

USDA's Recommended Decision on Milk Pricing

Wisconsin Cheese Makers Association

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Agenda

- Overview of Proposed Changes in the Recommended Decision
 - Focus on Make Allowances
- Implications of Make Allowance changes
- Next steps in the process, including the producer referendum

Why Federal Milk Marketing Order Hearings?

Make Allowances were a key issue

Symptoms of a problem:

De-pooling (/ess pooling)

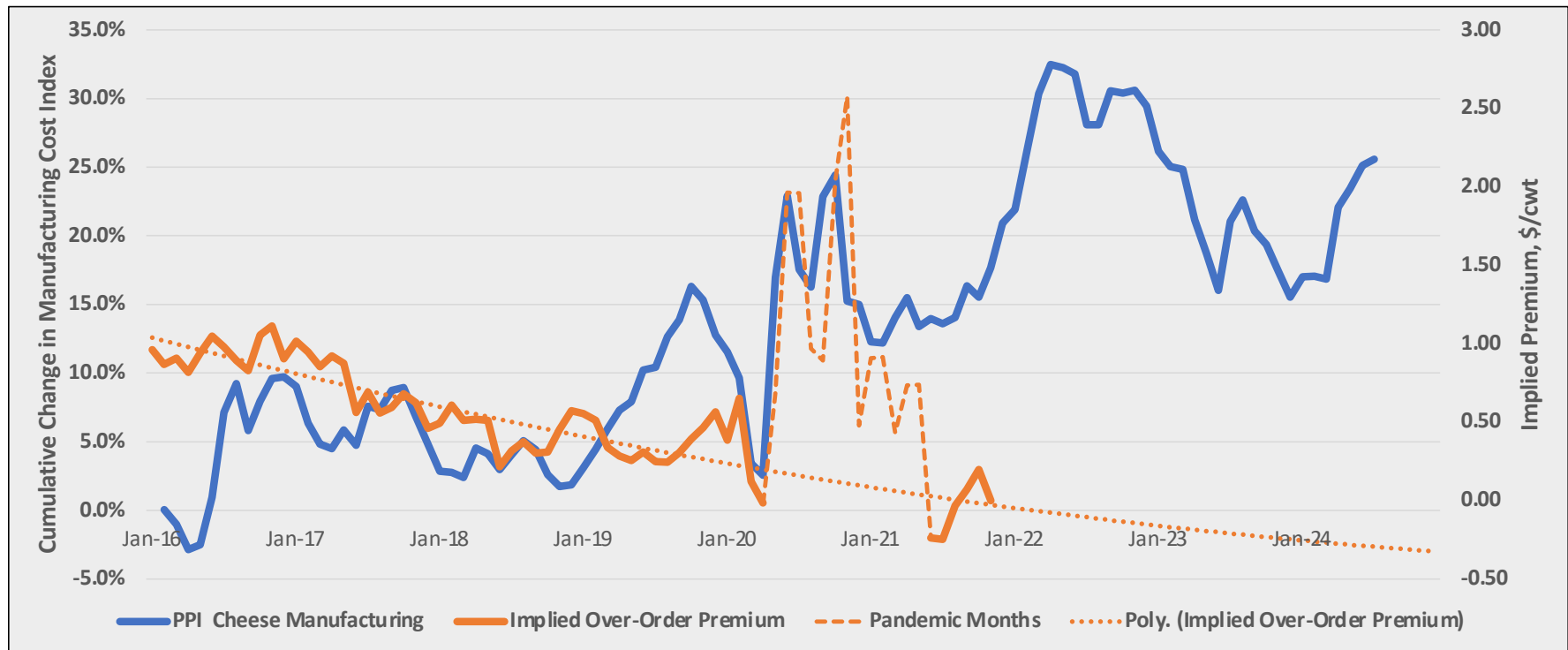
Declines in premiums

Cooperative 're-blending'

Negative Producer Price Differentials



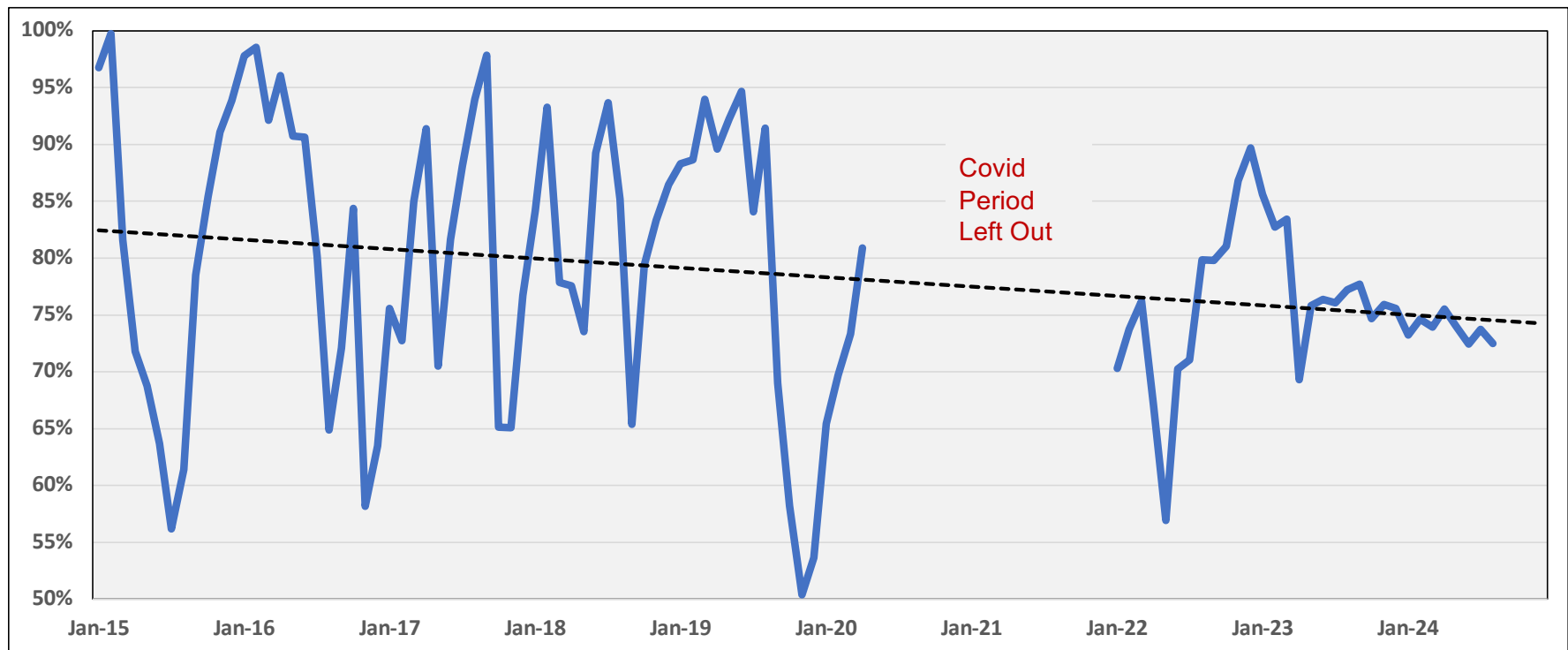
Changes in Cheese Manufacturing Input Cost Index and Implied Premiums, 2016-2024 New Data



