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A Milk Marketing Order For Southwest Idaho

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Forty-seven federal milk marketing orders were operating in the U.S. as of Jan. 1, 1980. These 47 orders had jurisdiction over about 65 percent of all milk produced in the U.S. and 80 percent of all Grade A milk (3). A federal milk marketing order for southwest Idaho and eastern Oregon went into effect July 1, 1981. This order covers 18 counties in Idaho and 5 in eastern Oregon. This publication summarizes federal milk marketing orders and highlights the southwest Idaho-eastern Oregon milk marketing order.

Federal Milk Marketing Orders

Federal milk marketing orders were authorized by the Agricultural Marketing Agreement Act of 1927 as amended. Primarily, a federal milk marketing order regulates the prices paid to dairymen by milk dealers for Grade A milk. Only Grade A milk is regulated by a federal milk order. Grade B milk, which is not permitted for use in the fluid milk market, is manufactured into butter, cheese, milk powder and other processed products.

A federal milk marketing order is a legal instrument regulating the terms under which milk dealers purchase Grade A milk from dairy farmers. Handlers (or dealers) are required to pay specified minimum prices to dairy farmers for milk. This minimum price is determined by the use made of milk in the marketing area. Fluid use, or milk for drinking, brings a higher price than milk diverted into manufactured products. The higher the proportion of milk used for fluid purposes (Class I), the higher the price paid to producers.

Milk marketing orders do not regulate wholesale and retail milk prices. These are determined by competitive forces in the market. Milk orders also do not establish sanitary regulations concerning milk production and handling. These are established and regulated by state and local health authorities (5). Milk orders neither control production nor restrict the marketing of milk by producers (2).

Federal milk marketing orders have three goals, all dealing with Grade A milk:

- Orderly marketing.
- Equitable dealings between dairy farmers and milk handlers.
- Insuring an adequate supply of milk for consumers at fair prices (2).

Establishing a Federal Order

A group of producers or a dairy cooperative usually initiates action toward a federal milk order. Steps in the process are:

1. The Secretary of Agriculture is petitioned.
2. A preliminary investigation determines if enough evidence exists to warrant a hearing.
3. The Secretary decides whether to schedule a hearing.
4. At the hearing, all interested parties are given the opportunity to present information and views on milk marketing in the area.
5. The Secretary decides whether or not to recommend an order.

6. A period of time is allowed for interested parties to file exceptions.
7. The proposed order may then be revised based on all information obtained.
8. The Secretary makes his final decision, and the order becomes effective on a specified date after a referendum in which two-thirds or more of the Grade A producers favor the order.

Amendments to the order are made in essentially the same manner. An order can be terminated by the Secretary or at the request of 50 percent or more of the producers who supply more than 50 percent of the milk for the market (5).

Operation of a Federal Milk Order

The Secretary of Agriculture appoints a market administrator to see that the terms of the order are carried out. The administrator employs staff to assist in calculating minimum prices, in collecting reports, in auditing records to verify payments to producers and in publishing market information. Milk handlers are assessed according to volume handled to finance the administration of the market.

The basis for pricing milk under federal marketing orders is a classified pricing system:

Class I — Fluid milk sold to consumers.

Class II — Milk sold to be made into frozen desserts, yogurt, cottage cheese and cream products.

Class III — Milk used for cheese, butter, milk powder and evaporated milk and priced the same as the Grade B milk with which it competes.

The milk price support program operates by setting prices at which the government will purchase butter, cheese and milk powder. If the market price for these products falls below the support level, the government buys certain quantities to try to lift producer prices up to the established support level for manufacturing milk. Thus, only manufacturing milk prices are supported **directly**, but fluid milk prices are also supported **indirectly** because the Class I milk price is the Minnesota-Wisconsin (M-W) price plus an established differential.

The Class III price is usually based on the M-W price, a composite of prices paid by manufacturing milk processors in Minnesota and Wisconsin. The M-W price is generally thought to be representative of the value of milk processed into butter, cheese and milk powder. Therefore, the Class III price is affected by the price support program the same as Grade B milk.

Class II milk is priced slightly above Class III to reflect its higher value use. Class I milk is priced highest of the three classes — the M-W price plus a differential to reflect the extra cost of meeting Grade A standards and the extra transportation costs often associated with its use.

