self-defeating?)
- "Destructive competition" among farmers seldom leads to marketing patterns that are "rational" or the highest average prices
- Sharing the high priced market with producers who do not ship to it, but could, minimizes destructive competition between farmers

How big is the pool?
Which farmers are in, which are out?

How Big is a Market (How Big is the Pool) -
Traditional Wisdom of Coordination and Geographic Scope

- Farm milk is a homogeneous product
- Bulk milk transportation is expensive; Packaged milk is even more expensive to distribute than bulk milk
- Fluid plants should be in cities, where the market is. Nearby milk should serve local markets. What is "local milk"?
- By and large, prices in one city market are independent of prices in another city (prohibitively high transportation costs)
- You have to ship to Class I when it is inconvenient and expensive if you want to be in the pool

Ye Olde Boston Market



Coordination Between Markets

1929 Harvard Study (prior to FMMOs):

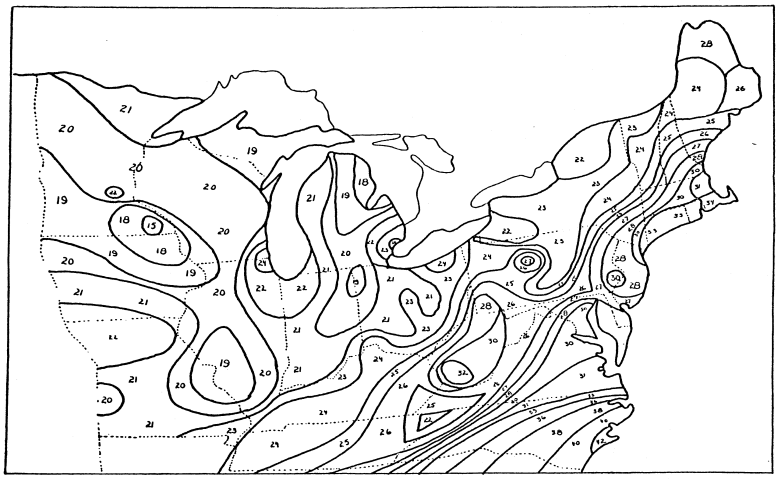


FIGURE 33
Farm Prices of Milk, 1929

Why Federal Orders?

By 1933, over 60 city markets employed some type of classified pricing.

Yet coops advocated for Federal law to codify this system (state laws too).

Why?

- Needed the enforcement authority of federal (or state) government to
  - Set a higher price
  - Make it stick
  - Ensure greater uniformity (fairness)

Result?

- Agricultural Marketing Agreement Act of 1937, after four years of trying to avoid this much regulation.

Why: The Desired Outcomes of Federal Orders

Benefits of the Program (as per USDA-AMS)

- Assures dairy farmers a reasonable minimum price for their milk throughout the year
- Assures consumers of an adequate supply of milk to meet their needs throughout the year and help prevent wild fluctuations in price through periods of heavy and light milk production

Do you agree?
What is "reasonable"?
What is "adequate"?
How are we coming with the "wild fluctuations" thing?

Why: Congressional Purpose of FMMOs Harkens to 1933 AAA

Title 7 of the US Code is Agricultural Policy (beginning with AAA 1933) and includes all subsequent amendments. Chapter 26 and 26a is the AMAA 1937

It is declared to be the policy of Congress—

(1) …to establish and maintain such **orderly marketing conditions** for agricultural commodities in interstate commerce as will establish, as the prices to farmers, **parity prices** as defined by section 1301 (a)(1) of this title.

(2) To protect the interest of the consumer by … gradual correction …, and (b) authorizing no action … for … prices to farmers above the level which it is declared to be the policy of Congress….

(3) to establish and maintain such production research, marketing research, and development projects … as will effectuate such orderly marketing … as will be in the public interest.

(4) …to establish and maintain such orderly marketing conditions … as will provide, in the **interests of producers and consumers**, an orderly flow of the supply thereof to market throughout its normal marketing season to avoid unreasonable fluctuations in supplies and prices.

(5) … to continue for the remainder of any marketing season or marketing year, such regulation pursuant to any order as will tend to avoid a disruption of the orderly marketing of any commodity and be in the public interest….

Are parity prices a reasonable policy goal today?
From where did the notion of "adequate supply" come?

Agricultural Act of 1948 Modifies the Price Goal and Standard

Whenever the Secretary finds, upon the basis of the evidence adduced at the hearing required by section 8b or 8c, as the case may be, that the parity prices of such commodities are not reasonable in view of the price of feeds, the available supplies of feeds, and other economic conditions which affect market supply and demand for milk and its products in the marketing area to which the contemplated agreement, order or amendment relates, **he shall fix such prices as he finds will**

- **reflect such factors,**
  - {i.e.,the price of feeds, the available supplies of feeds, and other economic conditions which affect market supply and demand for milk and its products}
- **insure a sufficient quantity of pure and wholesome milk, and**
- **be in the public interest**.

From this, "adequate supply" has developed to imply prices that are in line with supply and demand conditions

What is a Milk Marketing Order?

An Order: a document, a written set of regulations establishing rules related to the pricing of milk.

- A Federal regulation

Subpart B--Definitions
§ 1000.2 General definitions.
(a) Act means Public Act No. 10, 73d Congress, as amended and as reenacted and amended by the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601 et seq.).
(b) Order or Federal milk order means the applicable part of 7 CFR, chapter X, issued pursuant to Section 8c of the Act as a Federal milk marketing order (as amended).

