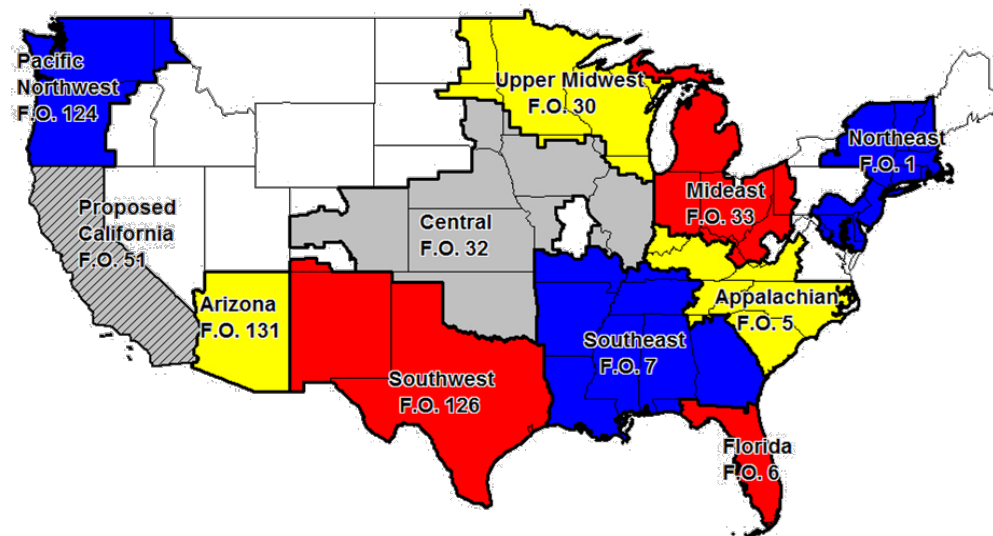


# Agricultural Marketing Service

Creating Opportunities for American Farmers and Businesses

## USDA Public Meeting: Proposed California Federal Milk Order

### Federal Milk Marketing Order Areas



February 22, 2017  
Clovis, CA

# Agenda

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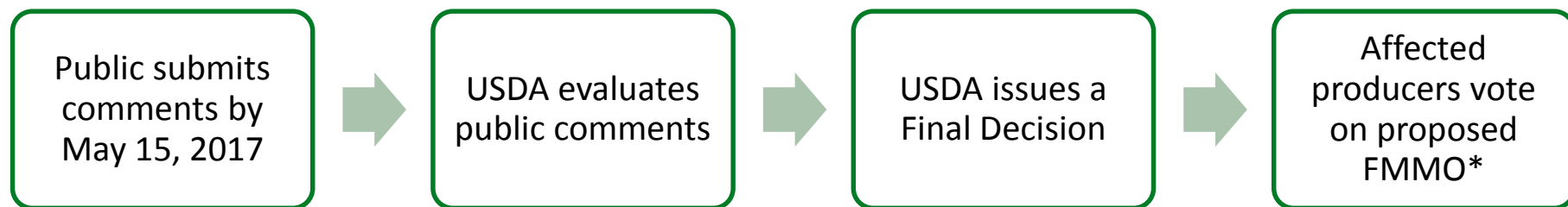
- Rulemaking Process
- Proposed California FMMO Provisions
- Order Application and Administration
- Q&A

## Ex Parte

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- Impacts all USDA officials
- Prohibits off-the-record conversations until Final Decision issued
- Dictates that transcript of this meeting will become part of the official record

# Upcoming Rulemaking Steps



*\*provided order continues to be recommended*

# Producer Approval Process

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- All producers affected by the FMMO would vote on whether to adopt Final Decision
  - California producers
  - Out-of-state producers who may become pooled
- 2/3 of voting producers or 2/3 of voting milk volume
- Qualified cooperatives may bloc-vote on behalf of their members
- Vote on entire order

