

The Milkweed

Dairy's best marketing info and insights



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Will Co-ops Vote Out USDA's Milk Orders ... SOON?

by Pete Hardin

Some day soon, folks in the U.S. dairy industry may wake up to learn that several federal milk marketing orders no longer exist!

Right now, five of USDA's ten regional milk marketing orders are deep into the hearing process for proposed changes. Approval of new, amended individual milk orders requires a two-thirds vote by the affected producers. Most dairy farmers never cast individual ballots—their "say" is cast as bloc votes by milk marketing cooperatives.

The Milkweed is picking up signals that major dairy co-ops are preparing to dump selected federal milk orders. It's very doubtful whether the remaining federal milk orders could survive, if any of the remaining number demise. The federal milk order system is truly a system and requires the existing parts in place east of the Rocky Mountains to continue effectively pricing milk.

Presently, changes to the following federal milk orders are in the works:

- Order #5 (Appalachian)—transportation credits
- Order #7 (Southeast)—transportation credits
- Order #33 (Mid-East)—pooling rules
- Order #30 (Upper Midwest)—pooling rules
- Order #32 (Central States)—pooling rules

Highly critical comments about local federal milk orders have been stated by Calvin Covington, the CEO of Florida's dairy co-op, Southeast Milk, Inc.

All these orders are now in the final stages of approval referenda. Ballots were due for Orders 30, 32 and 33 during the first week of October. Normal administrative procedures require a few weeks for the respective milk orders to collect the ballots, send them to Washington, D.C., and for USDA to tabulate and announce final results.

These individual milk order changes do not include the national milk order hearing currently in progress, that relates to increased manufacturing plant "make-allowances" sought by cooperatives to

cover increased costs of operating cheese and butter-powder plants. The "make-allowance" hearing, which started in late January 2006, was reconvened by USDA on September 14-15 in Strongsville, Ohio. At that hearing, Cornell University dairy economist Dr. Mark Stephenson offered recent data on dairy manufacturing costs. Much to the dismay of those firms supporting higher "make-allowances," Stephenson's survey showed average current plant costs very close to the current "make-allowances".

It's very possible that Stephenson's data could have been the proverbial "straw that broke the camel's back". Why? Because if USDA accepts his data, the government cannot likely substantively increase manufacturing plant "make-allowances". And if the co-ops can't boost "make-allowances" to recover their losses, they'll likely conclude that the federal milk orders aren't worth retaining.

(One key problem: any addition revenue for "make-allowances" comes directly out of monthly producer revenue pools in each milk order. It's an emotional time to be calling for reducing dairy farmers' income to subsidize cheese and butter-powder plant losses.)

Voting out federal milk orders has a modern precedent. In early 2004, Dairy Farmers of America (DFA) voted out the Western milk order, reducing USDA's system to its current total of ten milk orders.

USDA sparked a flurry of referenda in regional milk orders with a series of actions by the Agricultural Marketing Service right after Labor Day. Not coincidentally, these moves quickly followed an appearance by USDA Secretary Mike Johanns before DFA's corporate board of directors meeting in Washington, D.C. in early September.

Strange that the USDA Secretary would appear before the corporate board of a firm facing possible indictments from the Antitrust Division of the United States Department of Justice! Johanns may have unwittingly played into DFA's strategy of dumping federal milk orders, by expediting the administrative process in the multiple federal order

hearings.

Without federal milk orders, dairy farmers, at least on a short-term basis, would have no established means of pricing farm milk, except what their buyers told them the milk was worth. No "blend prices" would exist. No federal orders would direct that independent producers must be paid the "blend price".

Without federal orders, the U.S. dairy industry, outside states with their own milk pricing systems, (California, Virginia, Montana, Nevada, and North Dakota currently conduct their own milk-pricing agencies) would enter a lawless, "Wild West" pricing environment. Such chaos would spur states and regions to move quickly to fill the milk-pricing void. Such a climate would be custom-made for crooked organizations like DFA to financially screw the entire U.S. dairy industry—producers (members and non-members), processors and consumers!

Anticipate announcements from USDA before November 1, 2006. That way, USDA can send out 30-day notices by November 1 ... thumbs up or thumbs down.

September 2006 Class III \$12.29

September 2006 Class III price at 3.5% butterfat for September rose \$1.23 from August's price for USDA's federal milk market order system and is \$12.29 per hundredweight. For September 2005 Class III at 3.5% butterfat stood at \$14.30 per hundredweight.

As usual the Class III price was determined from the weekly average NASS survey for Cheddar cheese, butter, way and nonfat dry milk.

Component prices are as follows:

Butterfat price 1.4191 per pound

Nonfat solids price 0.7066 per pound

Protein price 2.1346 per pound

Other solids price 0.1649 per pound

Without adjusting for inflation, the average Class III price for the 25 year period from 1980 through 2004 was \$12.80.