- A State Regulation - CA, PA, NY, VA, ME, ND, MT, NV

The Act is "permissive" - Orders are not required; they are permitted. Creation requires 1) a request from dairy farmers and 2) consent from USDA.

What is a Milk Marketing Order?

Who writes and enforces the rules:

- for a Federal Order - USDA (AMS/Dairy Programs);
  - Formal rulemaking (the most complicated) is required
- for a State Order - a designated state agency, sometimes the state department of agriculture (e.g., CDFA) but also may be a quasi-independent agency (e.g. PMMB).
  - Rulemaking procedures vary with each state

Who is regulated: dairy product processors who buy producer milk and serve a geographically defined Class I market. Class I processors must be regulated. Manufacturers have to qualify by showing service to the Class I market (although criteria may be very easy).

The Basic Functions or Tools of a Marketing Order

1. Classification according to use
2. Pricing according to class
3. Pooling the dollar value of the sale of producer milk, according to qualification and use
4. Auditing - purchases, usage, payment
5. Coordination across marketing areas

State orders are based on State law, not the AMAA, but the basic tools are the same. The specific rules are often different and more simple.

Marketing Orders are Voluntary --
A slow start

Marketing Agreements allowed in AAA 1933, although only vaguely defined.
- Like collective bargaining, terms determined by industry negotiation but monitored by USDA

First Marketing Agreement was in Chicago in 1933
- 200 requested in 1933, 15 approved
- Abolished in 1934 but then revised an re-implemented
- Topeka Agreement lasted until 1947

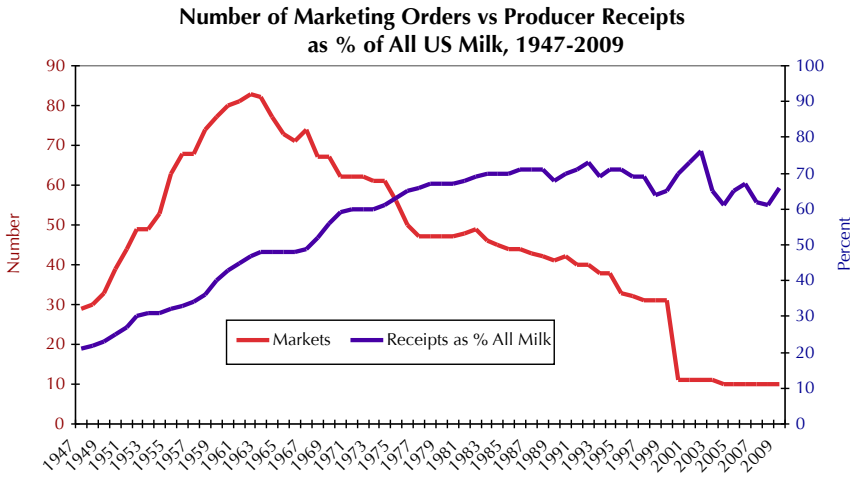
AAA amended in 1934 and 1935, then AMAA 1937 allows farmers to petition USDA for a Marketing Order.
- Order is akin to binding arbitration, USDA gathers testimony on facts and ideas, writes the rules and gives producers a take it or leave it choice.

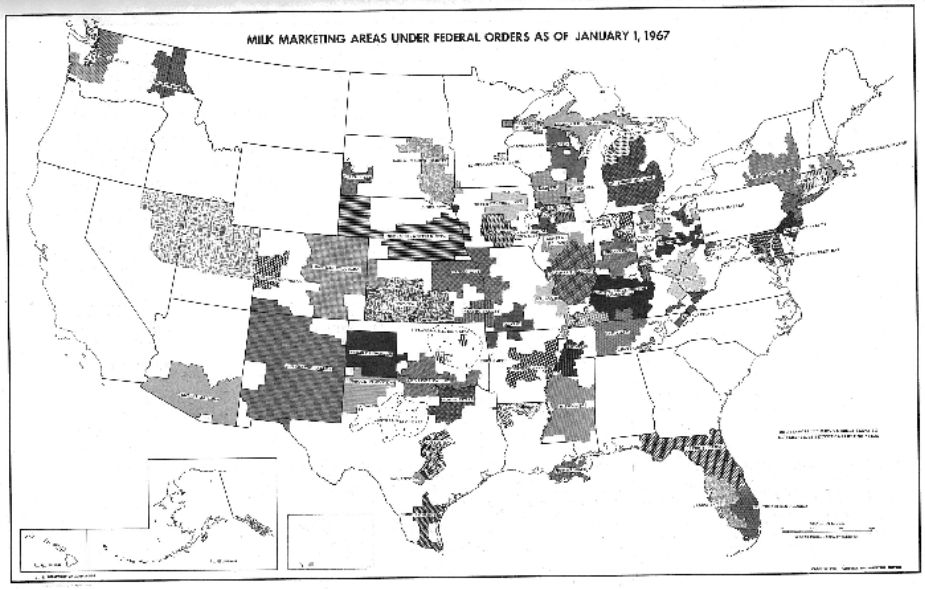
First Marketing Orders
- St. Louis, Kansas City, Topeka, Dubuque in 1936
- Boston in 1937
- NYC in 1938