# Paperwork Reduction Act Information Collection

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- Order administration requires information collection
- Paperwork Reduction Act requires public comment on the time burden of information collection
- Forms must be approved by OMB prior to Order approval
- Same information collected as in other FMMOs
- 60-day comment period ends April 17, 2017

*There will be a Future Information Collection regarding Producer Referendum*

# Submitting Public Comments

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- [www.regulations.gov](http://www.regulations.gov)
- Link from [www.ams.usda.gov/caorder](http://www.ams.usda.gov/caorder)
  
- ✓ Comments on proposed CA FMMO due May 15, 2017
  
- ✓ Comments on information collection due April 17, 2017

# **Proposed California Federal Milk Marketing Order: Order Provisions**



# Quota Recognition

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- California Quota Program remains separate from FMMO
- CDFA would continue to maintain, administer, and enforce the program, independent of FMMO, in whatever manner they deem appropriate
- Quota recognition in the CA FMMO would be through an authorized deduction in payments due to producers
- CDFA would determine and announce the deduction amount

# Quota Recognition

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## Current System:

- Producer funded
- Quota money deducted off top of CSO pool

## Proposed California FMMO:

- Quota would remain producer funded
- CDFA would announce per cwt deduction for quota
- CA FMMO would authorize handler quota deduction for CA produced pooled milk
- CDFA would determine:
  - How quota money would be collected
  - How quota money would be disbursed to quota holders
- FMMO will not collect quota money
- Handlers FMMO pool obligation would not be impacted by quota milk received
  
- CA FMMO can only authorize deductions for California produced and pooled milk
- No authorized deduction on out-of-state milk pooled on CA FMMO
  
- Exempt quota is part of California Quota Program
- CDFA would determine the recognition of exempt quota

# Definitions and Uniform Provisions

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All FMMOs contain a set of uniform provisions: CFR Part 1000

- Defines entities affected by FMMOs
- Defines common terms used in all FMMOs
- Provides for uniform application of basic FMMO principles

# Definitions and Uniform Provisions

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## Marketing Area:

State of California

## Route Disposition:

Fluid sales in commercial channels

- Used to determine regulatory status of fluid distributing plants

## Plant:

Unit where milk or milk products are received, processed, or packaged

## Distributing plant:

Plant approved to handle, process or package fluid milk products, and has route disposition

## Supply Plant:

Supplier of bulk milk for fluid market

# Definitions and Uniform Provisions

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## Pool Plant:

Plant that serves the market

- Degree of service is defined in Pool Plant definition
  - Referred to as pooling standards
- Determines which plants are eligible to participate on the order

## Nonpool Plant:

Plant that receives, processes, or packages milk

- Does not meet pool plant standard
- Nonpool plants can receive pool milk, but are not responsible for minimum payments

## Exempt Plant:

- Route disposition and sales to other plants of no more than 150,000 pounds/month
- Operated by a government agency with no commercial disposition
- Operated by colleges/universities with no commercial disposition
- All route disposition is for charitable purposes

# Definitions and Uniform Provisions

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## Handler:

Person who buys milk from dairy farmers

- Operator of a pool plant
- Cooperative association that diverts milk to nonpool plants or delivers milk to pool plants
- Operator of a nonpool plant
- Intermediaries (brokers/wholesalers): service industry, but not responsible for payments to producers.

## Producer-Handler:

Uniform with all FMMOs

- Persons who operate farm and distributing plant at sole enterprise and risk
- Class I fluid milk sales no more than 3 million pounds per month
- Can purchase up to 150,000 pounds of outside milk per month

# Definitions and Uniform Provisions

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*Producer:*

Dairy farmer that supplies Grade A Milk for fluid use

*Producer Milk:*

Milk eligible for inclusion in the marketwide pool

***Pooling standards** define the standards for meeting the Pool Plant, Producer, and Producer Milk definitions*

# Classification

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- Uniform FMMO classification provisions
- Ensures that handlers have same minimum regulated cost of raw milk based on use

<b>CSO Class</b>	<b>Proposed California FMMO Class</b>	<b>Product</b>
Class 1	Class I	Fluid
Class 2 & 3	Class II	Soft products
Class 4b	Class III	Hard Cheeses
Class 4a	Class IV	Butter and Powders



