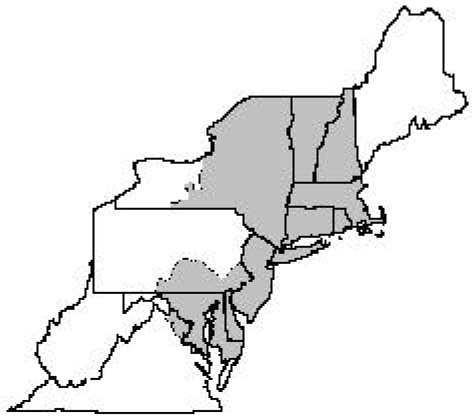

The Market Administrator's

BULLETIN

NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

February 2000 Federal Order No. 1

To contact the Northeast Marketing Area offices:
Boston, MA: phone (617) 542-8966; *Albany, NY*: phone (518) 452-4410; *Alexandria, VA*: phone (703) 549-7000
website address: www.fmmone.com; *email address*: fmma@fedmilk1.com

February Pool Price Calculation

The February statistical uniform price for the Northeast Marketing Order was announced at $12.21 per hundredweight at Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. This was a decrease of 14 cents per hundredweight from January. The February producer price differential (PPD) at Suffolk County was $2.67 per hundredweight, an *increase* of 37 cents from January. The PPD is $2.57 for shipment to plants in the New York City differential zone and $2.47 for plants in the Philadelphia differential zone.

Prices Moved Inversely

The February statistical uniform price declined while the PPD increased. This was due to changes in the component values, from January to February, that are used to calculate class prices and are factors in the statistical uniform price and PPD. The February Class III price dropped 51 cents from January as the value for protein declined. The protein value, a significant factor in the Class III price, is calculated from the National Agricultural Statistics Service (NASS) cheese plant surveys. NASS surveys reported during February that wholesale values of Cheddar declined by an average of 4.5 cents per pound for 40-pound blocks and 500-pound barrrels.

The PPD takes into account the value of Class I, II, and IV milk in the pool. Since the Class III price dropped by a greater amount than declines in other class prices, the "spread" between the Class III price and all other class prices increased in February, thereby contributing a greater amount to the PPD. This value, plus adjustments, is divided by the pounds of milk in the pool to arrive at a per hundredweight PPD. February's total value was nearly 5 million dollars greater than the January value, which combined with less milk in the February pool resulted in a higher PPD.❖

Forward Contract Pilot Program

USDA recently proposed rules to implement the federal milk order forward contract pilot program mandated by Congress. A period of public comment on the proposed program concluded March 16, with implementation anticipated for later this spring.

Forward contracting is voluntary for both dairy farmers and milk handlers. The program only applies to federally regulated milk used for manufactured dairy products. Manufacturing uses include milk used

(continued on Page 3)

Pool Summary

- A total of 17,961 producers were pooled under the order with an average daily deliveries per producer of 3,906 pounds.
- Producer milk receipts totaled 2.034 billion pounds.
- Usage as Class I milk for bottling accounted for the largest class volume at 41.3 percent of total receipts.
- The average butterfat test of producer receipts was 3.79 percent.
- The average true protein test of producer receipts was 3.03 percent.
- The average other solids test of producer receipts was 5.66 percent.❖

Class Utilization

Producer Milk	Percent	Pounds
Class I	41.3	840,449,914
Class II	17.2	348,877,010
Class III	27.4	557,863,355
Class IV	14.1	287,175,024
Total Producer Milk		2,034,365,303

Producer Component Prices

Protein Price	$1.9849	/lb
Butterfat Price	$0.9588	/lb
Other Solids Price	$0.0432	/lb

Class Price Factors

	$/cwt
Class I	13.96
Class II	11.51
Class III	9.54
Class IV	10.80

Former Order No. 2 Producers See Higher Hauling Charges

For many producers pooled under the former New York–New Jersey Marketing Order No. 2, implementation of Federal Order Reform brought about increases in hauling charges. The switch from farm-point to plant-point pricing (an issue only for former Order No. 2 producers) has changed the method by which hauling costs are charged to such producers. A better understanding of how hauling costs were paid may help to clarify that it is the manner of hauling cost payments that is changed and not actual hauling costs. Producers formerly associated with the New England or Middle Atlantic Marketing Orders have operated under a plant-point pricing system and are accustomed to this hauling structure.

