



New York-  
New Jersey  
Milk Marketing  
Area

# The Market Administrator's Bulletin

Ronald C. Pearce, Administrator

One Columbia Circle, Albany, NY 12203-6379

Phone: 518/ 452-4410 Fax: 518/464-6468

WWW: <http://www.fmmone.com>

E-mail: [MAGeneric\\_Albany@usda.gov](mailto:MAGeneric_Albany@usda.gov)

Federal Order No. 2

Volume 59

March

1999

## Federal Order Reform Final Decision Released

On March 31, 1999, USDA Secretary Dan Glickman released the final decision on Federal Milk Marketing Order (FMMO) Reform. This marks the beginning of the last stage of the Federal Order Reform process, the "implementation" stage. The changes presented in the final decision will impact dairy farmers in the New York-New Jersey Milk Marketing Area (Order No. 2) and around the country. After Congress reviews the decision, USDA will conduct referendums later this year among producers in each of the newly consolidated marketing orders. The order changes, if approved, are then scheduled to take effect October 1, 1999.

U.S. agriculture is transitioning to a more market-oriented sector, free from traditional government involvement typified by price and income support programs. Following the directives of the 1996 farm bill, the FMMO program is being restructured to be consistent with this trend toward a market-oriented dairy sector in which dairy farmers respond to market signals.

### Consolidation of Orders

The final decision consolidates the present 31 milk marketing order areas into 11 regional marketing areas. Order No. 2 would become part of a Northeast order, together with the present New England and Middle Atlantic marketing areas (Orders No. 1 and 4), and currently unregulated areas in northern New York, Vermont, New Hampshire, and Massachusetts. The Western New York State Order and the currently unregulated portion of Pennsylvania would *not* be included in the Northeast order. The consolidated order would include about 19,000 producers with about 76 percent belonging to cooperatives. Based on analysis using October 1997 data, the combined Class I utilization for Orders No. 1, 2, and 4 was 47.7 percent, 4.3 percentage points greater than the October 1997 Class I utilization percentage for Order No. 2. Becoming part of a market with a higher Class I utilization should have a slightly positive impact for Order No. 2 producers.

(continued on page 3)

## Final Decision Informational Meetings to be Held

Below is a listing of meetings to be held regarding federal milk marketing order reform and the recently announced final decision. Market Administrator representatives will be available to answer questions. These meetings are open to all producers located in the affected Northeast region.

Day and Date	Time	Location
Tues.-May 4	7:30 p.m.	Tranquility Methodist Church Hall Tranquility, NJ
Thurs.-May 6	8:00 p.m.	Mountain View Sr. High School Cafeteria Kingsley, PA
Mon.-May 10	8:00 p.m.	Best Western Inn Little Falls, NY
Wed.-May 12	7:30 p.m.	Quality Inn Albany, NY
Tues.-May 18	8:00 p.m.	Best Western Inn Canton, NY
Wed.-May 19	7:30 p.m.	NYS Fairgrounds—Martha Eddy Hall, Art & Home Ctr. Syracuse, NY

Other dates and locations are to be announced. For additional information or if special accommodations are needed, please contact this office at (518) 452-4410. ♦

## March 1999 Pool Highlights

- The March 1999 uniform price equaled **\$15.21** per hundredweight, an increase of \$0.13 from last month and \$1.32 higher than March 1998.
- Producer milk receipts totaled 1,013.0 million pounds, a decrease of 3.8 percent from last year.
- Class I usage totaled 419.5 million pounds, down 0.9 percent from the previous year. ♦

## U.P. Forecasted to Decrease

The uniform price forecast for **April 1999** is **\$11.63** per hundredweight of bulk milk testing 3.5 percent butterfat in the 201-210 mile zone. This is an estimate. ♦

## 1998 U.S. Milk Production Slightly Above 1997

Total U.S. milk production in 1998 equaled 157.4 billion pounds, an increase of 0.9 percent (1.4 billion pounds) above the 1997 level. Comparatively, U.S. milk production in 1997 was 1.4 percent above the 1996 level. Over the past 10 years, the year-to-year annual change in U.S. milk production has averaged an increase of 0.8 percent. It has ranged from an increase of 2.7 percent in 1990 to a decrease of 0.8 percent in both 1989 and 1996. The U.S. population has been growing annually at a rate of about 1 percent; U.S. milk production has been growing slightly slower.