# Fluid Milk Products

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- Any milk produced in fluid or frozen form, intended for use as beverage
- Less than 9% butterfat; **and**
- 6.5% or more nonfat solids or 2.25% or more true protein

# Classification of Shrinkage

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- Shrinkage recognizes inevitable milk loss in processing
- Shrinkage allocated to lowest priced class
- Different between plant's total receipts and total utilization
  - Milk received based on farm weights and tests: up to 2%
  - Milk received based on other than farm weights and tests: up to 1.5%
- Milk loss in excess of shrinkage allowance allocated to highest class of utilization at the plant

# Pricing – Handler’s Value of Milk

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- Handlers account for minimum classified prices based on use
- Classified prices announced at 3.5% butterfat standard
- Each classified price generally consists of three factors:
  1. Commodity price
  2. Manufacturing Allowance
  3. Yield factor

# Manufacturing (Make) Allowances

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Uniform with all FMMOs

Cheese:

\$0.2003 per pound

Butter:

\$0.1715 per pound

NFDM:

\$0.1678 per pound

Dry whey:

\$0.1991 per pound

# Commodity Prices

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## Dairy Product Mandatory Reporting Program (DPMRP):

- Survey of plants producing cheddar cheese, butter, nonfat dry milk, dry whey
  - Each of the 4 commodities have specifications to be included in the survey
- Exemption for plants producing and marketing less than 1 million pounds of product/year
- California plants already participate in this survey

## National Dairy Product Sales Report:

- Announced weekly – shows previous 5 weeks of average survey prices

<https://www.ams.usda.gov/rules-regulations/mmr/dmr>



## National Dairy Products Sales Report

United States Department of Agriculture

Agricultural Marketing Service

Dairy Programs

Market Information Branch

DPMRP - 0252

February 15, 2017

### National Dairy Products Sales Report Highlights

**Butter** prices received for 25 kilogram and 68 pound boxes meeting United States Department of Agriculture (USDA) Grade AA standards averaged \$2.21 per pound for the week ending February 11, 2017. The United States (US) price per pound decreased 1.4 cents from the previous week.

**Cheddar Cheese** prices received for US 40 pound blocks averaged \$1.73 per pound for the week ending February 11, 2017. The price per pound increased 1.0 cent from the previous week. The price for US 500 pound barrels adjusted to 38 percent moisture averaged \$1.59 per pound, decreased 1.9 cents from the previous week.

**Dry Whey** prices received for bag, tote, and tanker sales meeting USDA Extra Grade standards averaged 48.2 cents per pound for the week ending February 11, 2017. The US price per pound increased 1.4 cents from the previous week.

**Nonfat Dry Milk** prices received for bag, tote, and tanker sales meeting USDA Extra Grade or United States Public Health Service (USPHS) Grade A standards averaged 99.1 cents per pound for the week ending February 11, 2017. The US price per pound decreased 2.8 cents from the previous week.

### National Dairy Products Sales Report for Weeks Ending: 1/14/2017 - 2/11/2017

#### Butter Prices and Sales

United States	14-Jan	21-Jan	28-Jan	4-Feb	11-Feb
	(dollars per pound)				
Weighted Price	2.2330	2.2711	2.2557	2.2292	2.2148
	(pounds)				
Sales	4,350,861	3,198,101	4,126,967	3,142,784	4,580,178

# Commodity Prices

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## FMMO component prices:

- Butterfat Price:
  - (NDPSR butter price - **\$0.1715**) \* **1.211**
- Nonfat solids Price:
  - (NDPSR NFDM price - **\$0.1678**) \* **.99**
- Protein Price:
  - (NDPSR cheddar cheese price - **\$0.2003**) \* **1.383**
- Other Solids Price:
  - (NDPSR dry whey price - **\$0.1991**) \* **1.03**

Exact price formulas can be found on any “Class and Component Prices” announcement, found at:

<https://www.ams.usda.gov/rules-regulations/moa/dairy/history>

## Class III and IV Prices

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- Uniform within the FMMO system
- Announced on or before the 5<sup>th</sup> of the following month (i.e. February prices announced by March 5<sup>th</sup>)
- 3.5% butterfat
  
- Class III price:
  - Protein price (cheese)
  - Other solids price (dry whey)
  - Butterfat price (butter)
  
- Class IV Price
  - Nonfat solids price (NFDM)
  - Butterfat price (butter)



## Class II Prices

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- Class II skim price = Advanced Class IV skim milk price + **\$0.70**
  - Skim milk price based on nonfat solids price
  - Announced on or before the 23<sup>rd</sup> of preceding month (i.e. February price announced by January 23<sup>rd</sup>)
- Class II butterfat price = Class IV butterfat price + **\$0.70**
  - Butterfat price based on butter price
  - Announced on or before the 5<sup>th</sup> of the following month

# Class I prices

Prices announced by the 23<sup>rd</sup> of preceding month:

Class I = (Higher of Advanced Class III or IV price) + Class I differential

## Federal Milk Marketing Order Class I Price Structure

- Advanced Class III/IV prices announced before 23<sup>rd</sup> of preceding month
- California Class I differential range: \$1.60 - \$2.10
- Differential based on plant location



Effective May 1, 2008



## Announcement of Advanced Prices and Pricing Factors

United States Department of Agriculture

Agricultural Marketing Service

Dairy Programs

Market Information Branch

ADV-0217

January 19, 2017

### February 2017 Highlights

Base Class I Price was 16.73 per hundredweight for the month of February 2017. The price per hundredweight decreased \$0.72 from the previous month.

Base Skim Milk Price for Class I was 8.20 per hundredweight for the month of February 2017. The price per hundredweight decreased \$1.41 from the previous month.

### Announcement of Advanced Prices and Pricing Factors for February 2017

Base Class I Price:	16.73	(per hundredweight)
Base Skim Milk Price for Class I:	8.20	(per hundredweight)
Advanced Class III Skim Milk Pricing Factor:	8.20	(per hundredweight)
Advanced Class IV Skim Milk Pricing Factor:	7.59	(per hundredweight)
Advanced Butterfat Pricing Factor:	2.5192	(per pound)
Class II Skim Milk Price:	8.29	(per hundredweight)
Class II Nonfat Solids Price:	0.9211	(per pound)
Two-week Product Price Averages:		
Butter	2.2518	(per pound)
Nonfat Dry Milk	1.0198	(per pound)
Cheese	1.7027	(per pound)
Dry Whey	0.4322	(per pound)
Special information for Appalachian and Southeast:		
Diesel Fuel Price	2.472	(per gallon)
Mileage Rate Factor	0.00438	(per hundredweight per mile)



## Announcement of Class and Component Prices

United States Department of Agriculture

Agricultural Marketing Service      Dairy Programs      Market Information Branch  
CLS-0117      February 1, 2017

### January 2017 Highlights

**Class II Price** was \$16.36 per hundredweight for the month of January 2017. The price per hundredweight increased \$1.10 from the previous month.

**Class III Price** was \$16.77 per hundredweight for the month of January 2017. The price per hundredweight decreased \$0.63 from the previous month.

**Class IV Price** was \$16.19 per hundredweight for the month of January 2017. The price per hundredweight increased \$1.22 from the previous month.