By 1940 there were 20 Federal Marketing Orders
- Primarily Northeast and North Central US
- Organized in small areas around cities

States get in the act too
- Wisconsin 1932 but over by 1940
- NY in 1933, still in effect, but less than 5% of NYS milk
- CA a johnny-come-lately (pooling started in 1969) but it covers ~100% of CA milk

Orders Grow in Size, Shrink in Number
(Growth in CA shows up in FO %)





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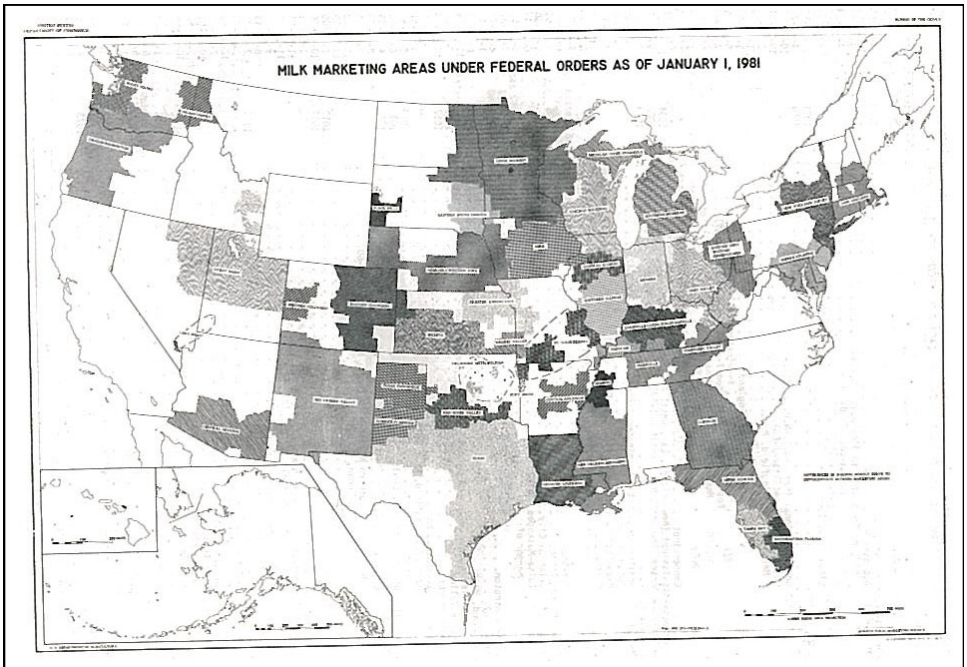

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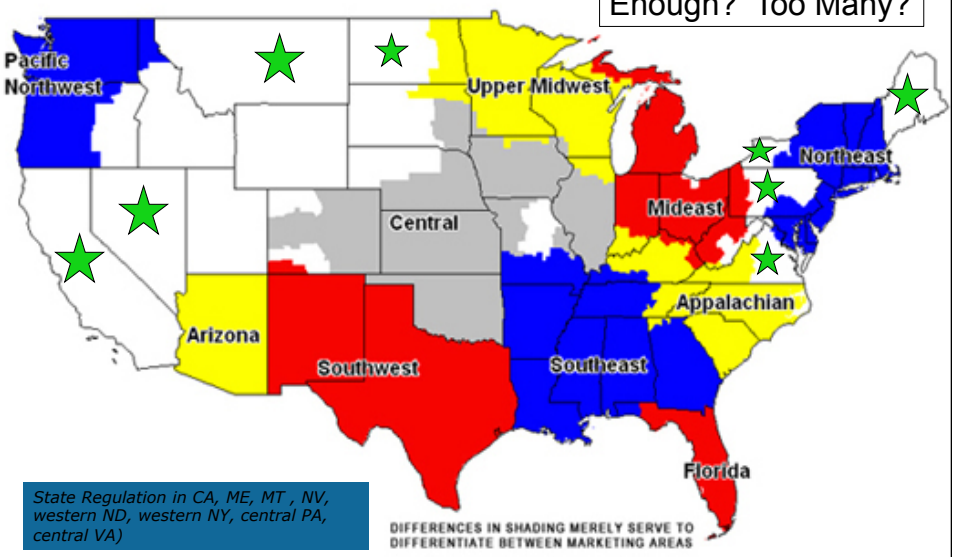
Federal Milk Marketing Order Areas

Enough? Too Many?



So, After 70 Years, How's All This Working Out?

Is milk supply adequate?

Is it safe and wholesome?

Are farm prices reasonable?

Are farm prices stable and/or equitable?

How about processor prices?

Or consumer prices?

Are dairy markets "orderly"?

Milk Supplies and Quality

Not clear what the boundary is between adequate and inadequate supplies.

- Is it there when I walk into the store?
- Is it affordable?

Hard to make a case that the supply of milk has been "inadequate"

Is milk "safe and wholesome"?

- Virtually all milk is Grade A
- Enormous industry and regulatory efforts to ensure that milk is safe and quality is high
- Examples to the contrary are few and far between

How About Farm Prices?