PPI for Cheese Manufacturing from US Bureau of Labor Statistics (includes milk cost)
Implied premium is Order 30 Mailbox Milk Price less Blend Price at Test



Percentage of WI and MN Milk Pooled on Order 30, 2015-2024



Key Elements of USDA's Recommended Decision

Change standard milk composition

- Protein 3.3% (up from 3.1%)
- Other Solids 6.0% (up from 5.9%)
- Nonfat Solids 9.3% (up from 9.0%)

Remove Cheese Barrels from Class III Pricing

Increase Make Allowances for cheese, butter, NDM, dry whey

- Used in Class III and IV pricing
- \$0.05 to \$0.07 per lb increase
- Increase butterfat retention factor in cheese

Revert to “Higher of” Advanced Class III or Class IV Skim milk price for Class I Skim price

- Provisions to adjust the Class I price for ESL milk

Increase Class I differentials

- Increase in WI of about \$1.20/cwt
- Retain \$1.60/cwt minimum differential value



Changes to Class III Pricing Formulas

- Increase make allowances for products
 - Cheese: \$0.2504; Butter: \$0.2257; NFDM: \$0.2268; Dry Whey: \$0.2653
- Modify retention factor
 - Butterfat recovery moves from 90% to 91%
- Change which cheese prices are included in the product price
 - Remove barrel cheddar price from DPMRP and the Class III formula
- Change standard composition of milk
 - Protein from 3.1% to 3.3%; Other Solids from 5.9% to 6.0%



Class III Pricing Proposals Not Included in the Recommended Decision

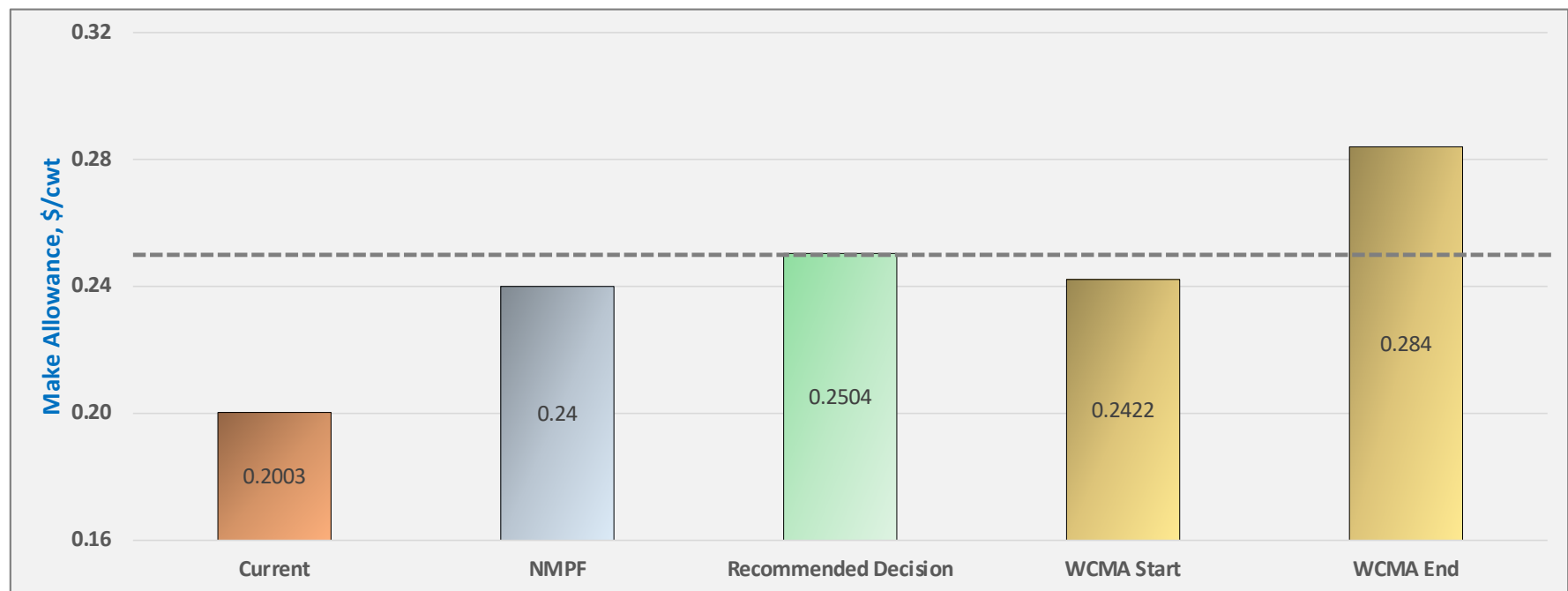
- Add Mozzarella to Surveyed Prices
- Add 640-lb Cheddar to Surveyed Prices
- Add Unsalted Butter to Surveyed Prices
- Increase Yield Factors



Ways to Estimate Make Allowances

- Survey plants to determine actual cost of processing
- Economic engineering and calculate a cost using input prices
- Econometric analyses and estimate a cost using input prices
- *USDA heard testimony from surveyed plants, individual firms, and econometric analyses of price indices to make their recommended decision*