### Announcement of Class and Component Prices for January 2017

Class II Price:	\$16.36 (per hundredweight)
Class II Butterfat Price:	\$2.5323 (per pound)
Class II Skim Milk Price <sup>1/</sup>	\$7.77 (per hundredweight)
Class III Price:	\$16.77 (per hundredweight)
Class III Skim Milk Price:	\$8.22 (per hundredweight)
Class IV Price:	\$16.19 (per hundredweight)
Class IV Skim Milk Price:	\$7.62 (per hundredweight)
Butterfat Price:	\$2.5253 (per pound)
Nonfat Solids Price:	\$0.8465 (per pound)
Protein Price:	\$2.1768 (per pound)
Other Solids Price:	\$0.2503 (per pound)
Somatic Cell Adjustment Rate:	0.00085 (per 1,000 somatic cell count)
Product Price Averages:	
Butter	\$2.2568 (per pound)
Nonfat Dry Milk	\$1.0229 (per pound)
Cheese	\$1.7011 (per pound)
Dry Whey	\$0.4421 (per pound)

<sup>1/</sup> December Advanced Price Announcement

# Fortification

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## Uniform FMMO application – 2 step process

- NFDM or condensed used to fortify Class I products
  - Classified as a Class IV product on a skim equivalent basis
- Volumetric increase due to fortification
  - Classified and prices as Class I

# Pricing—Producer's Value of Milk

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- Paid for pounds of butterfat, protein, and other solids in milk pooled – Class III value
- Paid a Producer Price Differential (PPD)
  - PPD represents the producers per cwt share of the Class I, II, and IV milk used in the market, relative to the Class III use.
- Authorized Quota deduction on producer milk check
  - This would be a line item on your milk check
  - Amount determined and announced by CDFA
- Milked priced at location of plant of first receipt

# Producer Price Differential

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Producer Price Differential:

= \$0.00/cwt, if value of pool is **equal** to Class III value

= Positive value, if value of pool is **greater** than Class III

= Negative value, if value of pool is **lower** than Class III

# Producer Price Differential

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Important to remember:

- Class I prices announced *before* the month
- Class III prices announced *after* the month
- Producers paid at Class III component values
- When component values increase in the market *during* the month:
  - Class III component values (which all producers are paid) could be higher than Class I prices that are paid into the pool
    - Can result in a negative PPD



# Pricing—Producer's Value of Milk

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- Order Blend price announced at principle pricing point
  - Los Angeles: \$2.10 zone
- Milked priced at location of plant of first receipt
- Blend priced received by producers will reflect location pricing
  - Producer delivery to a plant located in the \$1.60 zone
    - Producer Price = announced blend price - \$0.50 / cwt
  - Producer delivery to plant located in the \$1.80 zone
    - Producer Price = announced blend price - \$0.30 / cwt
- Authorized quota deduction: CA produced milk only

# Pooling Standards

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Standards are:

- Tailored to the local marketing area
- Contained in the Pool Plant, Producer, and Producer Milk definitions
- Performance-based
- Designed to encourage service to Class I market

Standards determine:

- ✓ **Plants** eligible to pool their milk supply
- ✓ **Producers** eligible to have their milk pooled
- ✓ **Producer Milk** eligible to be pooled

# Pooling Standards—Pool Plant

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Pool Plant Standards define what plants serve the fluid needs of the marketing area

- Two types of pool plants:
  - Pool Distributing Plants
  - Pool Supply Plants
- The “Pooling Handler” is responsible for:
  - Accounting to the marketwide pool at classified use values
  - Paying a minimum price obligation to producer for milk pooled

## Pool Distributing Plants (Fully Regulated)

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These plants process Class I (fluid) products

- Pooling of all milk at these plants is **REQUIRED**
- Plants must have:
  - Minimum of 25% of total milk receipts disposed of as route disposition
  - Minimum of 25% of total route disposition is within the marketing area (California)
- Plants processing ultra-pasteurized (UP) or aseptically processed fluid milk products (ESL Plants)
  - Plant located in the marketing area
  - Process at least 25% of total fluid milk products into UP or aseptic products
- Unit Pooling
  - 2 or more plants, located in marketing area, owned by same handler
    - 1 plant qualifies as a distributing plant
    - 1 plant(s) processes at least 50% of receipts into Class I or II products.
  - Can meet route disposition standards as one unit

# Partially Regulated Distributing Plants

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Plants that have some Class I sales in the marketing area

- Plant has some packaged milk sales (Class I) in marketing area
- Do not meet the 25/25 standard for full regulation
- These plants have reporting and payment obligations to the pool

