



**New York-
New Jersey
Milk Marketing
Area**

The Market Administrator's Bulletin

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Federal Order No. 2

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Federal Order Reform Update

On November 29, 1999, President Clinton signed the Consolidated Appropriations Act, 2000, legislating implementation of the federal order consolidation and reform final rule effective January 1, 2000. Implementation of the final rule had been delayed because of a temporary restraining order issued by the U.S. District Court for the District of Vermont.

The act requires that the federal order reform final rule be implemented as published in the *Federal Register* on September 1, 1999, with changes made to the Class I price structure. It mandates that Class I milk be priced utilizing the Option 1A-Location Specific Class I Differentials contained in the proposed rule published on January 30, 1998, as corrected and modified through April 2, 1999.

The legislation further requires USDA to conduct a hearing to reconsider the Class III and Class IV milk prices, with the resulting pricing formulas being implemented by January 1, 2001. It also requires that USDA establish a dairy forward pricing pilot program within 90 days of enactment of the legislation.

In addition, the act extends the Northeast Interstate Dairy Compact through September 30, 2001. It does not provide for expansion of the compact into additional states such as New York.

More information is available on USDA's website at www.ams.usda.gov. The Class I differentials applicable to the new Northeast order, along with a map of their locations, are shown on page 3. ♦

Administrative Assessment for Northeast Order

Effective January 1, 2000, the assessment for order administration of the consolidated Northeast order shall be 3.0 cents per hundredweight of pool milk. In addition, the deduction for **marketing services**—to verify or establish weights, samples, and tests of producer milk and provide market information for producers who are not receiving such services from a cooperative association—will be 3.0 cents per hundredweight. Sections 1000.85 and 1000.86 of the order provide authorization for these deductions. ♦

November 1999 Pool Highlights

- The November 1999 uniform price equaled **\$14.52** per hundredweight, a decrease of \$0.34 from last month and down \$2.26 from November 1998.
- Class I and II prices were \$1.16 above last year's. The Class III price was \$7.05 lower and the Class III-A price was \$3.30 lower than 1998's.
- Producer milk receipts totaled 910.0 million pounds, a decrease of 0.7 percent from last year.
- Class I usage totaled 380.0 million pounds, down 6.6 percent from the previous year.
- Daily deliveries per producer (DDP) equaled 3,398 pounds. This was a year-to-year increase of 193 pounds (6.0 percent). ♦

Order No. 2 Prices and Utilization for November

Prices*	1998	1999	Percent change
	dollars per cwt		
Uniform	16.78	14.52	(13.5)
Class I	17.52	18.68	6.6
Class II	15.40	16.56	7.5
Class III	16.90	9.85	(41.7)
Class III-A	14.93	11.63	(22.1)
Utilization	million pounds		
Class I	406.6	380.0	(6.6)
Class II	140.8	138.8	(1.4)
Class III	359.6	382.3	6.3
Class III-A	9.6	8.9	(7.5)
Producer Receipts	916.8 #	910.0	(0.7)

* For bulk milk testing 3.5 percent butterfat in the 201-210 mile zone.

Total does not add due to rounding.

U.P. Forecasted to Decrease

The uniform price **forecast** for **December 1999** is **\$11.46** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate. ♦

Marketing Services Under the Northeast Order

The regulations of the consolidated Northeast Marketing Order include a provision authorizing a program of marketing services. This will be new for Order No. 2 producers in that current regulations do not include a marketing services provision, although *all* other federal orders currently have this program. Section 1000.86 of the Northeast Federal Milk Marketing Order authorizes a deduction for marketing services to be made from producers who are not cooperative members (nonmembers). These funds will pay for the following categories of marketing services conducted by the market administrator (MA) on behalf of nonmember producers.

Market Information

Market information will be disseminated to producers primarily through a monthly newsletter such as the *Bulletin*. The focus of the newsletter will be to provide nonmember producers with information on prices, developments in the marketplace, and other issues related to the federal milk marketing order program and dairy policy. The MA staff will be available to answer questions regarding pricing procedures, clarification of order language; provide historical information; or answer other federal order related questions. In addition, nonmember producers will receive individual mailings to inform them of any public hearings that involve the federal order.

