

19th Annual National Workshop for Dairy
Economists and Policy Analysts

Milk Marketing Orders
Current Regional Issues and Political Factors

David Cooper
General Manager



Family Dairies USA

Dairy Farmers for Dairy Farmers

**A Grass Roots
Dairy Cooperative**

**Celebrating 40 years in the Dairy
Industry**



Headquarters

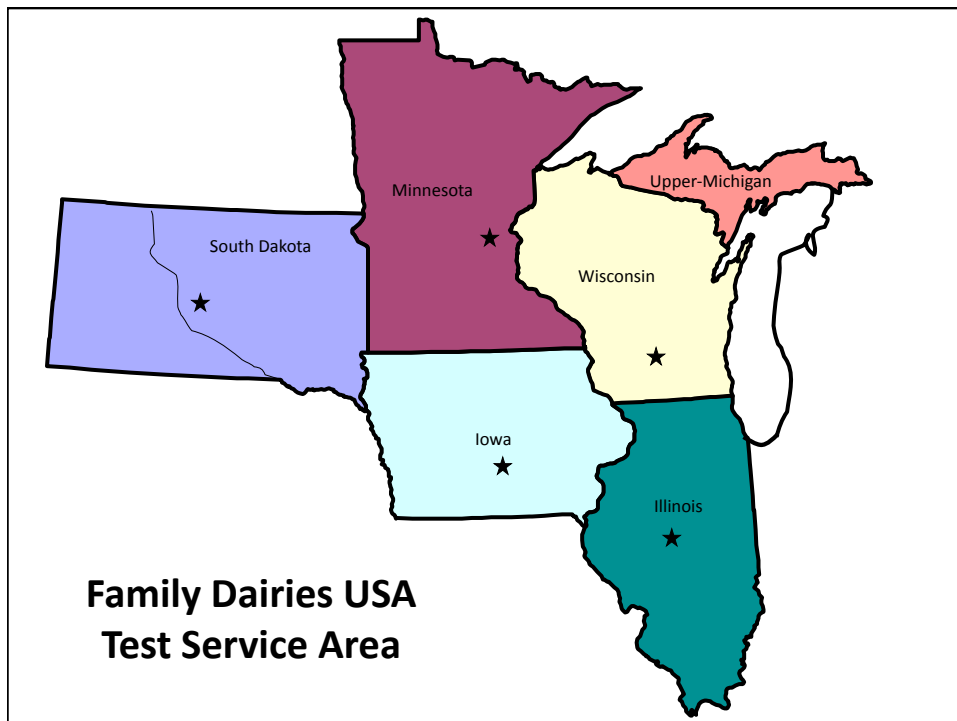
4001 Nakoosa Trail, Suite 100
Madison, WI 53714