The prices for the various classes are used to compute the blend price the producer receives. For example, suppose that 40 percent of the milk was used for Class I, 10 percent in Class II and 50 percent in Class III. The blend price for milk with 3.5 percent fat would be about:

	Price per hundredweight		Proportion in each class		
Class I	@ $14.00	×	.40	=	$ 5.60
Class II	@ 12.60	×	.10	=	1.26
Class III	@ 12.50	×	.50	=	6.25
			Blend price =		$13.11

Additional adjustments would be made for different butterfat content. Also, a location adjustment is sometimes made to account for different distances the producer is from a major part of the market.

Most markets have a **marketwide pool** from which producers receive the blend price as explained earlier. A less popular option is an **individual handler pool**. A marketwide pool means that receipts from all milk are averaged. Each producer receives the average or blend price with adjustments for location, butterfat and quality. A handler who has higher Class I utilization of milk than the average for the order must pay into a producer settlement fund controlled by the market administrator. This fund is distributed to the milk producers supplying those handlers who have less than the average Class I use. Thus, a producer is paid according to the market use of milk rather than by use of an individual handler.

Southwestern Idaho-Eastern Oregon Federal Milk Marketing Order

The milk marketing order for southwestern Idaho and eastern Oregon became effective July 1, 1981, after the usual preliminary actions. A hearing was held Dec. 5 to 8, 1978, to consider a marketing order. The recommendation following concluded that the hearing did not provide evidence of the need for an order. Several exceptions to this rule were filed, however, and the hearing was reopened Feb. 7, 1980. The deputy administrator of marketing program operations then filed a revised recommendation Oct. 21, 1980. This time a marketing order was recommended and was subsequently approved by 91 percent of the Grade A milk producers in the proposed marketing area who voted in the referendum.

The area included in the new order and other federal milk marketing areas in the Pacific Northwest are shown in Fig. 1. The new order contains 18 counties in Idaho and 5 in Oregon with a combined population of about 508,000 (4). An estimated 225 producers of Grade A milk would be under the