Sample and Test Verification

An important part of the marketing services program involves verification of producer component samples. On a periodic basis, MA staff will independently collect and test a set of samples from nonmembers and compare the test results with their handlers' test results. If a significant difference is found between the sample-test result and handler-test result, the handler's testing process will be reviewed. Additionally, handlers could be required to amend their payments to producers.

Another function performed by the MA is the preparation of calibration and control samples for the industry to use at their testing laboratories. Every

week, control samples are prepared by MA staff and are shipped to milk laboratories where they are used to set instruments. In this way, all handlers work from the same test base. MA field technicians also routinely observe milk haulers' procedures for taking and caring for samples, making recommendations for improvement when necessary. MA staff periodically conduct unscheduled inspections of independent testing laboratories, reviewing procedures and records, and checking for instrument accuracy. The MA laboratory also checks the results of monthly tests performed on "blind" samples, which are sent to all testing laboratories, and the staff monitors the testing laboratories' accuracy. The objective of all testing and monitoring is to assure accurate producer payment tests.

Weight Verification

Since producers also will be paid, in part, on the volume of milk produced, accurate payment depends on accurate weight measurement. One of the primary ways to assure that producers are credited with accurate milk weights is to verify that their farm tank calibrations are accurate. This ensures that the tank gauge measures to an accepted standard. As part of the marketing services program, the MA will recheck the tank calibration of nonmembers on a once every 5-to-10 years basis. The MA will also perform calibrations for newly installed tanks or on a producer's tank with a suspected calibration problem.

Cooperatives and Marketing Services

All qualified cooperatives with producers pooled under the Northeast order are expected to provide these same services to their members, to avoid having the MA charge the assessment and provide the services. Cooperatives are being asked to provide information on the marketing services that they are providing to determine if they qualify for an exemption from the marketing services deduction. Annual reviews will be conducted by the MA on all cooperative associations to determine if they continue to qualify for the exemption. ♦

Basic Formula Price Plummetts

The November basic formula price (BFP) for milk at 3.5 percent butterfat hit a stunning \$9.79 per hundredweight. This was the lowest level in over two decades. The last time the BFP was this low was in August 1978 when it equaled \$9.68 per hundredweight. Two months later, the BFP hit double-digits for the first time (\$10.18) and never dipped below until this November.

In addition, the drop of \$6.47 between September and November was the second largest 2-month decline on record. The last was from December 1998 to February 1999 when the BFP declined \$7.07 from \$17.34 to \$10.27.

Strong milk production in the top 20 milk-producing states contributed to the drop in prices. Overall, the top 20 states had a combined increase in milk production on 4.3 percent for October 1999.

This abundance of milk caused sharp declines in most wholesale dairy product prices. As we reported last month (see October *Bulletin*), cheese prices dropped to support level in mid-November. This was a decline of almost 45 percent from their August record. In addition, butter prices have fallen about 25 percent from their August peak. Powder markets are weak and prices remain near the support level. ♦

Mailbox Prices Reviewed

For the first 9 months of 1999, Order No. 2 mailbox prices averaged 1.1 percent higher than those during the same period last year and 14.7 percent higher than 2 years ago. For the same period, the Order No. 2 uniform price averaged 0.8 percent and 13.4 percent higher than in 1998 and 1997, respectively. The accompanying table shows these comparisons.

During the first quarter, mailbox prices were 13.8 percent and 26.1 percent above the comparable 1998 and 1997 prices. For the past 6 months, mailbox prices have been below the previous year's due to lower overall milk prices. In February, the basic formula price dropped a record \$6.00 from the previous month. Its repercussions on Class I and II prices were felt in April, the beginning of the decline in mailbox prices. Prices were slow to recover and never did reach previous-year levels, largely due to strong milk production in the spring and summer.