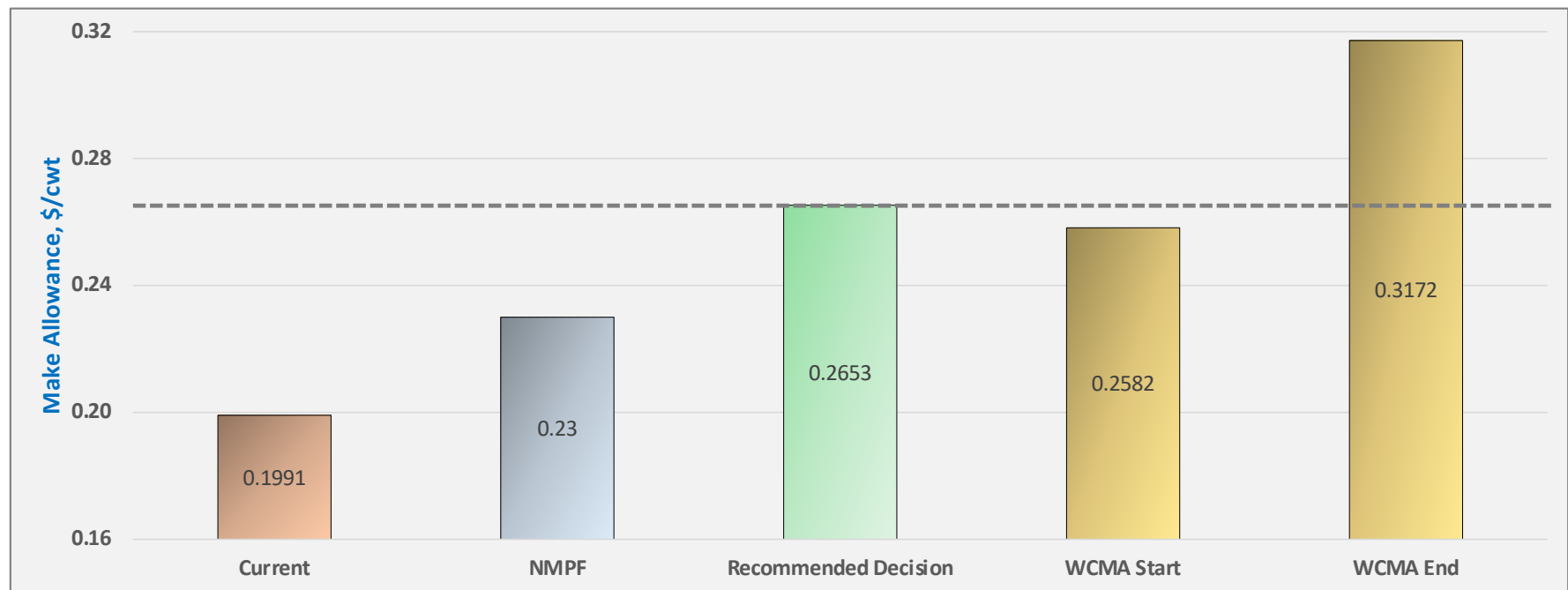
Cheese Make Allowance Proposals



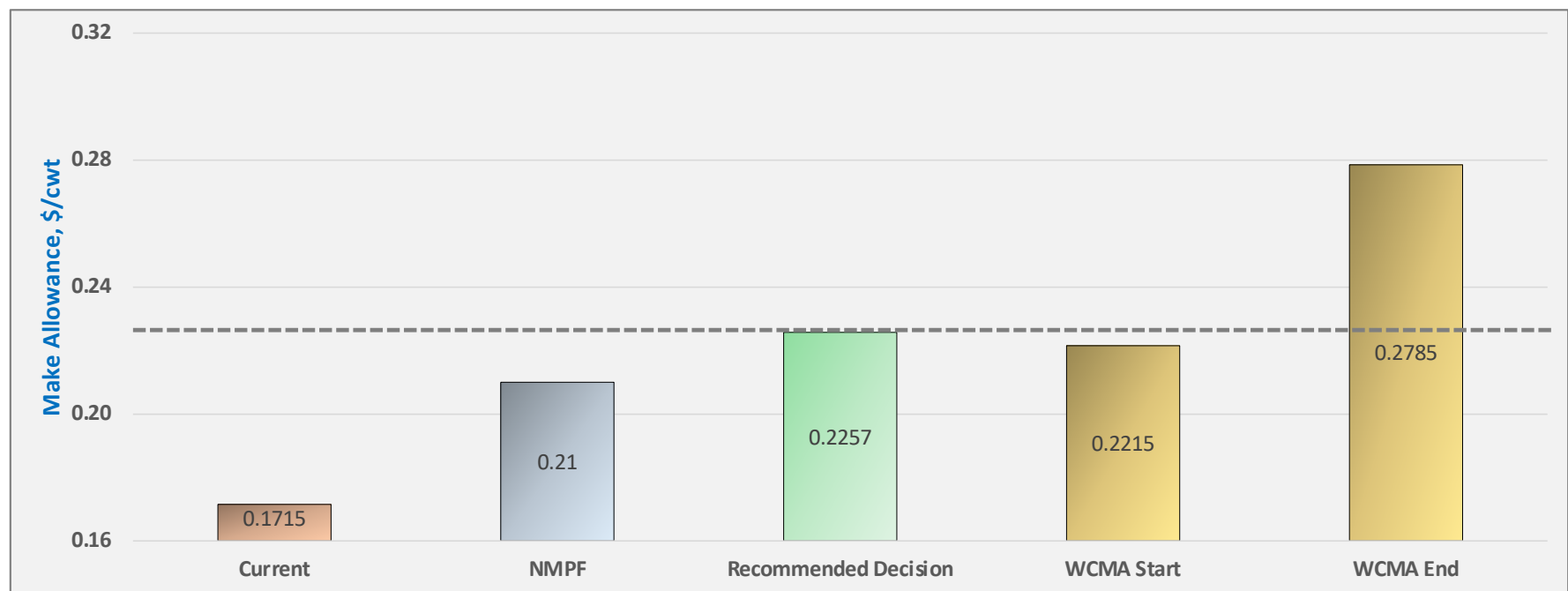
*The butterfat recovery factor in cheese is also increased from 90% to 91%



Dry Whey Make Allowance Proposals



Butter Make Allowance Proposals



Calculating the Class III Price: Example for September 2024

Other Solids Price =
[Dry Whey Price – 0.2653] x 1.03

Butterfat Price =
[Butter – 0.2257] x 1.221

Protein Value in Cheese =
[Cheese Price – 0.2504] x 1.383

Butterfat Value in Cheese =
[Cheese Price – 0.2504] x 1.589

Butterfat Value in Butter =
Butterfat Price x 0.9

Protein Price =
Protein Value in Cheese +
[Butterfat Value in Cheese
– Butterfat value in Butter] x 1.17

Class III Skim Milk Price =
Protein Price x 3.3 + Other Solids Price x 6.0

Class III Milk Price =
Class III Skim Milk Price x 0.965
Butterfat Price x 3.5



Component Values: Example for September 2024

Component Value	Product, Price	Make Allowance	Component Value	Change
Butterfat Current	Butter: \$3.1537/lb	\$0.1715/lb	\$3.6114/lb	
Butterfat Proposed	Butter: \$3.1537/lb	\$0.2257/lb	\$3.5458/lb	-\$0.0656/lb
Protein Current	Cheese: \$2.2882/lb	\$0.2003/lb	\$2.9249/lb	
Protein Proposed	Cheese: \$2.2882/lb	\$0.2504/lb	\$2.8316/lb	-\$0.0933/lb
Other Solids Current	Dry Whey: \$0.5321/lb	\$0.1991/lb	\$0.3430/lb	
Other Solids Proposed	Dry Whey: \$0.5321/lb	\$0.2653/lb	\$0.2748/lb	-\$0.0682/lb

Impacts of the Changes on Class III Prices: Example for September 2024

Class III Skim Milk Price =

Current: Protein Price x 3.1 + Other Solids Price x 5.9 = $2.9249 \times 3.1 + 0.3430 \times 5.9 = \$11.09/\text{cwt}$

Proposed: Protein Price x 3.3 + Other Solids Price x 6.0 = $2.8316 \times 3.3 + 0.2748 \times 6.0 = \$10.99/\text{cwt}$

Difference: $-\$0.10/\text{cwt}$

Class III Price =

Current: Class III Skim Milk Price x 0.965 + Butterfat Price x 3.5 = $11.09 \times 0.965 + 3.6114 \times 3.5 = \$23.34/\text{cwt}$

Proposed: Class III Skim Milk Price x 0.965 + Butterfat Price x 3.5 = $10.99 \times 0.965 + 3.5458 \times 3.5 = \$23.02/\text{cwt}$

Difference: $-\$0.32/\text{cwt}$

Value of Class III Components at Test (August 2024 Producer Milk in Order 30)

Protein Price x lbs Protein/cwt + Other Solids Price x lbs OS/cwt + Butterfat Price x lbs butterfat/cwt

Current: $2.9249 \times 3.18 + 0.3430 \times 5.79 + 3.6114 \times 4.16 = \$26.31/\text{cwt}$