Milk Value and Transportation Costs

Milk has a higher value at major consumption areas relative to its production area. This value is attributed, in large part, to the cost of transporting milk to markets. Under a plant-point system producers selling milk to markets close to major consumption areas (Boston, New York City, Philadelphia) receive a higher value based on the plant's location (FOB plant price), but are responsible for the cost of transporting the milk to the market. Producers receive the higher value via the producer price differential (PPD) that varies depending on the location of the plant. The PPD, through the location adjustments of the Northeast Order, is designed to help offset the cost of transporting milk to various plant locations. In the Northeast Order, PPDs increase by scheduled amounts the closer the plant is to Suffolk County Massachusetts (Boston).

Under farm-point pricing producers received a lower farm location price (FOB farm price), but had less deducted for hauling. Under either system milk transported similar distances would incur similar costs. It is the manner by which producers were paid and the method that hauling costs were charged that differed.

Farm-Point Hauling Charges

Under farm-point pricing, adjustments in the pool price calculation were used to cover a portion of actual hauling costs. This meant that producers' milk-check deductions for hauling did not cover the total cost of hauling, with the pool adjustments making up the difference. The following illustrates how Order 2 provisions partially offset producer hauling costs using a hypothetical New York farm located in the former 201-210 mile zone and shipping milk to a New York City area bottling plant in the former 1-10 mile zone. An *estimate* of the cost to move milk this distance is $1.25 per hundredweight.

Transportation Credit—Under Order 2 a deduction of $0.15 cents per hundredweight was made during the calculation of the uniform price on all producer milk. This had the effect of reducing the uniform price by 15 cents.

Up-zone Value—Under Order 2 the location value of milk increased by $0.72 cents per hundredweight from the 201-210 mile farm zone to the 1-10 mile plant zone. (Location adjustments and the amount of increase / decrease in zone values varied by the location and zone of the producers and the zone of the receiving plants.) This means that the cost to the handler for milk at their city location was 72 cents more than at the location of the farm.

Allowable Charges—Order 2 rules required handlers to subtract the transportation credit (a deduction from the uniform price and thus producers) and any increase in the up-zone value (which they could recoup by charging more for their product) from the total hauling cost.

Allowable Charge	**per cwt**
Estimated Hauling Cost	$1.25
— Transportation Credit	(0.15)
— Up-zone Value Adjustment	(0.72)
Estimated Allowable Charge	0.38

The remaining figure (38 cents per hundredweight in this example) is what could be negotiated or charged to the producer.

Deduction Larger But Cost Remains

Under plant-point pricing there are no adjustments in the pool price calculation to offset hauling costs, which is why former Order 2 producers may have seen hauling rates increase to the actual total cost of hauling. While charges will vary depending on the respective practices of cooperatives and handlers and the location of producers and plants, the cost of hauling remains a cost borne by producers. This is uniform across the federal order system. For additional information contact the Albany office at (518) 452-4410.❖

Market Order Information Available on Website or Through Order Offices

All price announcements, the monthly *Bulletin*, and most other reports and publications released by this office are available on the Northeast Marketing Area's web site at http://www.fmmone.com. Price information will be posted on the web site on the same day and time that the applicable price announcement or report is required to be publicly released. Links to USDA Dairy Programs and web sites of other federal milk marketing orders are included on the site. E-mail comments or messages can be sent to fmma@fedmilk1.com. In addition, the offices of the former New York–New Jersey Marketing Area (Albany, NY) (518) 452-4410 and the Middle Atlantic Marketing Area (Alexandria, VA) (703) 549-7000 remain open and are available to answer questions along with the main Northeast Order office in Boston, MA, (617) 542-8966.❖

MARKET SITUATION

Commodity Values Remain Depressed

Process cheese was purchased under the Commodity Credit Corporation (CCC) support program during the first 2 weeks of March, the first process cheese purchase since July 1997. The CCC purchase price for 40-pound blocks is $1.10 per pound; for 500-pound barrels it's $1.07 per pound. The NASS average cheese price for February was $1.1067, slightly above the support price and a drop of 4.5 cents from the January average. The February drop means that the value producers will receive for protein will be less in February than January. The CCC has been making considerable purchases of nonfat dry milk for the fiscal period October 1, 1999, through September 30, 2000, with purchases to date over 600 percent larger than purchases for the same period last year. NASS butter prices for February, $0.9002 per pound, gained 1.8 cents above January's price, thus the value received for butterfat will be slightly higher. The CCC purchase price for butter is $0.65 per pound, considerably lower than current market prices.❖

Positive Letter Renewed For New England Dairy Promotion

As requested by New England cooperative associations that represent a majority of the producers in the New England States, the Market Administrator has renewed the "positive letter" procedure for handlers to make promotion deductions from producer payments at the rate of 10 cents a hundredweight for the benefit of New England Dairy Promotion Board (NEDPB), formerly Milk Promotion Services, Inc.