After a few years of no change in the rank of the top ten milk-producing states, 1998 saw Idaho jump from ninth place to sixth on the strength of an 11.0 percent increase in milk production (see accompanying table). While still less than half of New York's annual production, Idaho's milk production has more than doubled (up 119.4 percent since 1988) in 10 years' time. New York's 1998 production was only 2.6 percent greater than it was in 1988.

Of the top 20 milk-producing states, New Mexico had the second largest increase in production during 1998, growing 8.6 percent from the previous year. New Mexico remained in eleventh place in 1998; however, in 1988 the state ranked a distant 31 in total milk production. New Mexico's milk production has increased by nearly 300 percent in 10 years. During the first quarter of 1999, New Mexico moved into tenth place, overtaking Ohio.

## 1st Quarter: Deliveries Down, Prices Up

For the first quarter of 1999, total producer milk deliveries were down 2.8 percent from the same period last year. All classes experienced declines in usage, most notably Class III-A.

Producer numbers declined 8.7 percent for the first 3 months of 1999 compared to the previous year. Daily deliveries per producer (DDP) increased 6.4 percent due to mild weather, good quality feed, and producer expansion.

The record-high prices seen near the end of 1998 have dropped somewhat, but were still very strong throughout the first quarter of 1999. Class I and II prices were 23.4 and 27.1 percent higher than the previous year's, respectively, due to the high November and December basic formula prices (BFP). In February 1999, the BFP declined \$6.00 from the previous month. This drop affected the Class III average for the first quarter, resulting in a decrease of 3.1 percent from the same period in 1998. It will be felt further in the April Class I and II prices.

Overall, relatively strong prices and utilization during the January-March period have combined for the highest

### Top Ten States Ranked by Milk Production, 1998

Rank	State	1997	1998	1997-98
		(million pounds)		(percent)
1	California	27,582	27,607	0.1
2	Wisconsin	22,368	22,842	2.1
3	New York	11,530	11,740	1.8
4	Pennsylvania	10,662	10,847	1.7
5	Minnesota	9,210	9,275	0.7
6	Idaho	5,193	5,765	11.0
7	Texas	5,768	5,605	(2.8)
8	Michigan	5,410	5,391	(0.4)
9	Washington	5,305	5,326	0.4
10	Ohio	4,415	4,390	(0.6)
Top Ten Total		107,443	108,788	1.3
U.S. Total		156,091	157,441	0.9

Source: *Milk Production*, National Agricultural Statistics Service, USDA.

Combining the production of the leading Northeast dairy states, New York, Pennsylvania, and Vermont show a collective 1998 production 2.0 percent above 1997's. The five states experiencing the greatest decreases in production during 1998 were the southeastern states of Alabama, Kentucky, Mississippi, South Carolina, and Tennessee with an average decline of 6.9 percent from 1997. ♦

first quarter average uniform price ever experienced under the Order. ♦

### Order No. 2 Prices and Utilization for March

	1998	1999	Percent change
	dollars per cwt		
<b>Prices*</b>			
Uniform	13.89	15.21	9.5
Class I	15.67	18.69	19.3
Class II	13.55	16.57	22.3
Class III	12.76	11.57	(9.3)
Class III-A	12.62	12.31	(2.5)
<b>Utilization</b>			
million pounds			
Class I	423.3	419.5	(0.9)
Class II	166.9	158.0	(5.3)
Class III	426.8	414.4	(2.9)
Class III-A	35.8	21.1	(40.9)
Producer Receipts	1,052.8	1,013.0	(3.8)

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

## Federal Order Reform *(continued from page 1)*

### Basic Formula Price (BFP) Replaced

The final decision eliminates the BFP as the base price mover from which Class I, II, and III prices currently are determined. The new pricing system will use the higher of the new Class III or new Class IV price as the mover of the Class I price. The prices for Class III and IV will be determined on a multiple component basis with component values calculated from surveyed prices of manufactured dairy products (e.g., cheese, butter, nonfat dry milk powder, and dry whey). Multiple component pricing involves determining a value for milk based on the values of protein, butterfat, nonfat solids, and other solids used in manufactured dairy products. Component values will be based on USDA's National Agricultural Statistics Service (NASS) surveys of manufactured dairy product prices. Since the Class I price will be based off of the Class III or IV price, there will continue to be a link between the price of milk used in fluid products and the price of milk used in manufactured products.