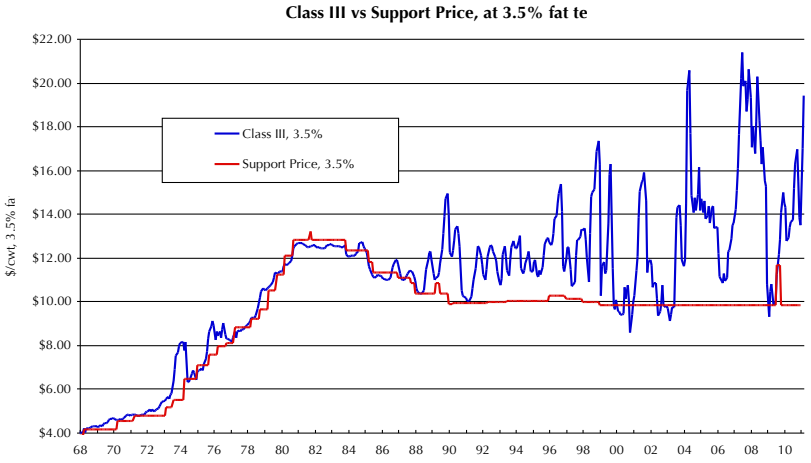
What is "reasonable"?

- Consistent with market conditions?
- Ensure farm profitability? (adequate?)
- Stable?
- Predictable?
- Equitable? Different across farms only by values associated with quality, location, or other commonly accepted, legitimate points for price differentiation.

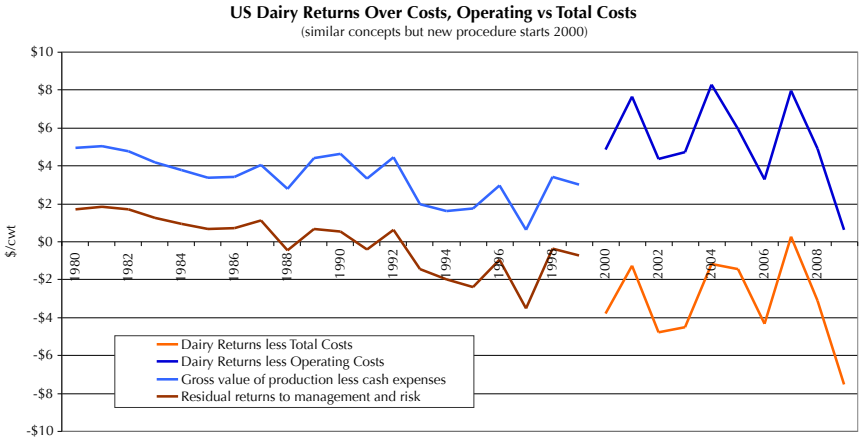
Let's look at some data

Are Farm Prices in Line With Market Conditions? Are They "Reasonable"? Are They Stable or Predictable?

FMMOs have a lot more to do with being consistent with market conditions than with presence or lack of stability



Doesn't Seem to Be Much of a Guarantee of Profitability or Stability in Farm Returns, by Any Measure.



Can Classified Pricing and Pooling Moderate Price Volatility?

Not Easily

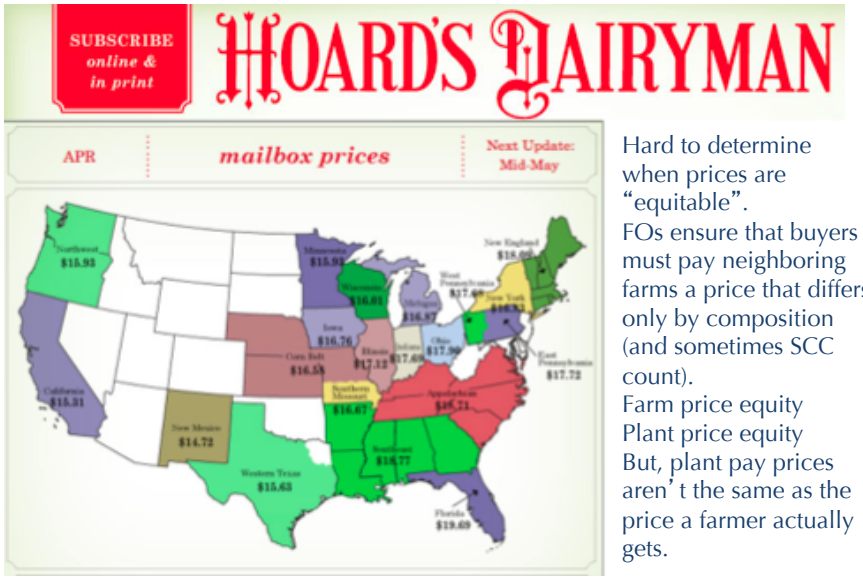
- Designed to "stabilize" prices between farmers at a point in time
- Not stabilize average prices over time

How often does price need to change?

- 6 month contracts in late 1800s – early 1900s
- Is there something special about monthly
- Does the fast pace of changing supply and demand require more frequent change?
- Or could we go back to longer term contracts

There will be changes in S&D, therefore there will be changes in P – the questions are:

- to what degree should actors in any part of the supply chain absorb price shocks
- And to what extent should the industry be more aggressive in managing quantity supplied to coordinate with quantity demanded



Hard to determine when prices are "equitable".

FOs ensure that buyers must pay neighboring farms a price that differs only by composition (and sometimes SCC count).

Farm price equity

Plant price equity

But, plant pay prices aren't the same as the price a farmer actually gets.

Have Order Modifications Over Time Affected FO Results or Effects?