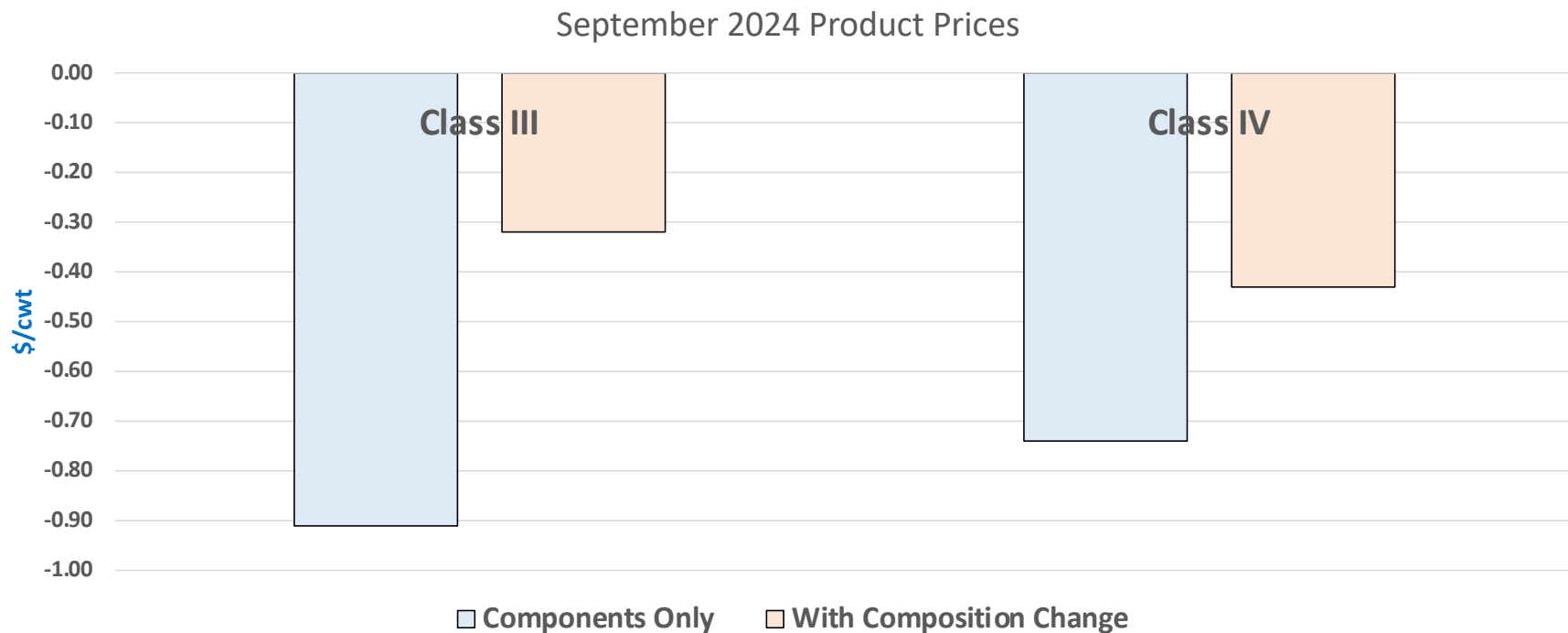
Proposed: $2.8316 \times 3.18 + 0.2748 \times 5.79 + 3.5458 \times 4.16 = \$25.36/\text{cwt}$

Difference: $-\$0.92/\text{cwt}$

Note: This is for milk that is currently pooled.
If milk is not currently pooled or is re-blended, the impacts will be smaller and could be positive.



Impacts of Make Allowance Changes on Prices



Note: This is for milk that is currently pooled.
If milk is not currently pooled or is re-blended, the impacts will be smaller and could be positive.



A Caution About Assessing Impacts

Looking back at previous months doesn't account for changes that would have occurred in milk supply and demand if these price changes had taken place.

Likely Impacts of the Proposed Changes

In Multiple-Component Pricing Orders:

- Component values in producer paychecks will be lower
- PPDs should be higher

Proposed Changes to Class I Differentials

(With Make Allowance Changes, Class I Price impact is about half of this value)

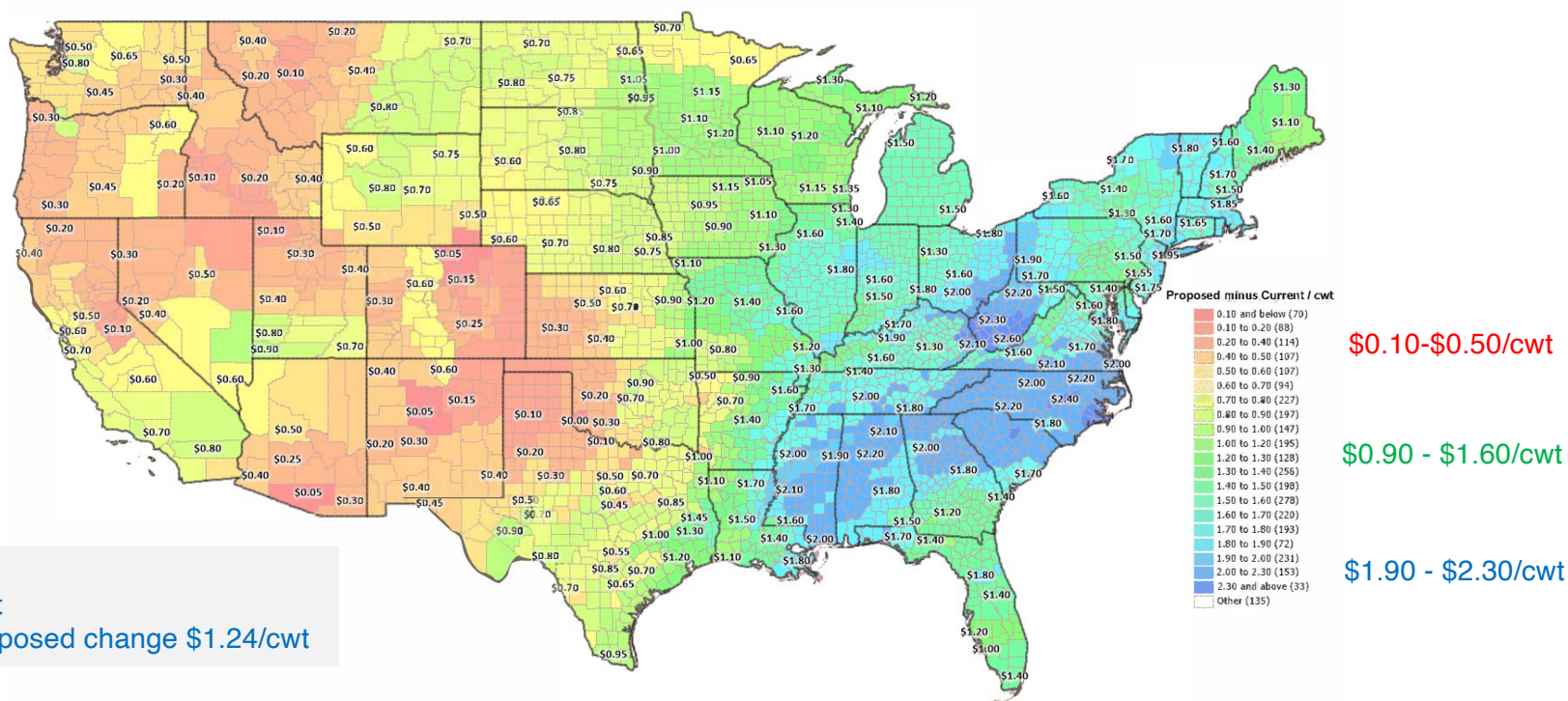


Figure 3. FMMO Pricing Hearing Recommended Decision Issued July 1, 2024 Proposed Change in Class I Differentials

