AGRICULTURE

Comparing California and Federal Milk Marketing Orders

On May 5, 2018, California dairymen ushered in a new era by joining the **Federal Milk Marketing Order** (FMMO) replacing their state-run program that dates to the 1930's. This paper will compare the changes that become effective on October 17, 2018 when the USDA releases the first Announcement of Advanced Pricing Factors.

Hearings

As conditions change within a marketing order, some aspects of the system often need updating to ensure that the program remains fair and equitable to its members. In such cases, a petition for a hearing is submitted to address any recommended changes.

California currently enjoys a much nimbler process for effecting change. Currently, the California Department of Food and Agriculture (CDFA) must respond to a petition from an interested party (producers, cooperative, processor, consumer) within 15 days, where CDFA must accept or deny a hearing to consider amendments to either stabilization and/or marketing plans. CDFA may also, on its own accord, call hearings without formal petitions for consideration of amendments to either the Milk Stabilization or Milk Pooling Plans.

In the FMMO, however, a formal rulemaking procedure has been used extensively in the development and amendment of federal orders. The process is likened to a judicial process that involves hearings with a judge and cross examination of witnesses. At the federal level, the length of time from receipt of a petition until the date of a corresponding hearing varies depending on the action requested, but most hearings convene within ninety days.

Milk Check

All producers, whether inside or outside California, are paid on components in their milk. California producers are currently paid on butterfat and solids-non-fat (SNF). Quota holders receive $1.70 per hundredweight (less regional quota adjustments), paid on SNF. Once California is included in the FMMO system, producers will be paid on butterfat, protein and other solids. In addition, a Producer Price Differential (PPD) will be applied, which is the difference between the total producer milk value and the Class III milk price. This differential fluctuates from month-to-month as a function of the value of Class III relative to the other classes of milk.

It should be noted that the FMMO does not have a quota system. During the hearing process to join the FMMO, California requested and was granted the right to maintain their quota system. The CDFA will continue to administer the system and producers will maintain the same payment that will appear as a line item deduction on the milk check.

Pooling

Pooling is a system used by dairy farmers to ensure that all producers receive similar payments for their milk regardless of its utilization.

California currently operates under a restrictive pooling system, which requiring most handlers to pay minimum classified prices. In the FMMO system, pooling is compulsory only for Class I plants and their producers. For all others, it is voluntary; effectively a plant with no Class I utilization can elect to be a non-pool plant and never be subject to FMMO pricing and pooling.

Most of the milk production in California is in the Central Valley. To help move milk from surplus to deficit regions, transportation allowances/credits are applied. FMMO uses a Class I differential to keep moving milk to fluid use.

California also uses a fortification allowance, which is a credit used against pool obligations for meeting higher fluid standards imposed by the State of California. FMMO also has this allowance; however, it's valued at the SNF in Class IV milk, because the federal standard for fluid milk is lower than the State of California's.

If you are a producer/handler in California you are not responsible for pooling Class I production that is covered by exempt quota owned milk. In the FMMO, producers/handlers are fully regulated if processing more than three million pounds of Class I milk per month.

Pricing Structure

The California system has a Class pricing structure like the FMMO: Class 1 (Fluid Milk), 2 (Yogurt, Cottage Cheese), 3 (Ice Cream), 4a (Butter & Milk Powders), and 4b (Cheese & Whey Powder). Dairymen will transition to the FMMO Class structure, which will redefine and compress their product classes. Classes I (Fluid), II (Yogurt, Cottage Cheese), III (Cheese & Whey), and IV (Butter & Nonfat Dry Milk).

Both systems use formulas to calculate the monthly values of the various classes of milk. However, the end-product pricing data used in the calculations are sourced from different entities as illustrated in the table below.

	California	Federal Order (Weekly Survey)
Butter	CME	AMS
NFDM	CWAP	AMS
Cheese	CME Block	AMS Block & Barrel
Dry Whey	DMN-WDW	AMS

CME – Chicago Mercantile Exchange
CWAP – California Weighted Average Price
AMS – Agricultural Marketing Service
DMN – Dairy Market News
NFDM – Nonfat Dry Milk
WDW – Western Dry Whey

For the manufacturing cost/make allowance section of the pricing formulas, California uses manufacturing costs updated periodically via a hearing process. FMMO also uses manufacturing costs, that were last updated in early 2000.

Another unique feature of the California system is an F.O.B. adjuster, a credit built into the price formulas to help with transportation. No such credit to help with the movement of finished product exists under the FMMO.

In closing, a new era is upon California dairymen as they transition to a system they feel will ensure their status as the top dairy producing state. Both systems have benefits and drawbacks and if dairy producers find that the FMMO system isn't ideal, they have the right to petition for a hearing and vote to amend the FMMO system.