Let's look at:

- How many mfg. classes of milk should there be
- The impact of Class I price "discrimination on average returns (price) to farmers
- The relative importance of Class I use
- The number and geographic scope of FMMOs
- The percentage of US milk priced under an FO
- Alignment of class price to product prices and the implications for price stability

What Is the Right Number for Manufacturing Classes?

Historically the number of classes and definition of mfg classes was very much at local discretion

As manufactured product markets became national in scope (price determination), more equal raw product costs across regions became compelling rationale (adoption of MW in 1960s)

1 mfg class makes "horizontal" sense - keep farm milk price the same - buyers who can will pay premiums

2 or more mfg classes makes "vertical" sense - keep price of milk in line with what user can afford - reduces incentive/ability to pay premiums (capture value in the minimum)

There is no right number - pick one and you'll likely want to change it again after a while.

How Much Price Discrimination Is Enough? How Much Is Too Much?

Numerous approaches have, and theoretically could, be used to set Class prices.

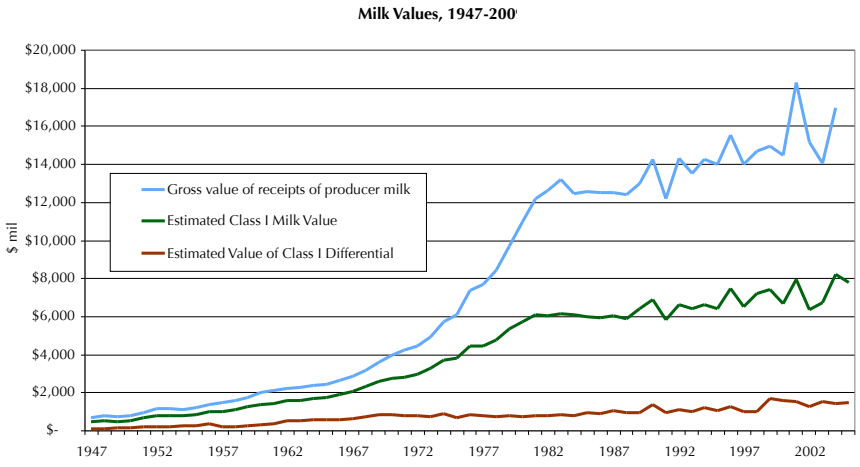
- Competitive benchmarks
- Relative to downstream prices (MCP, product formula pricing)
- Relative to upstream costs
- "economic formulae" involving several factors

Class prices in any one month can move in lockstep, correlate closely over time, or be independent.

There is no single best way. Whatever you pick, you'll likely want to change it at some point.

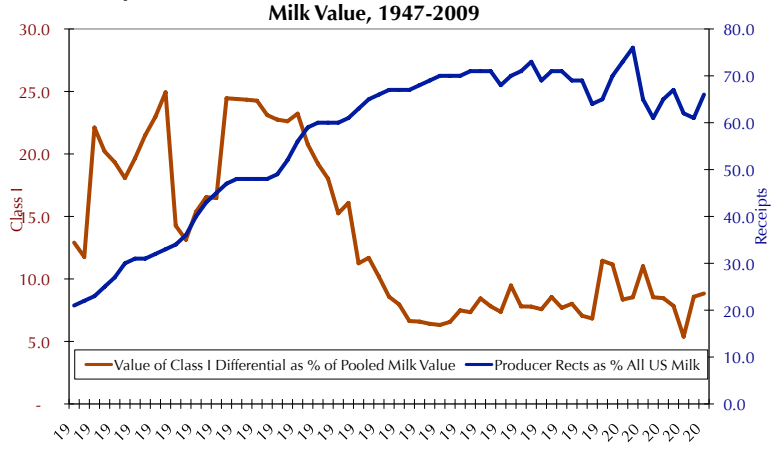
As We Add Milk, We Lose Class I Impact -

plus we mostly stopped adjusting the differential in 1970s



As we add milk, we lose impact - plus we pretty much stopped adjusting the differential in the 1970s

Comparison of FO Relative Volume and Class I Share of Pooled Milk Value, 1947-2009



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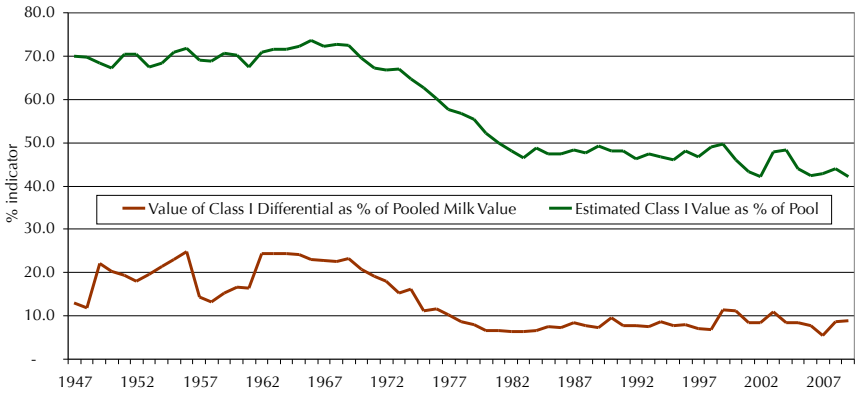
Value of Differential Has Not Kept Pace With Basic Formula Values

Indicators of Importance of Class I Differentials, 1947-2009.