### Classified Pricing

The final decision provides changes to the level and manner in which milk is priced according to its use. For milk in the highest valued category, fluid use (Class I), two pricing options were presented in the proposed rule—Options 1A and 1B. The final decision adopts a Class I pricing surface that uses the generally higher differential levels as proposed in Option 1A while retaining the pricing surface of the preferred Option 1B. As a point of comparison, the *current* Order No. 2 Class I differential (the fixed amount added to the base price to generate a Class I price) in New York City is \$3.14, and the 201–210 mile zone differential is \$2.42. Under the *final decision* the Class I differential in New York City (the amount added to the Class III or IV price to generate a Class I price) would decline to \$2.50, and the differential in the equivalent 201–210 mile zone would range from \$1.85 to \$2.05. The Class II price (for soft manufactured products including ice cream, yogurt, and fluid cream products) will be set at 70 cents over the Class IV price in all federal orders. In a change from current regulations, Class III-A will be renamed Class IV and will include butter and any milk product in dried form. The formulas used to calculate Class III and IV prices under the final rule have been revised from formulas presented in the proposed rule.

### Specific Changes Affecting Order 2 Producers

**Plant-Point Pricing**—The final decision adopts plant-point pricing as the pricing method for the consolidated Northeast order. Currently, producers pooled under Order No. 2 are paid under farm-point pricing where the township location of their milkhouse is the pricing point. Order No. 2 is the *only* order now using farm-

point pricing. Under plant-point pricing, the location and zone price of the plant where producers' milk is shipped affects the price received for their milk. Negotiating hauling charges between producers and handlers will become an important factor affecting producers' net pay prices. Under plant-point pricing, the 15 cents per hundredweight transportation credit, which currently is deducted from all Order No. 2 producers to partially offset hauling costs, will be eliminated.

**Multiple Component Pricing**—Producers will be paid on a multiple component basis under the consolidated order. Producers' pay prices will be based on the total pounds of butterfat, protein, and other solids (lactose and minerals) in the milk plus the producer price differential (PPD). The PPD represents a farm's share of the market's classified pricing utilization value. The PPD portion for a farm is calculated by multiplying the hundredweight of milk produced at a farm by the PPD. Additionally, an adjustment will be made for each producer depending on where the milk was shipped.

**Cooperative Payments Eliminated**—The cooperative payments program, presently in place in Order No. 2, will not be continued under the final rule. The current program pays qualified cooperatives 4 cents per hundredweight for the performance of marketwide services and balancing functions. The program has a net effect of reducing the uniform price by about 2.4 cents per hundredweight. The final decision allows for a deduction for *marketing services* by the market administrator 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 qualified cooperative association.

### Referendum Process

All qualified producers marketing milk in the area of the consolidated Northeast order will be eligible to vote in a referendum on the new order. Producers will be voting on whether to adopt the consolidated order and its accompanying provisions, or not to adopt the new order. Voting to retain the present order system is not an option. The new order must be approved by either at least two-thirds of the eligible producers voting or producers who supplied more than two-thirds of the milk represented in the referendum. Following normal referendum procedures, bloc voting by cooperatives will be allowed.