Source: <https://www.ams.usda.gov/sites/default/files/media/ProposedClassIDifferentialChangeMap.pdf>

Examples: Order 30 and Order 1

Order 30:

- ~\$1 million/month added to pool by Class I in 2024*
- \$0.03-\$0.05/cwt over total pool
- 10% higher than average PPD in recent years

Order 1:

- ~\$2 million/month added to pool by Class I in 2024*
- \$0.19-\$0.21/cwt over total pool
- 7% higher than average PPD in 2024

* Uses estimated impact on Class I price including make allowance changes derived from dynamic modeling analyses



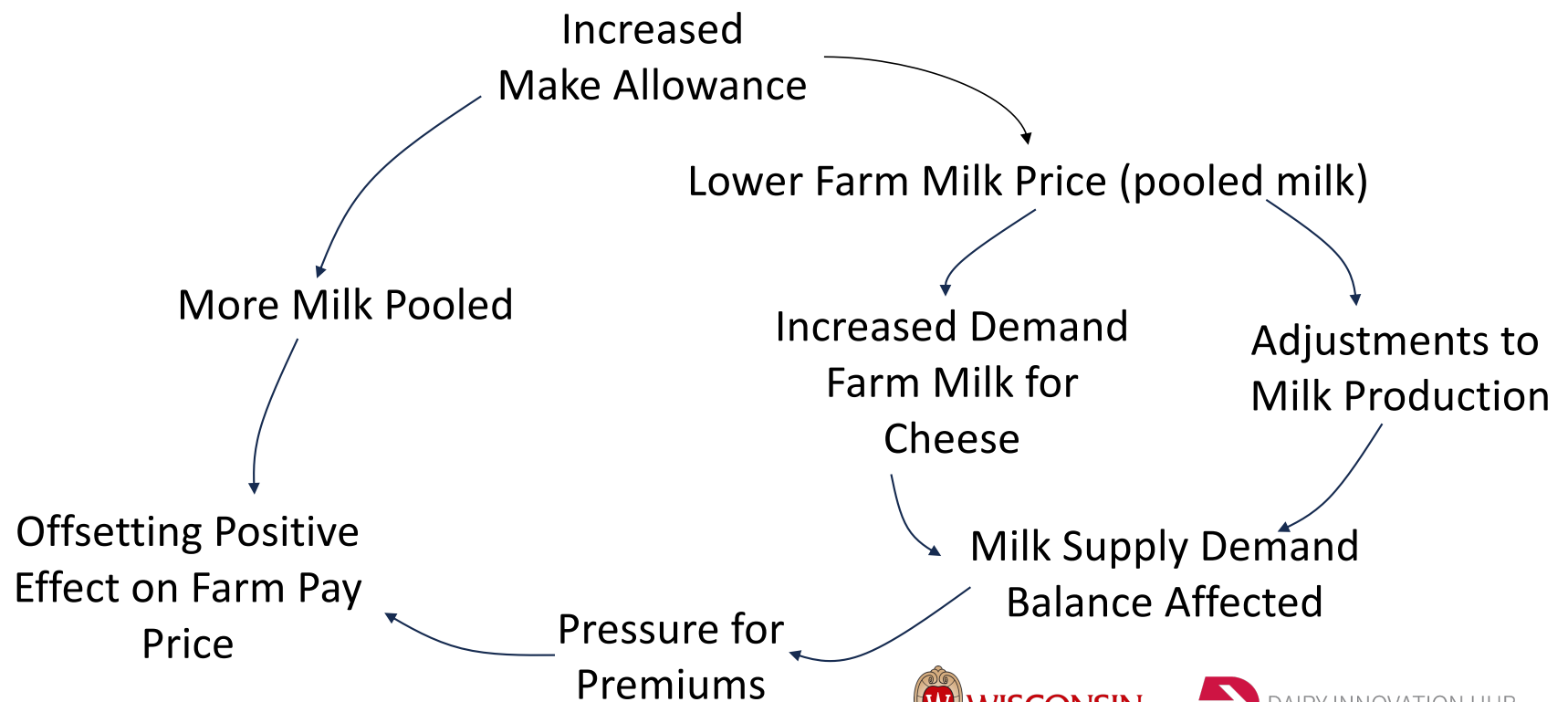
Likely Impacts of the Proposed Changes

In Multiple-Component Pricing Orders:

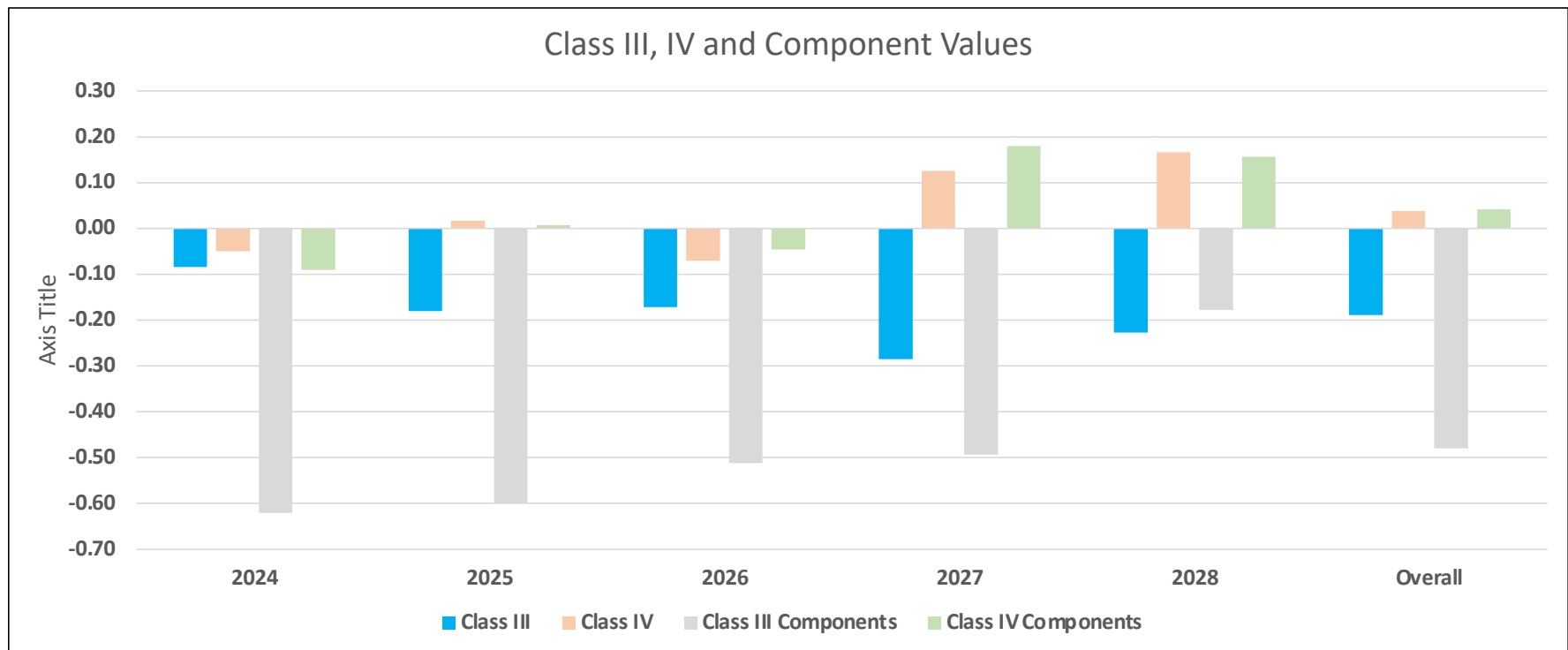
- Component values in producer paychecks will be lower
- PPDs should be higher
- More milk will likely be pooled
- Improved margins for cheesemakers
- Return of some premiums?