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Does Classified Pricing "Pay" today?

Consider the following-

In 1950s

1. Class I utilization was > 50%
2. Class I price was about double the lowest manufacturing class price
3. A large share of US milk was not priced under an order (Grade B & unregulated Grade A)
4. There were few if any "competitors" to fluid milk (juices maybe, soft drinks less so)

Now:

1. Only about 1/3 of US milk is used in fluid
2. Class I differential is about 25% of Class III price
3. There is very little unregulated milk; hence Class I utilization in Mktg Orders is much lower
4. There is strong competition among beverages and milk is losing ground

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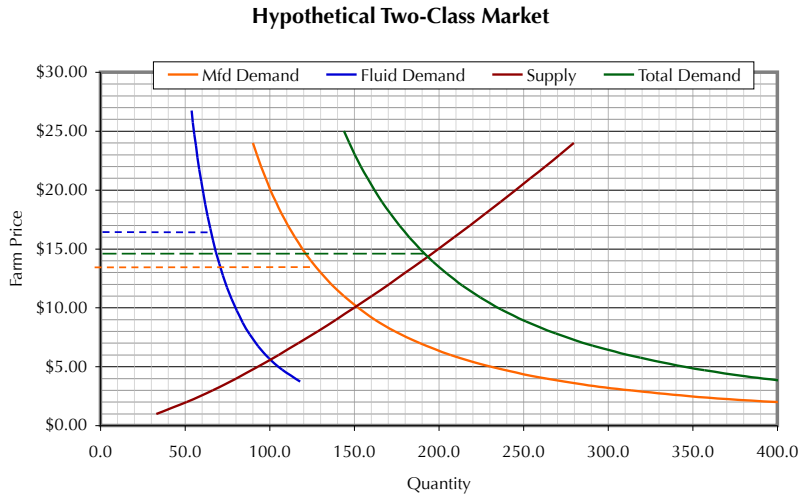
Marginal Gain in Average Price of Milk From Current Class I Differentials Is Probably in the Range of 5¢ to 15¢ Per Cwt



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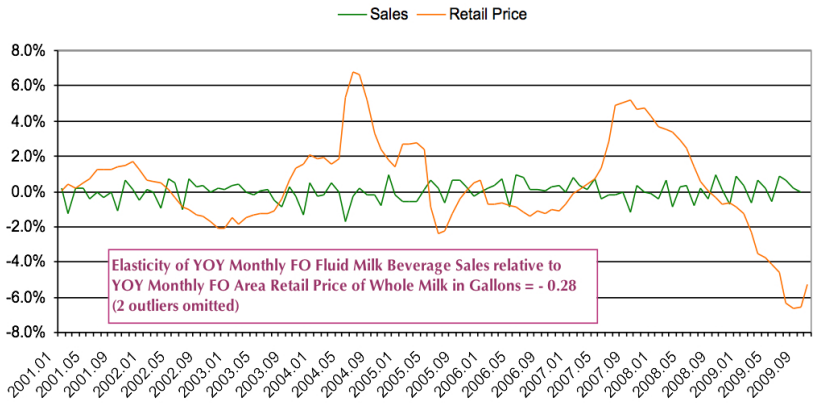
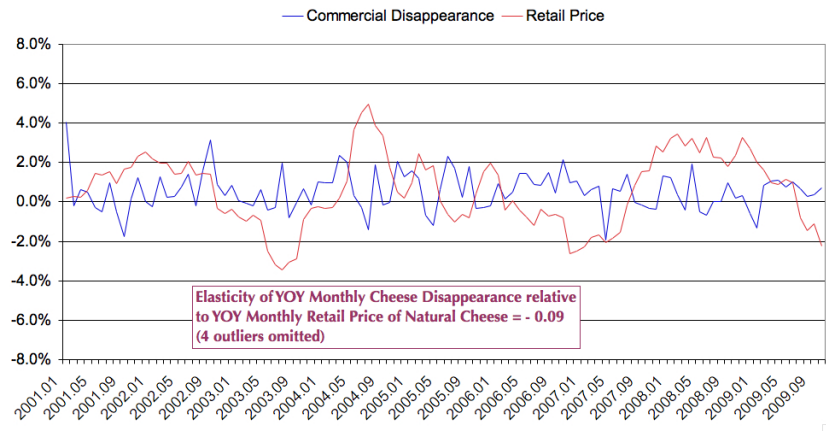
Does This Concept Still Make Sense - the Elasticity of Demand for Fluid Milk…

Comparison of YOY Monthly Percentage Changes in Fluid Milk Sales and Retail Price of Whole Milk Gallons



Does This Concept Still Make Sense - the Elasticity of Demand for Cheese…

Comparison of YOY Monthly Percentage Changes in Commercial Disappearance and Retail Price of All Cheese