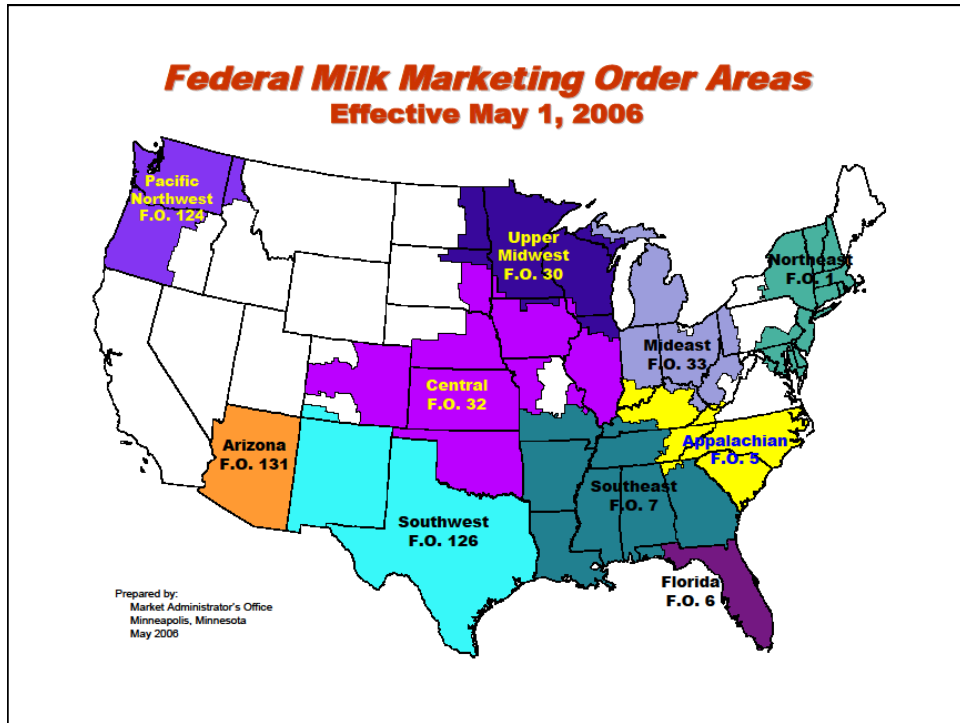
8 office staff 6 field staff



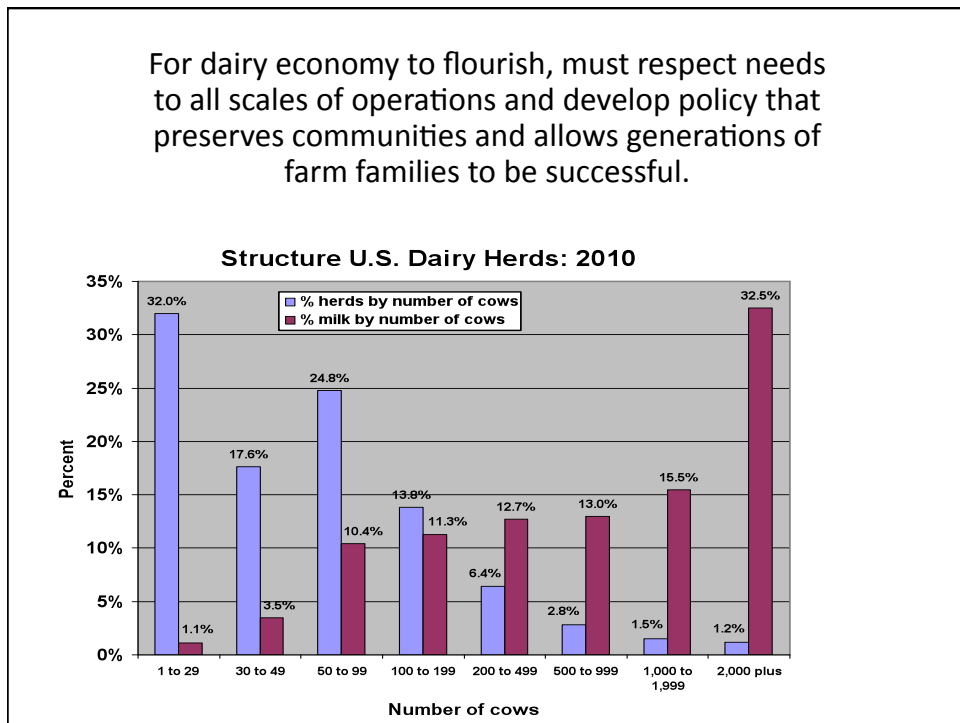
Reload Facility

Kewaskum, WI
Established in 1988
2 FT Employees

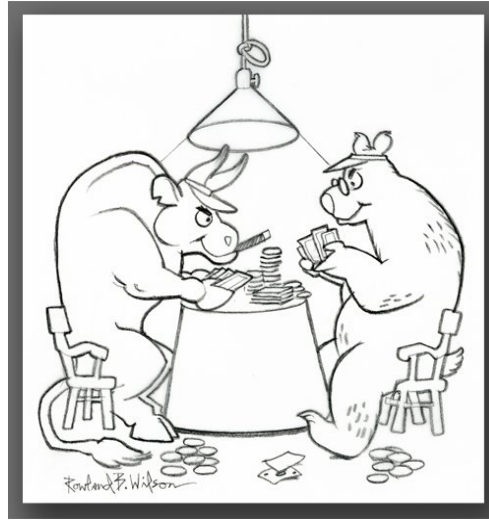




For dairy economy to flourish, must respect needs to all scales of operations and develop policy that preserves communities and allows generations of farm families to be successful.