# Partially Regulated Distributing Plants—Payments

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- Plants not subject to State order with classified pricing and marketwide pooling
  - .76(a) option on sales in marketing area
    - Difference between FMMO Class I price and blend price
  - .76(b) option on sales in marketing area (Wichita option)
    - Utilization value of plant – Payment to producers
- Plants subject to State order
  - Difference between applicable State price and FMMO Class I price
  - Only on sales in the marketing area

# Exempt Plants

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- Less than 150,000 pounds/month of Class I route disposition
- Plants operated by a government agency with no commercial disposition
- Plants operated by colleges/universities with no commercial disposition
- Plant where all route disposition is for charitable purposes

# Pool Supply Plants

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Plants process Class II, III or IV products

- Plants demonstrate service to fluid market by supplying Class I plants
- Pooling is **OPTIONAL**
- Plants that:
  - Deliver at least 10% of total milk receipts from producers to distributing plants (fully or partially regulated)

System Pooling

- 2 or more supply plants, located in marketing area, operated by 1 or more handlers
- Can meet the shipping requirements as a single entity



# Cooperative Handler - 9(c) Handler

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- Cooperatives can be the “Pooling Handler” for the milk they market (member or independent)
  - Pay minimum classified use value for raw milk
  - Pay minimum blend prices to nonmember producers
  - Can reblend for member producers
- Cooperative delivered milk to a pool plant
  - Either Cooperative or pool plant handler can be the “Pooling Handler”
  - Must notify Market Administrator
- Cooperative milk delivered to nonpool plant
  - The Cooperative can choose to pool that milk, would be considered the “Pooling Handler”
  - The nonpool plant has no minimum regulated price obligation

# Nonpool Plants

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- Nonpool plants are not the Pooling Handler
  - Not responsible to account for minimum classified prices
  - Not responsible to pay minimum producer blend prices
- Nonpool plants can receive pool milk
  - Cooperatives supplied: Cooperative can opt to be pooling handler
  - Diverted from pool plant: diverting handler is the pooling handler and has the option to pool

# Pooling Standards—Producer

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- Identifies farmers that supply fluid market
- Eligible producers share in marketwide pool revenue
- Standard
  - Produce Grade A milk:
    - Received at a pool plant
    - Diverted by pool plant to a nonpool plant
    - Received by a cooperative handler

## Pooling Standards—Producer Milk

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- Identifies milk of Producers that is eligible to be pooled
- Standard: milk received by a pool plant or cooperative handler
  - The pool plant or cooperative handler will be the pooling handler

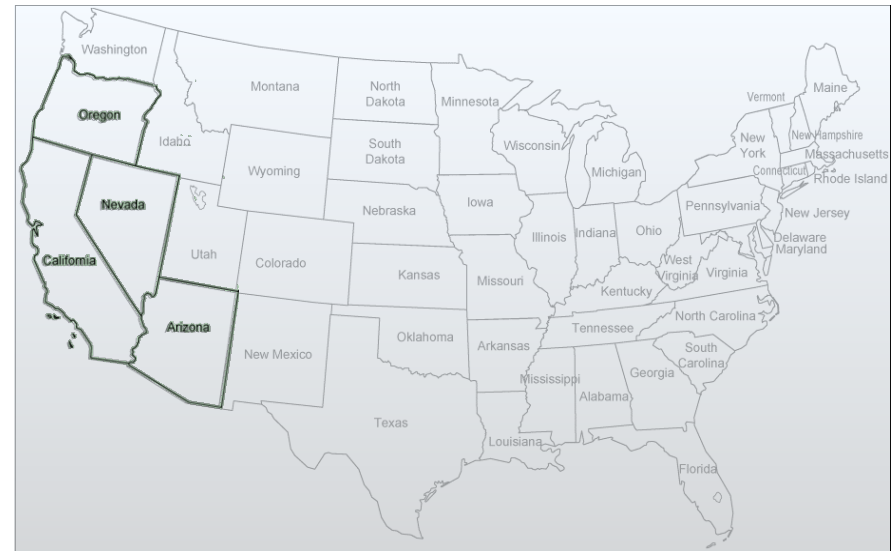
# Milk Diversion to Nonpool Plants

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- Diverted milk is eligible to be priced and pooled on the order even though it was not received at a pool plant
- For producer milk to be eligible for diversion:
  - Touch-base standard: 1-days milk production of the dairy farmer must be physically received at a pool plant during the first month

