



A Perspective on Federal Milk Marketing Orders

Calvin Covington
Southern Dairy Conference
January 28, 2009



Federal Order Benefits

- An adequate supply of milk to consumers
- Minimum prices
- Payment provisions
- Orderly marketing
- Accounting
- Information
- Procedure to change
- Been around since February 1, 1936



Federal Order Misconceptions

- Federal Orders are not the cause of all of the dairy industry's challenges – low milk prices.
- Federal Orders cannot fix all of the dairy industry's challenges – low milk prices.
- No where in Federal Order language does it guarantee a dairy producer or processor a profit.
- Federal Order's can help (milk prices) – but just one tool.



Areas for Potential Changes

- Price discovery – starting price
- Class I price
- Delivery differential
- Market signals
- Let the administrative process work

Disclaimer:

- No new ideals
- Not have the details
- Create more questions than answers
- Get people thinking
- Work within the current system - realistic



Price Discovery

- Finding a starting price always a challenge
 - Midwest Condensary
 - Minnesota-Wisconsin Price series
 - Basic Formula Price
 - Product Formula Price
- Consider going back to a Competitive Price



Class I Price

- Reduce high highs and low lows – hurt dairy farmers, dairy processors, dairy sales
- Potential solutions:
 - establish price once a quarter
 - use more than a two week average
 - cap on the movement
 - different method for Class I price discovery



Delivery Differential

Issues

- Cost to serve the Class I market
- More of Class I dollars back to producers serving the Class I market
- Milk serving the Class I market coming from a greater distance
- Need to encourage local milk production



Delivery Differential

Potential solution

- Take a portion of the Class I differential and pay to milk that is actually delivered to the fluid processor
- Not change cost to the processor, but return more dollars to milk that is performing

Market Signals

Issues

- Size of Class I market not changing:
 - 1990: 54.8 billion lbs.
 - 2007: 54.6 billion lbs.
- More milk attempting to get a slice of the same size pie – slices get smaller
- Provide incentive to producers who produce milk when the market needs it
- Provide some market stability to producers



Market Signals

Potential solution

- Base-excess plan
- Louisville plan
- Class I base plan



Administrative Process

- Let it work
- Limit the involvement of Congress and the court system



Summary

- Federal Orders have and continue to provide benefits
- Federal Orders are just one tool – not responsible for low milk prices or can insure milk prices at profitable levels
- Areas that Federal Orders can be improved: price discovery, more stable price, delivery differential, market signals, keep it out of Congress and the courts.