### Additional Information

Copies of the Final Decision, the Final Regulatory Impact Analysis and the Civil Rights Impact Analysis, along with additional background information can be accessed on the World Wide Web at [www.ams.usda.gov/dairy/reform](http://www.ams.usda.gov/dairy/reform), by contacting AMS Dairy Programs at (202) 720-4392, or by contacting this office at (518) 452-4410. ♦

## Determination of Uniform Price of \$15.21 for March 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 dollars	Total value	Contribution per cwt of receipts
I-A	402,656,493	39.7	18.69	75,256,498.57	127,174.06	75,383,672.63	7.441
I-B	16,836,578	1.7	18.69	3,146,756.41	93.99	3,146,850.40	0.311
II	158,031,838	15.6	16.57	26,185,875.50	16,425.44	26,202,300.94	2.587
III	414,387,911	40.9	11.57	47,944,681.28	37,744.21	47,982,425.49	4.736
IIIA	<u>21,119,853</u>	<u>2.1</u>	<u>12.31</u>	<u>2,599,853.90</u>	<u>3,321.45</u>	<u>2,603,175.35</u>	<u>0.257</u>
Reported receipts	1,013,032,673	100.0		155,133,665.66	184,759.15	155,318,424.81	15.332
Adjustments:	<u>Product pounds</u>		<u>Dollars*</u>				
Sec. .60(d)(6) I	968,754		81,982.37				
Sec. .60(d)(6) II	6,113,616		383,934.20				
Total Sec. .60(d)(2) thru (6)	7,082,370		465,916.57			465,916.57	0.046
Total adjustments	7,082,370		465,916.57				
Total pool milk classified	1,013,032,673						
Handlers must pay			465,916.57	155,133,665.66	184,759.15	155,784,341.38 **	15.378
COMPUTATION OF UNIFORM PRICE							
	<u>Milk pounds</u>		<u>Dollars</u>			<u>Dollars per cwt of receipts</u>	
Total value of pooled milk				155,784,341.38			15.378
Less: Cooperative payments	651,673,604		260,669.44			0.026	
Reserve			887,684.94			0.087	
Transportation credit	1,013,032,673		1,519,549.03	<u>(2,667,903.41)</u>		<u>0.150</u>	<u>(0.263)</u>
Value of pooled milk less subtractions				153,116,437.97			15.115
Add: Freight adjustment to 201-210 mile zone			153,580.69			0.015	
Unreserved cash in producer settlement fund			<u>812,250.90</u>	<u>965,831.59</u>		<u>0.080</u>	<u>0.095</u>
Uniform Price	1,013,032,673			154,082,269.56			15.210

\* Includes transportation and other applicable differentials.

\*\* In addition handlers must pay \$3,102,440.34 for butterfat in excess of 3.5 percent.

Note: The average butterfat test of milk delivered was 3.732010 percent. The butterfat differential was \$.132 for each one-tenth of one percent of butterfat.

## Comparative Price and Other Descriptive Statistics

	MARCH 1998	FEBRUARY 1999	MARCH 1999
Order No. 2			
Handlers (with producer milk)	32	31	30
Bulk Tank Units	94	93	91
Producers	10,211	9,402	9,250
Daily Deliveries Per Producer (pounds)	3,326	3,472	3,533
Price Factors, Monthly Averages (dollars)			
Basic Formula Price, 3.5% butterfat, per cwt	12.81	10.27	11.62
Cheddar Cheese, 40-lb blocks, per lb, NASS	1.3793	1.3010	1.3092
Butter, Grade A, per lb#	1.2505	1.2253	1.2027
Nonfat dry milk, Central States, per lb	1.0467	1.0437	1.0239
Uniform Prices (dollars per cwt, 3.5% butterfat)			
Order No. 1, Zone 1 (Boston)	14.82	16.54	16.41
Order No. 2, 1-10 mile Zone* (New York City)	14.76	15.95	16.08
Order No. 4, Philadelphia†	14.44	16.10	15.67
Class I Utilization Percentage			
Order No. 1	45.2	45.0	45.9
Order No. 2	40.2	40.4	41.4
Order No. 4	40.7	41.2	40.4

# CME through May 1998; Grade A equivalent price effective June 26, 1998.

\* Includes 15-cent transportation credit.

† Includes 6-cent direct-delivery differential.

The U. S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at 202/ 720-2600 (voice and TDD). To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326W, Jamie L. Whitten Building, 14th and Independence Avenue, SW., Washington, D.C. 20250-9410 or call 202/ 720-5964 (voice or TDD). USDA is an Equal Opportunity provider and employer.