Dairy Industry has a number of challenges

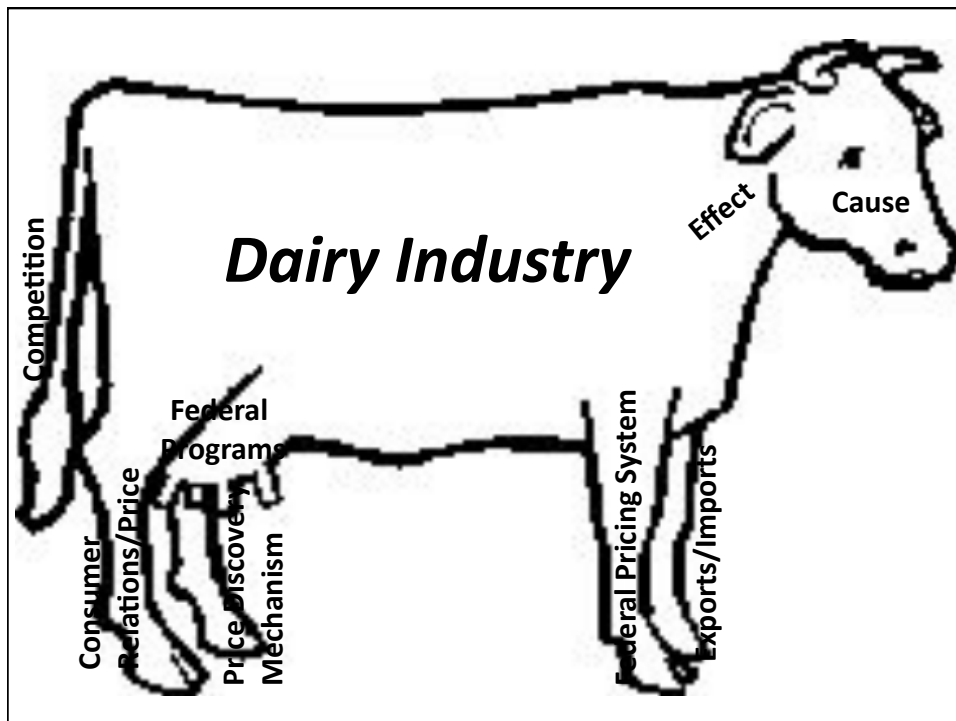
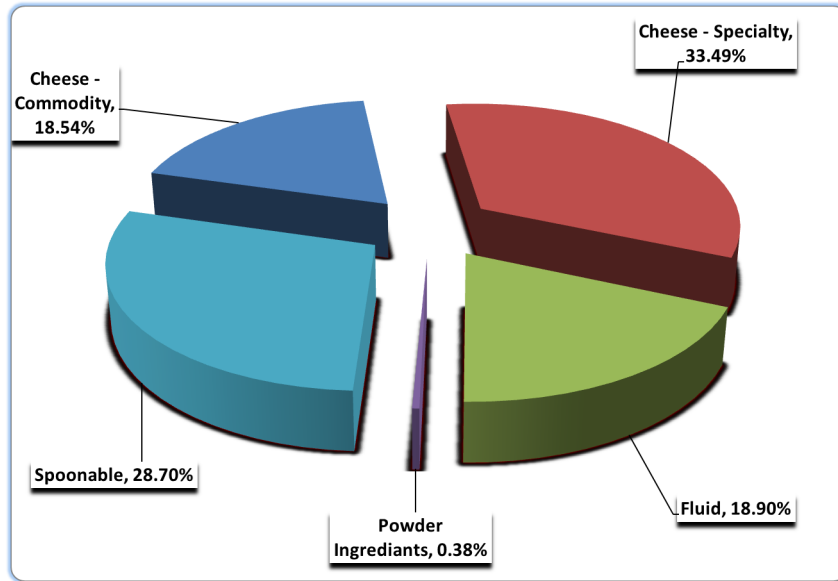


One challenge may be....

Classes of milk:

- ***Class I: Milk used for beverage milk products.***
- ***Class II: Milk used for soft manufactured products, ice cream, cream products, yogurt, condensed milk***
- ***Class III: Milk used for cheese***
- ***Class IV: Milk used for butter and dry milk products***

Family Dairies USA Milk Program 2011 Market Breakdown



Purposes of federal milk marketing orders
(FMMOs)

- *To provide for orderly marketing*
- *To assure reasonable prices to both dairy farmers and to consumers*
- *To assure an adequate supply of wholesome beverage milk to consumers*
- *FMMOs price only Grade A milk*

A vision of the *Federal Milk Marketing Order*
better known as the FMMO



The reality of this “4 letter” word – known as FMMO



Have we lost our way....





On an island because:

March 2012 Class I utilization	
Upper Midwest	11.0%
Central	27.6%
Mideast	34.3%



Total average for all FO's 31.6% (range from 11% to 86%)

Our competition:

Challenge with states near –

WI – 61 plants approved for USDA Grading Services
11,637 dairy farms – 1 per 190 farms

MI – 6 plants approved for USDA Grading Services
2,100 dairy farms – 1 per 350 farms

**Principal Pricing Points – Differentials
2011 Federal Order Data**

<u>Order</u>	<u>Differential</u>	<u>% Class I</u>	<u>Billion #'s</u>	<u>Ave. Uniform Price</u>
FO #1	\$3.25	41.4	24.4	\$20.62
FO #5	\$3.40	68.7	6.1	\$21.70
FO #6	\$5.40	84.4	2.9	\$23.70
FO #7	\$3.80	64.8	7.1	\$21.72
FO #30	\$1.80	12.9	32.8	\$18.72
FO #32	\$2.00	32.1	13.9	\$19.19
FO #33	\$2.00	39.7	15.9	\$19.59
FO #124	\$1.90	27.8	8.0	\$19.25
FO #126	\$3.00	38.9	11.2	\$20.20
FO #131	\$2.35	31.2	4.5	\$19.67