# Diversion Limits

- Diversion decisions are made by the pooling handler
- Handlers can divert to nonpool plants in California, Arizona, Nevada and Oregon



- Diversions limited to 90 percent of all milk receipts pooled by the handler
  - Handler MUST deliver 10 percent to a pool plant
  - Is then eligible to divert up to 90 percent to a nonpool plant
  - All milk would be priced and pooled by the order

# Repooling Limits

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- Pooling is a monthly decision by the pooling handler
- Pooling handlers are limited in the amount they can pool based off previous month's pooling decision
  - April through February: 125% of previous month's pooled volume
  - March: 135% of previous month's pooled volume
- Milk delivered to distributing plants in excess of standard is not subject to repooling limits

# Market Administrator Flexibility

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- Supply Plant Shipping requirements:
  - Proposed at 10%
- Diversion Limits:
  - Proposed at 90%
- Repooling limits can be waived for:
  - New handlers
  - Existing handlers with significant milk supply changes



# Order Assessments

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- Administrative Assessment: no more than \$0.08 /cwt
  - Paid by pooling handler
- Marketing Services Assessment: no more than \$0.07/cwt
  - Paid by those producers not serviced by a cooperative
  - Services include: weighing and testing of producer milk, market information, etc.

# Reporting and Payment Dates

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- Advanced Prices Announced: 23<sup>rd</sup> of previous month
- Final Prices Announced: 5<sup>th</sup> of following month
- Handler Reports
  - 9<sup>th</sup> Receipts and Utilization
  - 20<sup>th</sup> Producer Payroll
- Producer Prices Announced: on or before 14<sup>th</sup>
- Producer Settlement Fund (PSF)
  - 16<sup>th</sup> Payments into PSF
  - 18<sup>th</sup> Payments out of PSF
- Payments to Producers
  - First 15 days of production: Last day of the month
  - Final Payment: 19<sup>th</sup> of following month
- Payments to Cooperatives moved 1 day earlier

# January Reporting and Payment Example

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- December 23: FMMO announced Advanced Class Prices
- January 31: Partial Producer Payment for first 15 days
  - Not less than previous month's lowest class price
- February 5: FMMO announced Final Class Prices
- February 9: Handler reports Receipts and Utilization
  - *This is when handler makes their pooling decision*
- February 14: FMMO announces Producer Prices
- February 16: Handler payments into PSF
- February 18: FMMO payments out of PSF
- February 19: Final payment to producers
  - Payments to Cooperatives due 1 day earlier
- Dates fall on Saturday, Sunday, Holiday
  - Moved to next business day

# Submitting Public Comments

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- [www.regulations.gov](http://www.regulations.gov)
- Link from [www.ams.usda.gov/caorder](http://www.ams.usda.gov/caorder)
  
- ✓ Comments on proposed CA FMMO due May 15, 2017
  
- ✓ Comments on information collection due April 17, 2017

# Payment To Producers - Component Pricing

	<u>Pounds</u>	<u>Price</u>	<u>Value</u>
Producer Price Diff.	100,000	\$1.00/cwt	\$1000.00
Butterfat	3,600	\$2.1207/lb	\$7,634.52
True Protein	3,100	\$4.7089/lb	\$14,597.59
Other Solids	5,750	\$0.4926/lb	\$2,832.45
<hr/>			
TOTAL			\$26,064.56