Premiums during the first 9 months averaged higher than both 1997 and 1998. Hauling charges averaged considerably lower this year. Both of these factors should have a positive effect on mailbox prices. Conversely, the butterfat differential was nearly 32

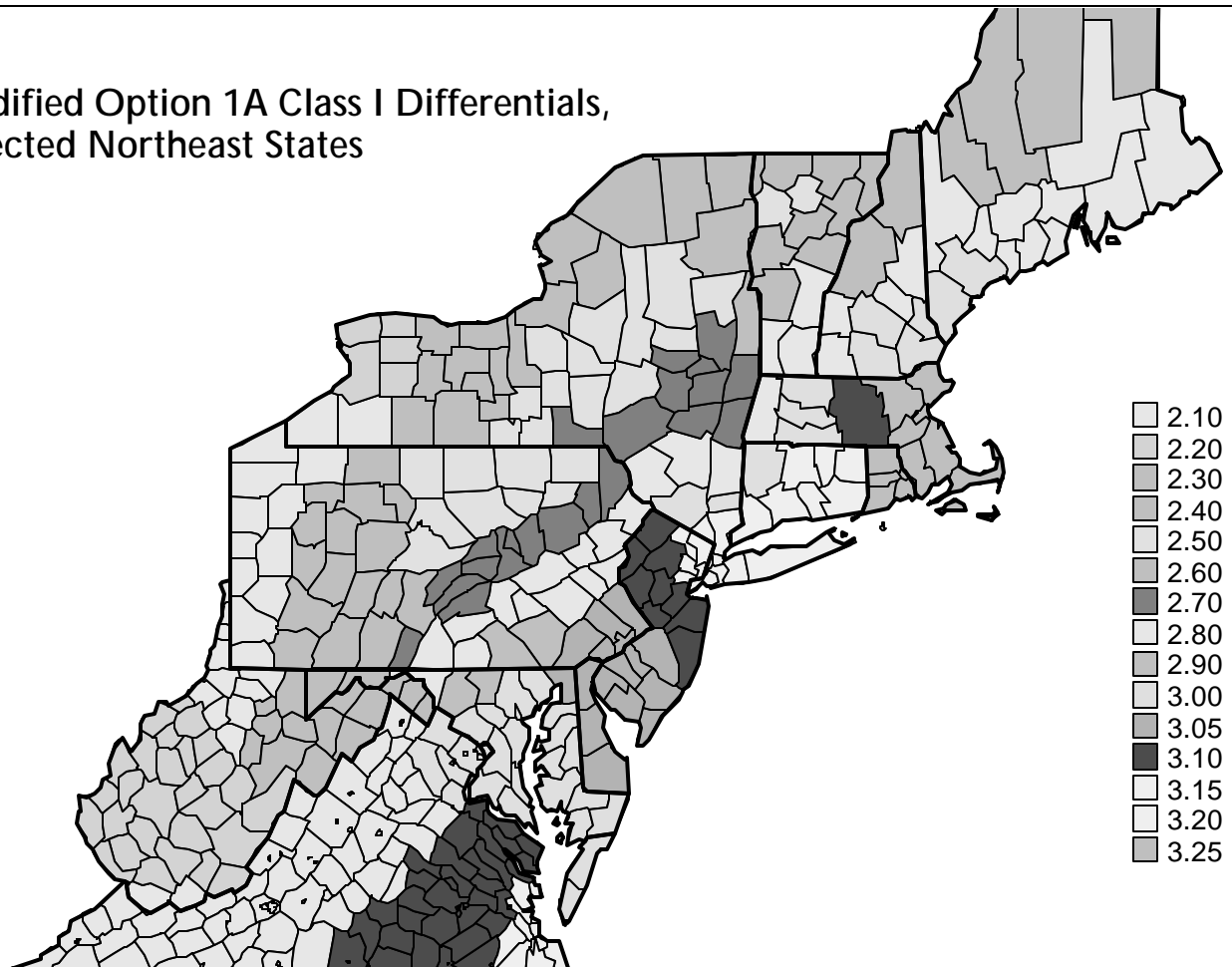
Order No. 2 Mailbox Prices and Comparative Data, January–September, 1997–99

Mailbox Price:	1997	1998	1999	Change*	
				1997-99	1998-99
	dollars/cwt			percent	
January	12.59	14.05	17.58	39.6	25.1
February	12.67	14.32	15.30	20.8	6.8
March	13.03	14.04	15.38	18.0	9.5
April	12.78	13.59	11.86	(7.2)	(12.7)
May	12.38	12.79	12.30	(0.6)	(3.8)
June	11.72	13.34	12.41	5.9	(7.0)
July	11.46	13.30	13.09	14.2	(1.6)
August	12.04	14.73	14.07	16.9	(4.5)
September	12.51	16.03	15.55	24.3	(3.0)
Average	12.35	14.02	14.17	14.7	1.1
Uniform Price	12.44	14.01	14.11	13.4	0.8
Premiums	0.33	0.37	0.40	21.9	7.8
Hauling	0.32	0.32	0.28	(12.7)	(11.1)
B'fat differential	0.101	0.191	0.130	29.0	(31.8)
B'fat test (%)	3.628	3.622	3.630	0.1	0.2