Principal Pricing Points – Differentials

2011 Federal Order Data

Order	Differential	% Class I	Ave. Uniform Price	Mailbox
FO #1	\$3.25	41.4	\$20.62	\$20.00 NY
FO #5	\$3.40	68.7	\$21.70	\$21.64
FO #6	\$5.40	84.4	\$23.70	\$23.14
FO #7	\$3.80	64.8	\$21.72	\$22.00
FO #30	\$1.80	12.9	\$18.72	\$20.06 WI
FO #32	\$2.00	32.1	\$19.19	\$20.25 IA
FO #33	\$2.00	39.7	\$19.59	\$20.85 OH
FO #124	\$1.90	27.8	\$19.25	\$19.90
FO #126	\$3.00	38.9	\$20.20	\$19.37
FO #131	\$2.35	31.2	\$19.67	

Differential Differences – Uniform Price – Mailbox

They all take on different appearances

FO doesn't prohibit movement of milk between orders, but every area has walls of protection, so are all producers benefiting

Producer Requirements

Provisions can be greatly different

FO #30 – equivalent of one day's milk production received at pool first month

Non-Diverted – 10% each month

Pool - 125% rule for April – February and 135% rule for March

Allowed to use Unit Qualification – closer milk delivered instead of all producers from pool area

FO #32 – equivalent to at least one day's milk production in each month of January, February, August – November

Non-Diverted – 25% for August – February and 20% for March – July Pool - 125% rule

FO #33 – equivalent to at least two day's milk production in each of months of August – November

Non-Diverted – 50% for August – February and 40% for March – July

Pool - 115% rule for April – February and 125% rule for March

Provisions regarding previous three month limits and adjustments for positive differences

FO #1 – equivalent of one day's milk production in each of the months

Non-Diverted – 20% for September – November and 10% for January – August and December

The Class I differential reflected:

- *The added cost to dairy producers to produce Grade A rather than Grade B milk*
- *The transport cost of moving raw Grade A milk to the market*
- *A more inelastic price demand for Class I products*



Year	No. of Orders	% Class I
1950	39	58.9
1960	80	64.2
1970	62	61.5
1980	47	48.9
1990	42	42.8
2000	11	42.0
2010	10	35.4
2011	10	35.0

Reduction of approximately 45% from its peak and adding to this area just doesn't seem like it solves the problem in the long run.

Innovation to draw consumers back is needed

Standard for Decades



More recent improvements



They are ahead of the curve internationally



Regionally, we are CHALLENGED by:

- Price Differentials
- Class I utilization
- Restrictions placed on pooling outside of home order
- Competitive environments causing higher over order premiums
- Hauling subsidies
- Price Discovery



Three important functions of Federal Orders we like:

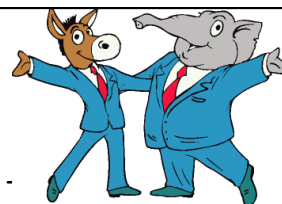
- ✓ Blending or Sharing of higher valued milk utilization
- ✓ Milk testing oversight and producer services (Test Cooperative)
- ✓ Market information and auditing features

However, we would prefer:

- ✓ You could vote on an order change as amended without concern that the “baby gets thrown out with the bath water”

Political Issues

- Timely F.O. Hearings
- Voting – no vote doesn't throw out the order
- 1996 Farm Bill mandated USDA reform of FMMO - market oriented, more user friendly, simpler to administer, easier to understand
- Not practical to have Congress act on these since all states are not part of the Federal Order
- Compact challenges which created disruption in the past



Change is a challenge in FMMO's:

1. Only producers within an order can vote on their order
2. U.S. Congress votes based on people not cows or milk volume.
Congress over rules the Secretary's decision, but individual orders can still build a fence
3. Legal challenges -- different interpretations of 1937 Act

Considerations for reform:

Consolidation of Orders

Reduction in Classes

Competitive Pay Price – Base price plus revised differential

Greater Transparency & Price Discovery (more products)

More Education for decision making

Advanced milk pricing – before it is produced



The past “Whey”



The “Whey” of the FUTURE.....



How does High Speed Rail change Class I Differentials?

Is this unrealistic to believe this is possible?





**We can't be lead
blindly to a
promised land**



**.... And we can't
get swallowed up
in the process of
industry fighting!**

Thank you for the
opportunity to be with
each of you today