Does This Concept Still Make Sense - the Elasticities of Demand

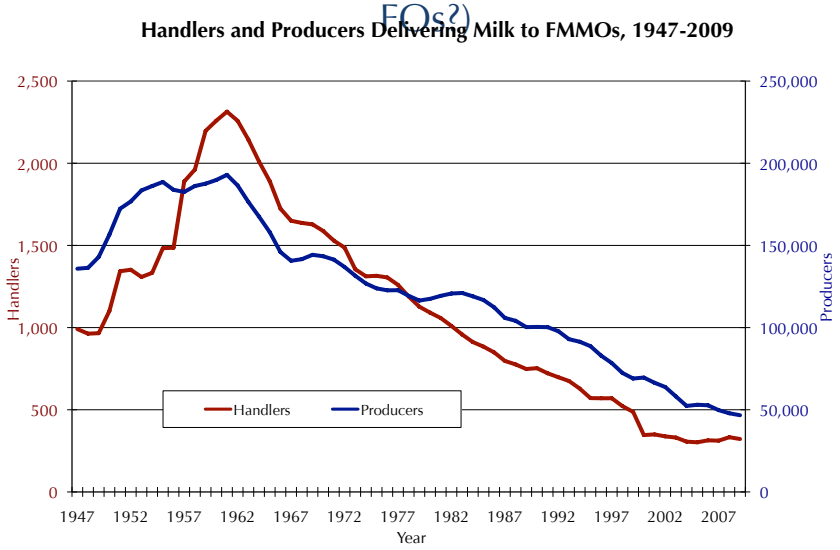
The foregoing descriptors are not proper elasticities of demand; because they do not account for effects on demand other than price and seasonality

However,

- These simple calculations call into question the current demand relationships across dairy product categories
- And thus the practical benefit of price discrimination as a tool for maximizing gross revenue

How about balancing market power?

(producers vs cooperatives? Cooperatives without FOs?)



Does This Concept Still Make Sense for Dairy Farmers?

The rationale for Classified Pricing and Pooling not as strong today as it once was

The "money on the table" has shrunk

- ✓ Class I differential
- ✓ Class I utilization

The opportunity to exploit demand elasticity differences has probably shrunk

Does competition in larger food categories mean the price of milk matters more to consumers

- ✓ fluid milk is now just another product in beverage category?
- ✓ Mozzarella cheese is just another topping on pizza?
- ✓ Butter are a niche in the spread market?
- ✓ Powders are one source of protein?

National markets (price determination) call into question regional pooling

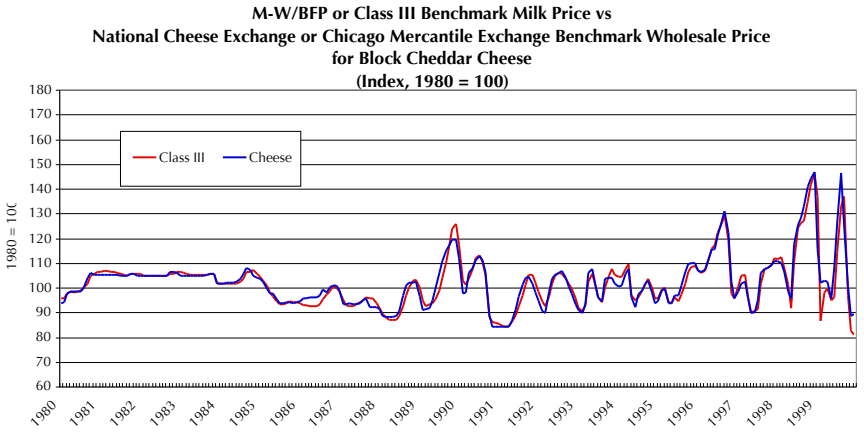
- ✓ "my" Class I market vs.
- ✓ The impact of "your" production on the demand for "my" milk

FOs and Price Stability and Pricing Efficiency Across Markets

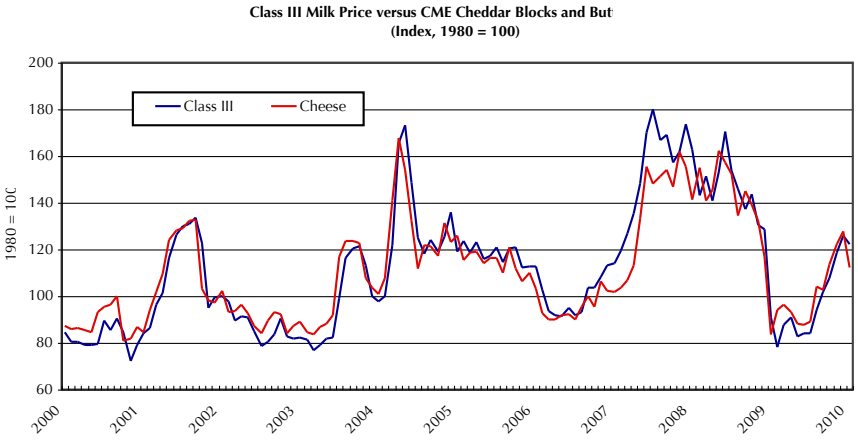
We've already seen that farm milk price stability decreased dramatically as the Support Price dropped to an irrelevant level.

What has been the effect of product formula pricing?