* Calculated using more detailed information.

percent lower in 1999 than 1998, although it was well above 1997. This butterfat effect, combined with lower milk prices, has dwarfed the increase in the overall mailbox price. ♦

Modified Option 1A Class I Differentials, Selected Northeast States



Determination of Uniform Price of \$14.52 for November 1999

Per hundredweight of milk testing 3.5 percent butterfat received in bulk from farms in the 201-210 mile zone

TOTAL VALUE OF POOLED MILK							
Class	Milk pounds	Per-cent	Minimum price	Value at minimum price	Trans- portation differential	Total value	Contribution per cwt of receipts
					dollars		
I-A	361,796,309	39.7	18.68	67,583,550.48	88,385.22	67,671,935.70	7.437
I-B	18,156,524	2.0	18.68	3,391,638.67	1,376.20	3,393,014.87	0.373
II	138,834,382	15.3	16.56	22,990,973.68	16,421.78	23,007,395.46	2.528
III	382,256,265	42.0	9.85	37,652,242.11	36,086.00	37,688,328.11	4.142
III-A	<u>8,920,175</u>	<u>1.0</u>	11.63	<u>1,037,416.34</u>	<u>1,902.32</u>	<u>1,039,318.66</u>	<u>0.114</u>
Reported receipts	909,963,655	100.0		132,655,821.28	144,171.52	132,799,992.80	14.594
Adjustments:	<u>Product pounds</u>		<u>Dollars*</u>				
Sec. .60(d)(6) I	3,680,958		263,056.20				
Sec. .60(d)(6) II	8,716,355		436,689.38				
Total Sec. .60(d)(2) thru (6)	12,397,313		699,745.58			699,745.58	0.077
Total adjustments	12,397,313		699,745.58				
Total pool milk classified	909,963,655						
Handlers must pay			699,745.58	132,655,821.28	144,171.52	133,499,738.38	** 14.671
COMPUTATION OF UNIFORM PRICE							
			<u>Milk pounds</u>	<u>Dollars</u>	<u>Dollars per cwt of receipts</u>		
Total value of pooled milk				133,499,738.38			14.671
Less: Cooperative payments	576,462,463		230,584.98			0.025	
Reserve			767,275.39			0.085	
Transportation credit	909,963,655		1,364,945.48	<u>(2,362,805.85)</u>		<u>0.150</u>	<u>(0.260)</u>
Value of pooled milk less subtractions				131,136,932.53			14.411
Add: Freight adjustment to 201-210 mile zone			158,540.77			0.018	
Unreserved cash in producer settlement fund			<u>831,249.41</u>	<u>989,790.18</u>		<u>0.091</u>	<u>0.109</u>
Uniform Price	909,963,655			132,126,722.71			14.520

* Includes transportation and other applicable differentials.

** In addition handlers must pay \$2,598,386.03 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.766868 percent. The butterfat differential was \$.107 for each one-tenth of one percent of butterfat.

Comparative Price and Other Descriptive Statistics

	NOVEMBER 1998	OCTOBER 1999	NOVEMBER 1999
Order No. 2			
Handlers (with producer milk)	31	27	27
Bulk Tank Units	92	75	75
Producers	9,536	8,972	8,927
Daily Deliveries Per Producer (pounds)	3,205	3,395	3,398
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	16.84	11.49	9.79
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.8317	1.4388	1.2143
Butter, Grade A, per lb	1.6547	1.0348	.9825
Nonfat dry milk, Central States, per lb	1.1250	1.0451	1.0343
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	17.39	16.19	16.13
Order No. 2, 1-10 mile Zone* (New York City)	17.65	15.73	15.39
Order No. 4, Philadelphia¶	17.17	16.03	15.78
Class I Utilization Percentage			
Order No. 1	47.7	49.8	49.4
Order No. 2	44.3	41.1	41.7
Order No. 4	45.8	46.6	48.7

* Includes 15-cent transportation credit.

¶ Includes 6-cent direct-delivery differential.

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