Under the National Dairy Promotion and Research Order, which became effective on May 1, 1984, 15-cents per hundredweight is deducted by handlers from each producer for remittance to the National Dairy Promotion Research Board. A credit of up to 10 cents a hundredweight, however, may be taken from the 15 cents for payments to NEDPB, a qualified regional promotion program. If the producer's state imposes a milk promotion assessment or tax, the 10-cent deduction must be reduced by the amount to be paid to the state.

Handlers who elect to use the positive letter must promptly notify each affected producer that the promotional deduction of 10 cents per hundredweight for NEDPB will be made, effective on March milk, unless the producer objects in writing. Any handler who receives a written producer request to discontinue the NEDPB deduction must immediately discontinue payments to NEDPB for the producer's account. The positive letter is not sent to a producer who belongs to a cooperative that has specifically authorized the handler to make the promotional deduction for NEDPB.

Any producer who starts or resumes delivering milk after March 1, 2000, and is subject to the positive letter procedure should be promptly notified of the proposed deduction and of his right to object to it. The money deducted from producers for NEDPB, pursuant to the positive letter, must be paid in a timely manner to New England Dairy Promotion Board, 1 Kennedy Drive, Unit L7, South Burlington, Vermont 05403.❖

❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖ ❖

Contract Pilot Program *(continued from Page 1)*

for cream products, yogurt, dry milk, butter, and all types of cheeses. Fluid (Class I) milk is not eligible for forward contracting under the pilot program.

Under the proposed rule, a handler will be able to enter into forward contracts with farmers and cooperatives for any milk receipts that do not exceed the handler's manufacturing uses of milk for the month. For the volume of milk covered by forward contracts, a handler is exempt from paying minimum federal order prices to producers and cooperatives. The prices agreed to in the forward contract will be paid instead.

Handlers participating in the program will be required to submit to the market administrator a copy of the forward contract with each producer or cooperative, as well as a disclosure statement signed by the producer or cooperative. This disclosure statement verifies that a producer received a USDA fact sheet that described the nature of the program and risks involved. The fact sheet, along with questions and answers relating to the program, is available from any market administrator, or can be downloaded from the USDA's AMS website at www.ams.usda.gov/dairy.

The proposed rule also requires that every forward contract under the pilot program contain a clause that gives the producer the opportunity to change his or her mind within 3 days of signing the contract. Any contract not containing the right to rescind clause will not be considered valid for purposes of this pilot program. The proposed rule also requires that first-time contracts not be written for more than 6 months, and that no contract may extend beyond December 31, 2004, the program's expiration date. All other provisions of the order still apply.❖

USDA
MARKET ADMINISTRATOR
One Columbia Circle
Albany, NY 12203-6379

First Class
U.S. Postage
PAID
Alexandria, VA
Permit 355

RETURN SERVICE REQUESTED

FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price

		Product Pounds	Price per cwt/lb	Component Value	Total Value
Class I—	Skim	823,063,201	$10.97	90,290,033.14	
	Butterfat	17,386,713	0.9627	16,738,188.61	
Less:	Location Adjustment to Handlers			(2,594,872.31)	$104,433,349.44
Class II—	Butterfat	23,625,776	0.9658	22,817,774.49	
	Nonfat Solids	29,362,349	0.9356	27,471,413.76	50,289,188.25
Class III—	Butterfat	21,515,752	0.9588	20,629,303.06	
	Protein	16,843,591	1.9849	33,432,843.82	
	Other Solids	31,458,511	0.0432	1,359,007.69	55,421,154.57
Class IV—	Butterfat	14,737,410	0.9588	14,130,228.74	
	Nonfat Solids	24,639,756	0.8565	21,103,951.10	35,234,179.84
Total Classified Value					**$245,377,872.10**
Add:	Overage—All Classes				144,703.83
	Inventory Reclassification—All Classes				(109,705.79)
	Other Source Receipts	1,657,416			75,516.87
Less:	Producer Component Valuations				(201,354,445.45)
	Subtotal				**$44,133,941.56**
Add:	Location Adjustment to Producers				10,054,433.76
	One-half Unobligated Balance—Producer Settlement Fund				1,181,461.10
Total Pool Milk & Aggregate Value		2,036,022,719			55,369,836.42
Less:	Producer Settlement Fund—Reserve				(1,008,029.82)
	Producer Price Differential		**$2.67**		54,361,806.60
	Statistical Uniform Price*		**$12.21**		

* Price at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.