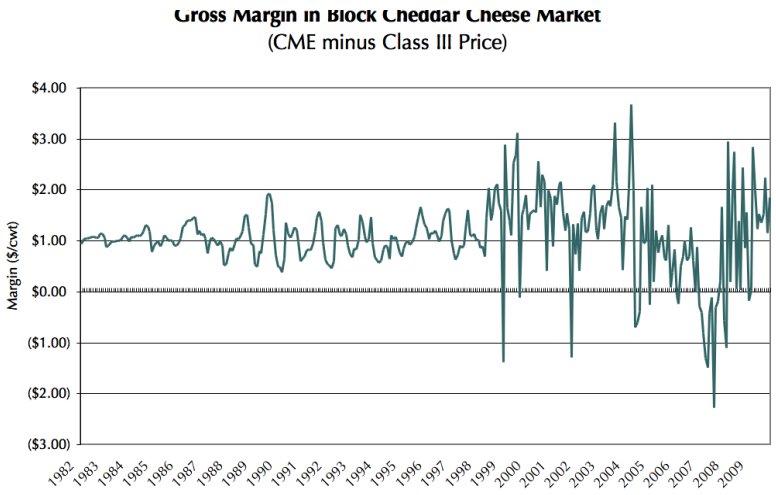
Prior to 2000, M-W or BFP Milk Price moved closely with the NCE or CME Block Cheese Price



After 2000, Class III Price Moves Closely With the CME Block Cheese Price, but Not As Closely



Look at the Gross Margin Between Class III and Block Cheddar. It Widens Considerably Starting January 1999. (FO Reform a Year Later.)



Implications

- Product formula pricing has added to margin instability (not reduced it)
- Instability in prices, Class III or Wholesale Cheese, started well before product formula pricing, but it has increased (cause??)

How Much of Our Concern Is Based on Issues of Transparency and Discovery versus Manipulation or Inappropriate Pricing Rules?

We had competitive pay price benchmarking for "basic formula price" for 40 years. Why did we stop?

- Lost confidence in M-W as measure of basic value of milk used in manufacturing
  - Was this a conceptual discussion or a reaction to what the numbers were?

We switched to product formula pricing as a kind of Hobson's choice. Why are we losing confidence in it now?

- Conceptual issue or reaction to what the numbers are.

Numerous calls for "greater transparency"

- How transparent was the M-W?
- How transparent would a new survey price be?

Current/Recent Issues in FMMOs
(the trees)

Advance Pricing (Classes I and II, Classes III and IV?, price stability issue)

Pool qualification requirements (ID milk in WI)

Producer Dealer exemption (AZ, WA, Aurora and organic markets)

Classification of new beverages (charge more or sell more?)

Energy cost increases

- Increase Make-Allowances
- Increase Class I differentials
- Who pays for transportation?

Transportation pool or Market Service Payments to move Class I milk or compensate for balancing

Order Merger or Elimination (FL, SE, Western, and PNW)

Number of classes (align price of milk with what manufacturers can afford or move milk to highest use?)

Class III/IV price movers

- Fix producer price formula
- Replace with competitive pay price (like M-W, BFP)

Eliminate Classified Pricing but Keep Class I Differential (a competitively determined pay price but not one that regulates a base price)

There Are Some Big Issues
(the forest)

What is the FMMO doing for farm revenue today?

- Historically, Class I price has been as much as twice the price of the lowest class
- Class I utilization is decreasing and well less than half the total (35% +/-)
- The simple arithmetic is that the class I differential is not playing as big a role in yielding a higher return to producers, better than pennies, but not by much

Should we be trying to more aggressively exploit the Class I market, or is that opportunity simply passing? (note importance of elasticity of supply)

Should something else be Class I?

Should we pool nationally?

The Pain in my Hip or the Nail in my Foot?

How many of our problems (negative PPDs, depooling, "higher of" for class I) are caused by irrational swings in monthly prices?

- A fair number of our "hip pains" would go away if we focused on price instability (the nail in our foot)

The "tilt" or fluctuating relative values in manufactured commodities create challenges

- Opportunity for sectoral and regional differences in average value of farm milk, sectoral price disequilibrium
- Do we need more classes to ensure vertical coordination in sub-sector value chains, or
- Should we have fewer classes to ensure producer pay equity and expect product sectors to adjust accordingly
- (what would Adam Smith do? Remember, he lived in the 18th Century)

Are There Winners and Losers If We Give up FMMOs?

Of course there are!

1. Fluid prices down, mfd product prices up, but consumers would scarcely know the difference
2. Buyers would buy on blend, differentials only relative to cost (e.g. test, quality, location, volume, service).
3. Coops or producers could expect "market premiums" only up to the point that it doesn't inspire buyer to look for cheaper milk. Milk will move!
4. Farmers would compete against each other for best accounts, pushing prices down
5. Coops would find it very challenging to continue in current mode
   a) Pooled pricing would invite defection; coops end up with farmers who have no choices
   b) Likely would have to move to closed membership and contracts for forward prices and quantities
   c) Plants actually don't need coops for balancing services
   d) Compare to developments in Europe

A Winding Down for Government's Role?

✓ If we reach a point where MMOs no longer make sense, there is more than one option for change

1. Cold turkey, deregulation
2. Try state regulation again? (unlikely to work)
3. Milk Marketing Agreements (brokered by industry, monitored by government)
   a) Might be a way to stick a toe in the deregulation waters
   b) Probably no new legislation required
   c) (want to take a look at Marketing Agreements?…)

Nineteenth Annual Workshop for Dairy Economists and Policy Analysts

hosted by the

National Dairy Markets and Policy Extension Education Committee

Andrew Novakovic, *Cornell University*
Mark Stephenson, *University of Wisconsin*
David Anderson, *Texas A&M University*
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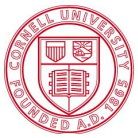

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