What Happens Over Time?



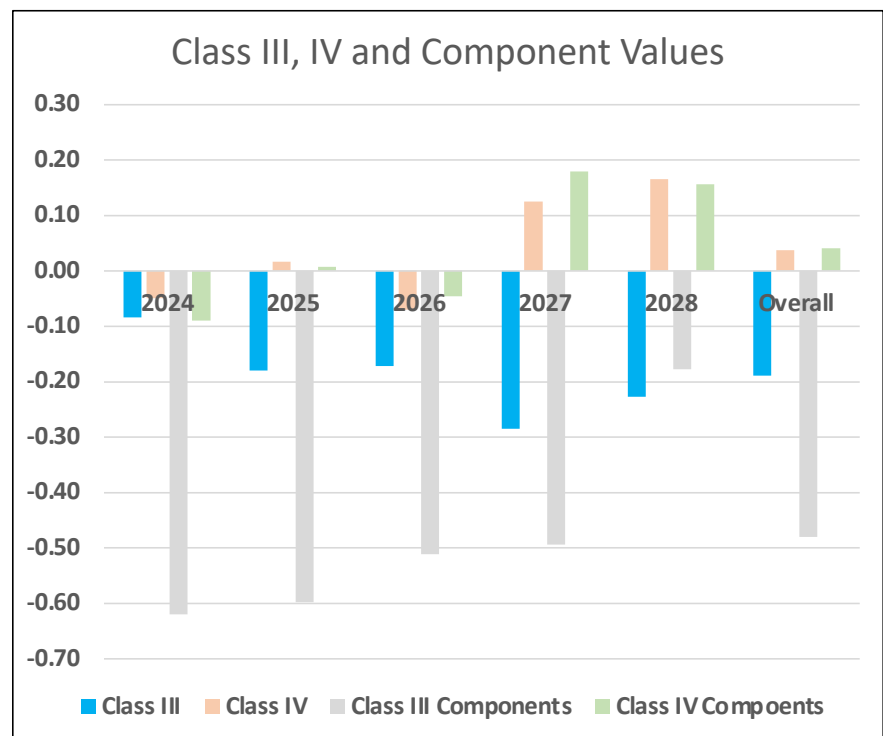
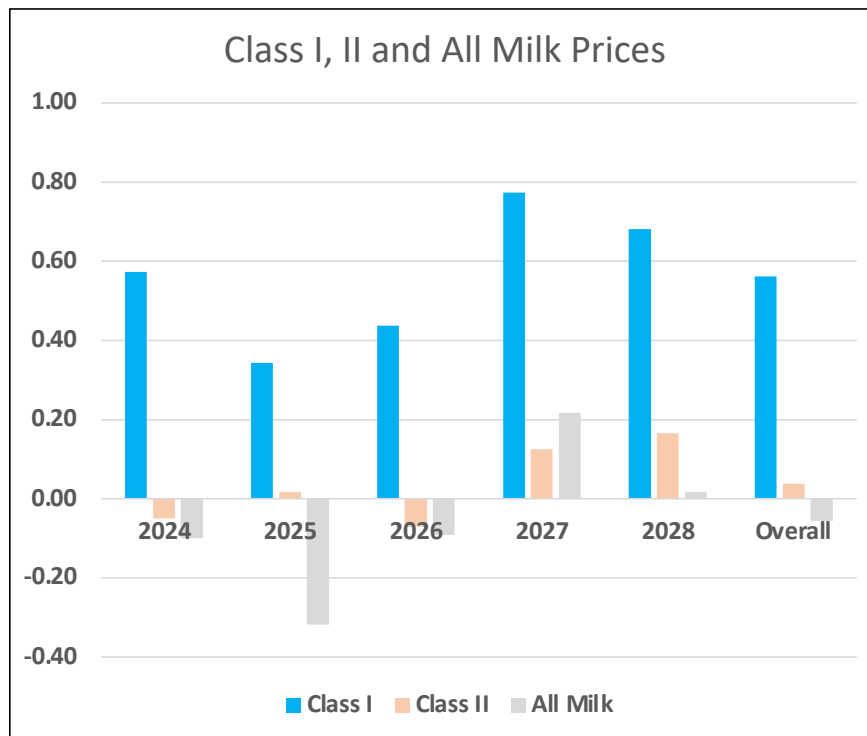
Impacts on Prices Over Time



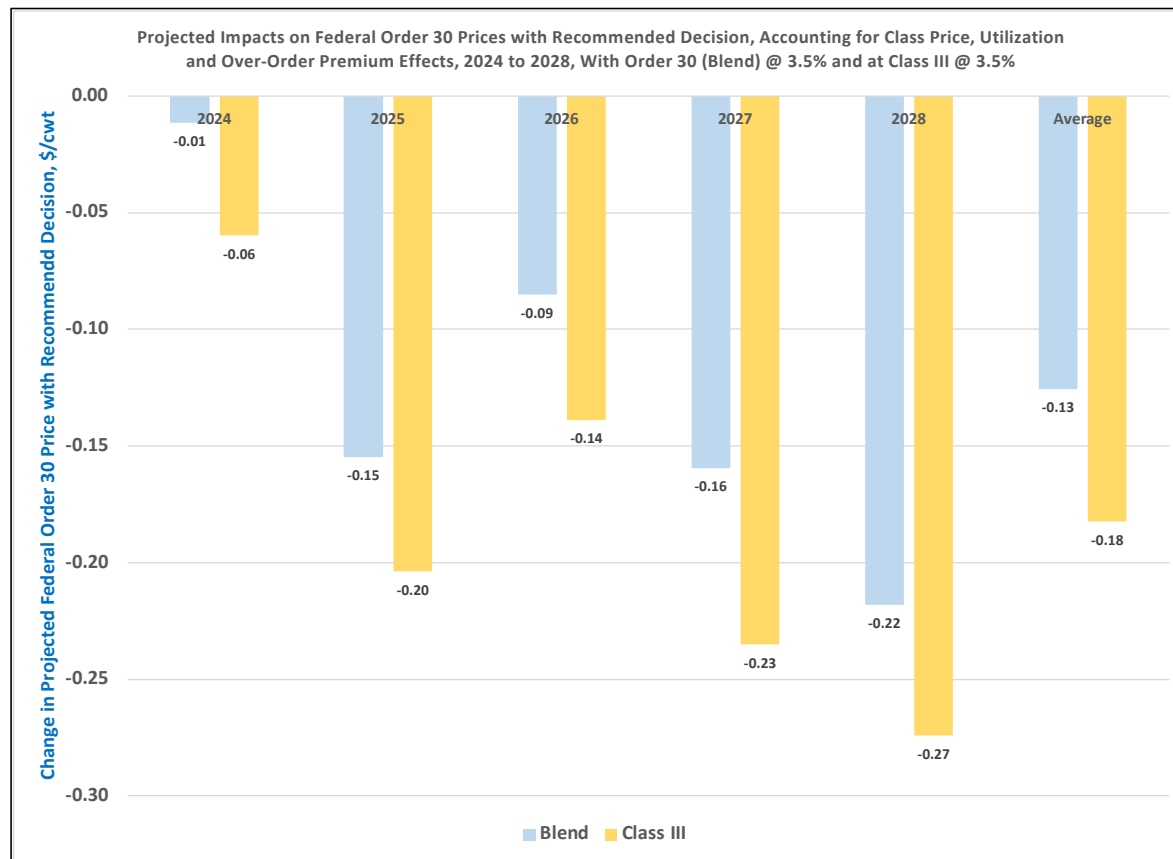
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Impacts of Recommended Decision on Farm Milk Prices from Dynamic Modeling, 2024 to 2028