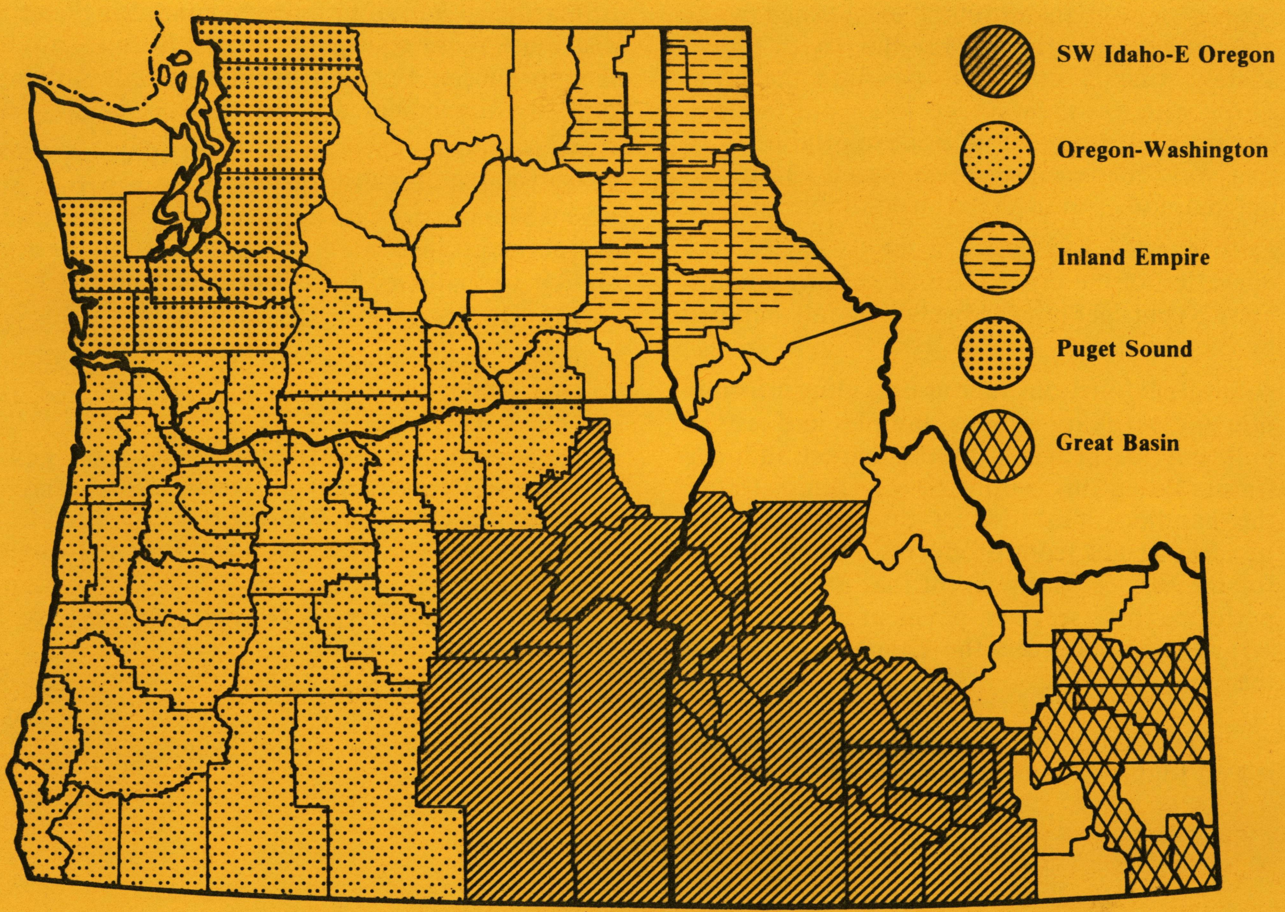

Fig. 1. Federal order marketing areas in the Northwest (1).

order. Initially, the order will be administered by the market administrator headquartered at Portland, Oregon, who is also administrator for the three other orders serving Washington, western Oregon and northern Idaho.

The new milk marketing order is similar to existing orders throughout the U.S. and is a marketwide pool rather than an individual handler pool. That means that all Grade A milk in the market is pooled, and a uniform price is calculated for payment to producers. Each producer will get a uniform or blend price for milk sold. Cooperatives may reblend prices to members so that prices may be somewhat different than those of independent producers.

The following is a summary of some of the specifics concerning pricing of milk under the order (4).

A. Class prices are outlined:

1. For the first 18 months that the order is in effect, the Class I price will be the basic formula price for the second preceding month plus \$1.50. The basic formula price is the M-W price per hundredweight adjusted to 3.5 percent butterfat. The butterfat adjustment per one-tenth percent butterfat will be 0.12 times the average wholesale selling price of 92 score butter at Chicago.

   For example: if the M-W price was \$12.00 for 3.6 percent milk, and the butter price was \$1.42, the basic formula price would be $[\$12.00 - (0.12 \times 1.42)] = \$11.83$.

2. The Class II price will be the basic formula price per hundredweight for the month plus 10 cents.

3. The Class III price will be the basic formula price for the month.

B. The uniform price is calculated each month by the market administrator after receiving reports from the handlers. Several adjustments are included in this computation. On the fifth of each month, the market administrator announces the Class I price for the following month and the Class II and III prices for the preceding month.

C. The butterfat differential is also computed by the market administrator for milk containing more or less than 3.5 percent butterfat. For each one-tenth of one percent variation from 3.5, the price shall be adjusted by 0.115 times the average wholesale selling price of 92 score butter at Chicago. For example: if the butter price was \$1.42 per pound, the butterfat differential would be .163 cents for each one-tenth of a percent different from 3.5. (1.42×0.115).

D. A producer settlement fund is established by the market administrator. Handlers with above average Class I utilization pay into the fund. Those with less than average draw out funds to pay the uniform or blend price to producers. In that way, the receipts are equalized and distributed among producers in an equitable fashion.

E. Each handler is assessed a fee to pay for the operation of the order. This can be any amount up to 5 cents per hundredweight of milk handled by each dealer.

F. Additional functions such as providing information and verifying weights, samples and tests of milk may be provided by the market administrator. When this is done by the administrator, the handlers must deduct up to 7 cents per hundredweight from producers' receipts to pay for the service. In the event that a cooperative performs these services, payment is made by an arrangement between the cooperative and its members.

The milk marketing order's purposes for the southwest Idaho-eastern Oregon marketing area are primarily to promote orderly marketing and to distribute more equitably receipts for milk among the producers. Farmers producing only Grade B milk are not regulated under the order.

Adjustments will most likely be necessary in the order after it has been in effect for a period and observations can be made concerning its operation. Adjustments are made after a hearing process similar to that used for adoption of the order.

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