## Examples of Authorized Deductions:

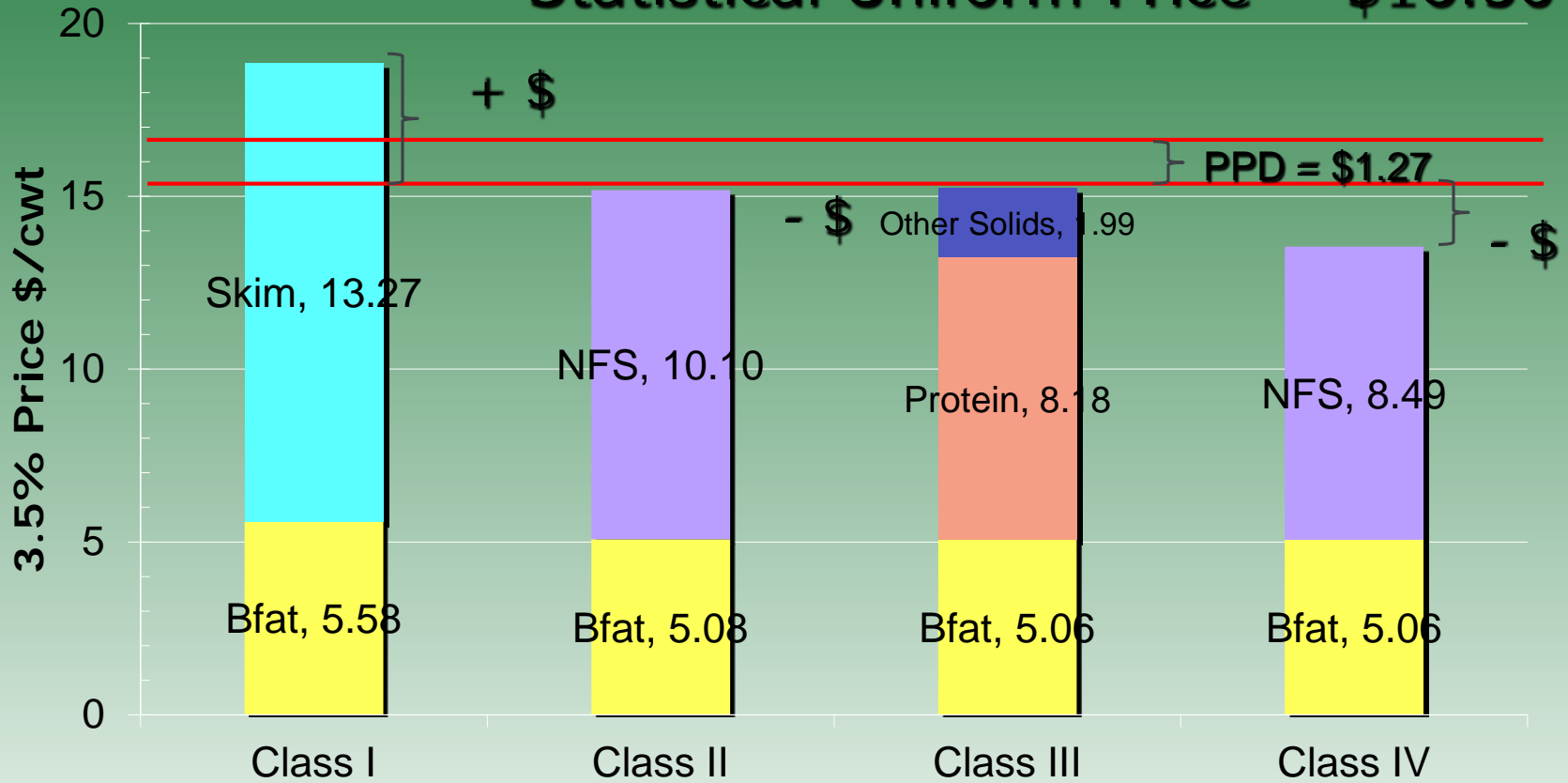
Hauling

Promotion Assessment

Quota Assessment

# Blend Price Illustration

Statistical Uniform Price = \$16.50



# Blend Price Illustration

Statistical Uniform Price = \$20.35

