

**Preliminary Economic Analysis - Exempt Plant Proposal submitted by  
Lamer's Dairy, Inc.**

**Purpose**

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- ▶ Determine if increasing the exempt plant limit to 3 million pounds per month would impact producer prices.

**Assumptions/method**

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- ▶ FMMO pools for December 2020 and May 2021 were analyzed. When conducting an analysis, the most recent December and May months are used to reflect the seasonality of milk production.
- ▶ Prices applicable in each month for skim milk and components were held constant. The amount of Producer Milk (milk pooled) was the only variable that changed. The expected change in pooled producer milk volume by class for the determined months were provided by the respective Federal milk marketing order offices. That amount of milk was calculated by determining which regulated plants would become exempt under the proposal, and their associated producer milk pounds were assumed to become milk not pooled.
- ▶ The estimated impact pool volumes were run through the same pool calculations as the baseline pools, for each order, to determine an estimated impact on price by order.
- ▶ FMMO pools were re-run for each individual order to determine an estimated impact on price. Results were then compiled on a weighted average basis, weighting by the total producer milk in each of the FMMO pools, to determine an overall price impact for all orders combined. This means the larger pools carry more weight in the aggregated average price than the smaller pools (for both baseline and impact price).

**Total volume of milk removed from pools (newly exempt milk)\***

<b>December 2020</b>	Class I	Class II	Class III	Class IV	Total
Million Pounds	39.818	11.973	0.763	3.917	56.472
Percentage by class**	71%	21%	1%	7%	100%

<b>May 2021</b>	Class I	Class II	Class III	Class IV	Total
Million Pounds	37.292	12.154	0.864	5.550	55.860
Share by class	67%	22%	2%	10%	100%

\* Breakdown of the volume of milk removed by the individual FMMOs is withheld due to confidentiality restrictions.

\*\* Share of the milk removed from the pool by class.

**Estimated impact on all orders of increasing the distributing plant exemption from 150,00 pounds of Class I milk per month to 3 million pounds per month.**

	Producer Milk <i>Million LBS</i>	Statistical Uniform Price <i>\$/cwt</i>	Uniform Price at test <i>\$/cwt</i>	Value of Pools <i>Million \$</i>
<b>December 2020</b>				
Total	-56.5			-11.4
<b>FMMO Weighted Average</b>	<b>-6.9</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-1.4</b>
Min	-17.3	-0.02	-0.02	-3.4
Max	0.0	0.04	0.00	0.0
Range	17.3	0.06	0.02	3.4
<b>May 2021</b>				
Total	-51.1			-9.7
<b>FMMO Weighted Average</b>	<b>-6.3</b>	<b>0.00</b>	<b>0.00</b>	<b>-1.3</b>
Min	-15.5	-0.03	-0.04	-3.5
Max	0.0	0.03	0.03	0.0
Range	15.5	0.06	0.07	3.5

**Summary**

- ▶ Increasing the exempt plant limit to 3 million pounds would impact milk prices, and the impact varies across milk marketing orders and months. The analysis shows all of the Federal order pools combined lost revenue, totaling -\$11.4 million in December 2020 and -\$9.7 million in May 2021.
- ▶ Nine of the 11 FMMOs showed an 1 cent per cwt or greater impact on their statistical uniform price or on their uniform price at test for the December 2020 and/or May 2021 pools with the increased limit for exempt plants.
- ▶ The estimated impact on the Uniform Price at test varied among the orders, ranging from -2 to 0 cents/cwt for December 2020, and from -4 to +3 cents/cwt for May 2021. The impact of increasing the exempt plant volume was positive in a few of the orders. In both December 2020 and May 2021, the Uniform Price at test was above the Base Class I price at test. Removing relatively more Class I milk and less, if any of the other classes, from the impact pool resulted in an increase in the uniform price in a few of the orders, depending on the class utilization rate in the order's pool and the volume and class of the exempt milk removed from the pool.

▶ COVID-19 and the Federal response caused observed market abnormalities. One of those was a significant and prolonged inversion of Federal order prices. As indicated above, these inversions occurred during the months selected for analysis. The purpose of this analysis was to determine if the proposal would impact price, which it has demonstrated. It should be noted, once prices return to historical alignment, Orders whose uniform price was forecasted to increase under this analysis would likely not see an increase as it would be the higher valued Class I milk removed from the pool.

▶ Raising the exempt plant limit could have additional consequences that this preliminary analysis did not consider, such as:

Raising the limit for exempt plants would allow Producer Handlers (PH) to qualify as exempt plants. As exempt plants, PH could purchase additional fluid milk products for route disposition from other sources, in addition to their own farm production. Currently PH are allowed up to 150,000 pounds of fluid milk products per month from other sources in 8 out of 11 orders, while the remaining 3 orders do not allow for the purchase of any fluid milk products not from own farm production.

If PHs move to exempt plant status, the amount of milk that could become unregulated would be more than what was assumed by this analysis.