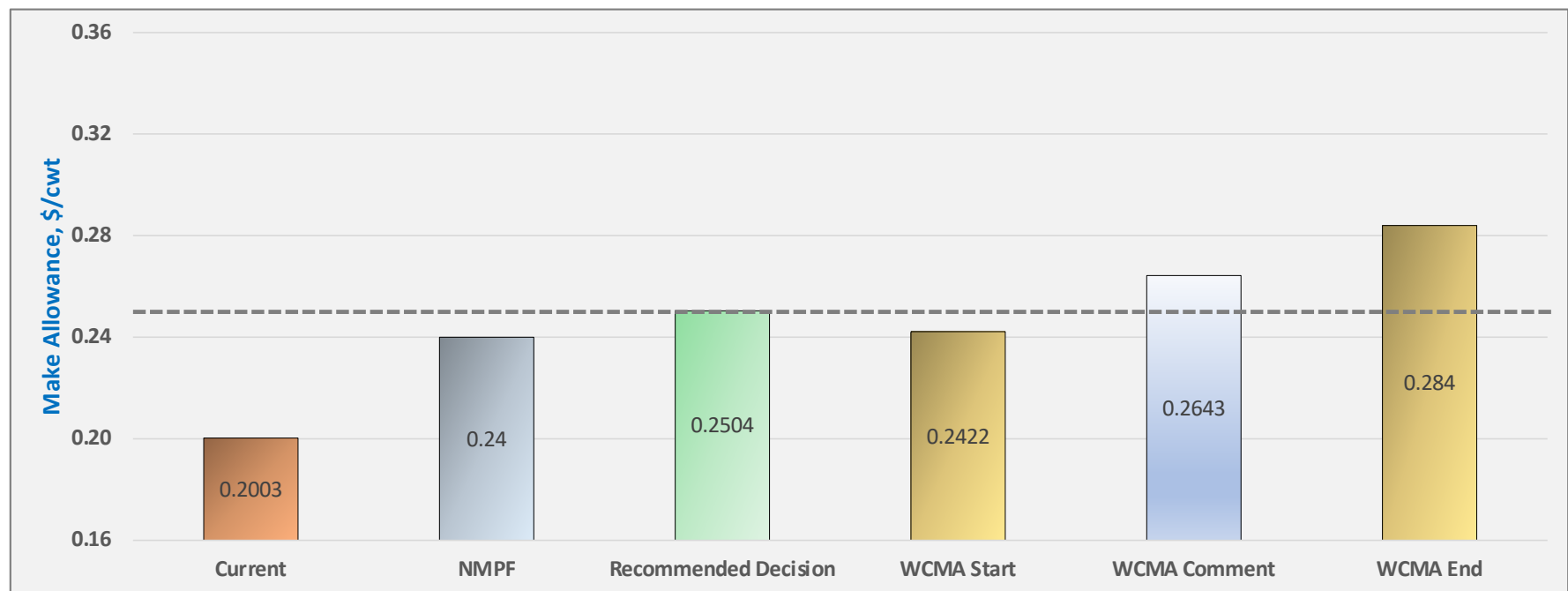
Impacts on Blend Price at 3.5% (With Order 30) and Class III at 3.5% (Without Order 30)



Perspective on Make Allowances

- Consensus: Make allowance adjustments were needed
 - Discussion is about how much adjustment was needed
- Impacts will play out over time—can't just look at one year
- Look backward with caution
 - Changes in formulas will affect milk supply and demand
- Will over-order premiums return?
- Milk supplies will adjust to price reductions

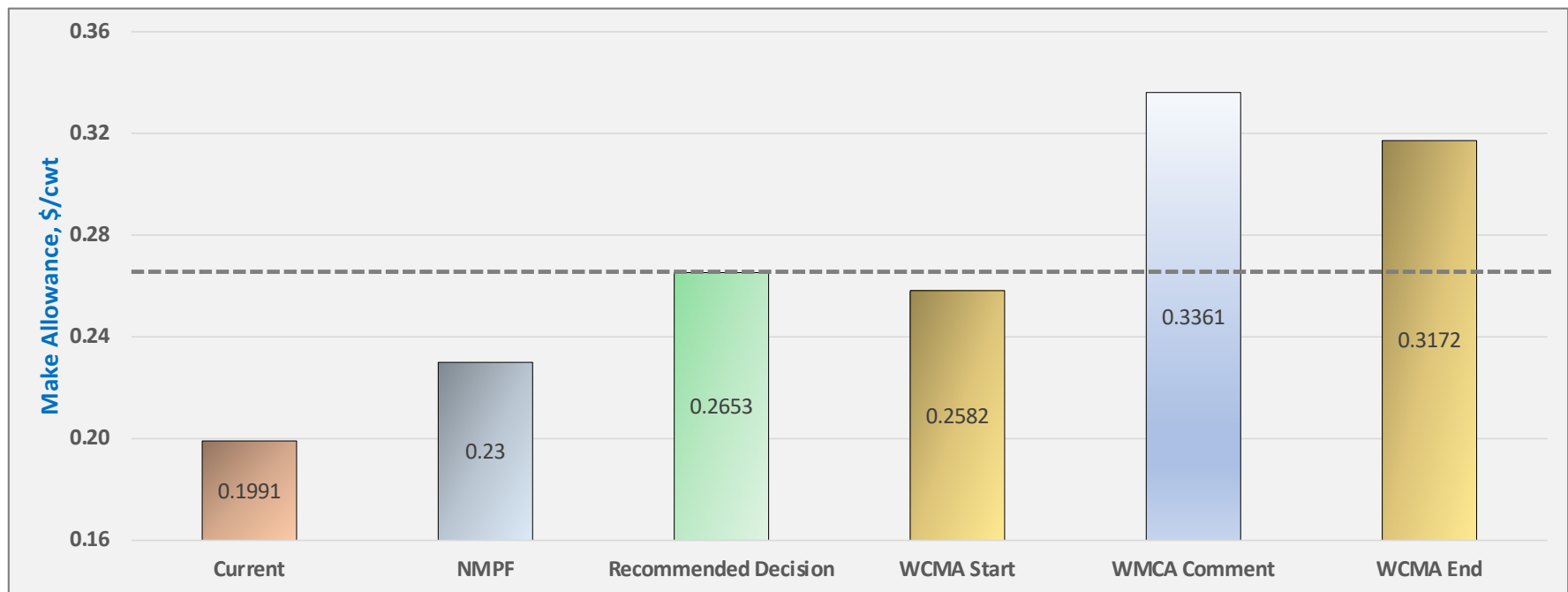
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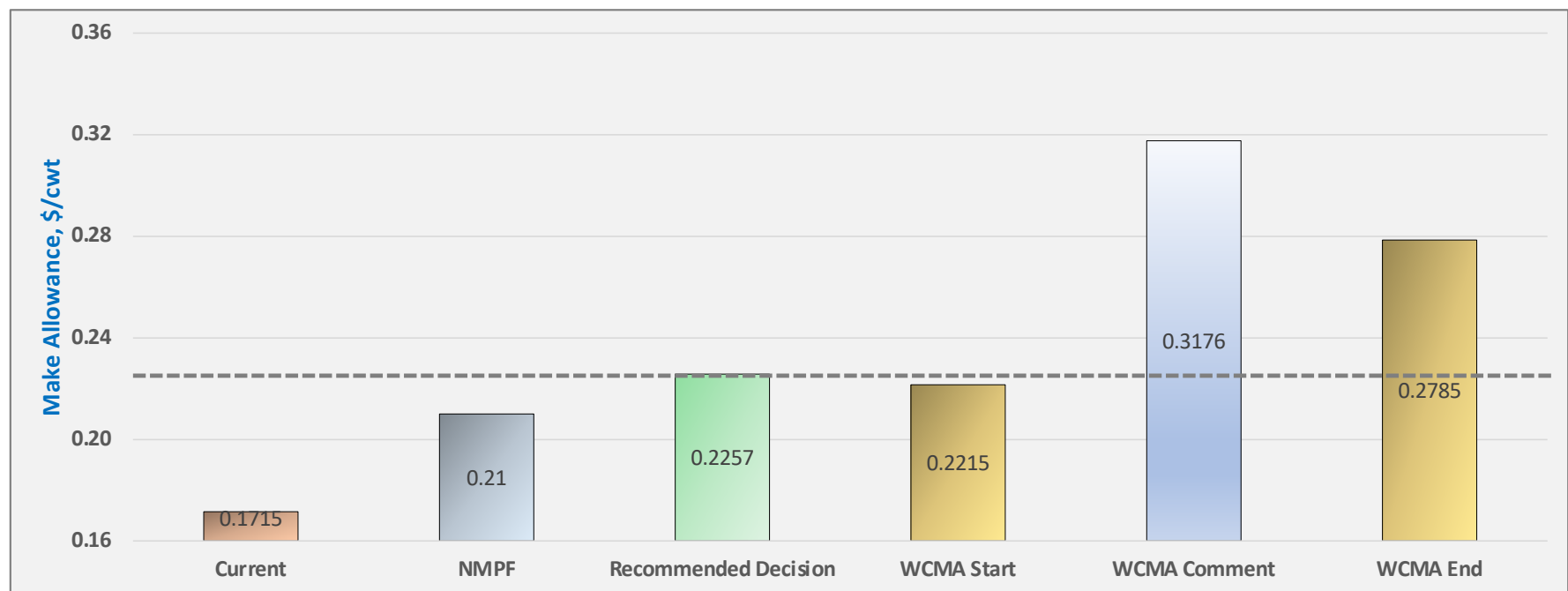
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Next Steps in USDA's Rulemaking for FMMOs

USDA receives proposal
USDA issues hearing notice
Proponents request USDA data
Witnesses submit testimony
USDA holds public hearing
USDA makes hearing request available
Parties file corrections
Post-hearing briefs filed

USDA issues recommended decision
(July 1)
Parties file comments and exceptions
(September 13)
USDA issues Final Decision
(**mid-November**)*
USDA holds **producer referendum** in
each Order (**early 2025**)
USDA implements amendments
(**early 2025**)

* At the discretion of Secretary Vilsack



Producer Referendum

- Dairy farmers will have the opportunity to vote on whether to:
Adopt the order with the changes in the Final Decision
OR
Terminate the order (no FMMO pricing)
- Maintaining the current provisions of the order is **NOT** an option
- Voting is by Order, not for the whole system

Referendum Process

When USDA announces the Final Decision, it will specify details of the voting process, including:

- The representative month that counts for Producer eligibility, and,
- the timing of the vote
 - Date requirements for ballots to be postmarked and received by USDA
 - Typical time frame is 30-45 days



Referendum Process: Eligibility

Producers:

- Deliver milk to a handler that is regulated by the FMMO's geographic area in the representative month
- Actively engaged in producing Grade A milk at the time of the referendum

Cooperatives:

- Represent producers who are actively producing and marketing Grade A milk within the Order in the stated month
- Actively marketing milk (processing or selling) in the Order
- Recognized by USDA



Referendum Process: Bloc Voting by Cooperatives

Because Cooperatives are considered producers under FMMOs, **they are allowed to bloc vote** on behalf of all their members

- The co-op must provide USDA with certification of the resolution authorizing the vote at the time ballots are submitted
- If the cooperative does not bloc vote, its members may cast individual ballots



Referendum Process: Voting Threshold

To amend the Order (with the provisions of the Final Decision)

- 2/3 of the voting producers must approve
- or,
- 2/3 of the milk volume represented by voting producers must approve
 - Under bloc voting, cooperatives may cast a unanimous ballot for all their membership who are eligible, which contributes towards the 2/3 of voting producers or milk volume
 - USDA will first count producers, then milk volume if needed

Info video at: https://www.youtube.com/watch?v=PFuEBmy6_uM



Impacts of Recommended Decision on Farm Milk Prices

- Depend on all of the changes in the Recommended Decision
 - Focus on make allowances here
- Will vary by Order
 - Utilization of milk
 - Multiple Component Pricing versus Skim-Butterfat Orders
- Will vary over time
 - Supply, demand and prices will evolve in response to the changes



Additional Online Resources

Dairy Markets and Policy Program
Website:

<https://dairymarkets.org>

“Information Letters” on:

Overview of Changes Proposed in
USDA Federal Milk Marketing Order
Recommended Decision

Proposed Changes to Product Make
Allowances in the Recommended
Decision and Potential Farm Milk Price
Impacts



Proposed Changes to Class I
Differentials in the Recommended
Decision and Potential Farm Milk Price
Impacts

Federal Milk Marketing Order Functions

Proposed Changes in Milk Composition,
Surveyed Commodity Products, and
Base Class I Skim Milk Price in the
Recommended Decision and Potential
Farm Milk Price Impacts

Potential Implications of the Termination
of Order 30 for Farm Milk Prices



Thank you for your attention!

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