

# Dairy Industry's publication explains milk orders

ROSEMONT, Ill. — Because of milk's nutritional importance to American citizens and its perishability and fluctuations in supply and demand, it has become the most regulated of farm commodities. To ensure an adequate supply of fresh milk, the government has three dairy programs: federal milk marketing orders, the minimum price support program, and import restrictions.

Despite depressions, wars, changing administrations and constant court challenges, the milk marketing orders have operated successfully for more than 40 years, reports the United Dairy Industry Assn.'s house publication. From this Corner.

Milk marketing agreements under the Agricultural Adjustment Act of 1933 evolved into the first marketing order in 1936 in the St. Louis market. A milk marketing order establishes minimum prices milk buyers must pay for milk purchased from dairy farmers. These prices have to be high enough that dairy farmers can afford to produce sufficient milk for the public. And an order also spells out terms and conditions for transactions so they're known in advance by both seller and buyer.

By 1962, the number of federal milk orders has risen to 83.

Today, because of consolidations, that number has declined to 47. During 1980, more than 117,500 dairy farmers delivered milk to handlers regulated under federal milk orders. These producers accounted

for two-thirds of all the milk marketed in the United States. Currently, 83 percent of the nation's milk supply is fluid grade and about 44 percent of all milk sold is used in fluid products.

From This Corner notes that farmers produce more fluid grade milk than is consumed in fluid form because of fluctuations in supply and demand. The Grade A fluid milk in excess of what is needed for drinking and for "soft" products is channeled into production of butter and cheese that can be stored.

The publication also points out that all federal orders classify milk on the basis of its use. One classification includes milk used for fluid products; the other includes milk used for manufactured products. In all federal orders, milk used as fluid milk is Class I.

Many orders define milk used for perishable (soft) products such as cottage cheese, yogurt and sour cream as Class II. Cheese, butter and dry milk products go into Class III.

Federal orders also provide for pooling and payment of a uniform or blend price to dairy farmers. This blend price is determined by classifying all milk according to its use. Then the Class I, II or III prices are applied to the volume of milk in each class. The proceeds from all this milk are totaled and this money is the pool to be divided.

Each producer in that market area is paid a share of that pool. This share represents a weighted

average of the class prices applied to the amount of milk each producer has contributed. This blend price is sometimes referred to as the farm price.

What about the handlers or milk buyers? Handlers have to pay more for milk used in Class I than for milk used in Class II or III. And the average price they pay also depends on how they use the milk. So handlers pay more than others, yet all handlers must pay the farmer the same amount. This variance is corrected by an equalization fund that redistributes money to handlers who owe less than they paid for milk.

How are milk prices paid to dairy farmers determined? Prices paid by milk companies to dairy farmers for milk to be bottled (Class I) increase as the distance increases from Minnesota and Wisconsin. These states are the nation's center of milk surplus relative to local demand. Milk can be shipped anywhere from Minnesota or Wisconsin by paying transportation costs. Therefore, Class I prices throughout most of the country tend to approximate Minnesota and Wisconsin Class I prices, plus transportation costs. There is no federal order in California where milk supplies are adequate for local bottling needs.

Under the federal milk order program, prices are established in the various markets by formula pricing, the basic formula price for a given month is the Minnesota-Wisconsin manufacturing milk

price that reflects supply and demand conditions in the entire dairy industry. This price is for Grade B milk that hasn't been quality inspected for use in the bottle. Farmers are paid a higher price to produce Grade A milk (quality-inspected for use in the bottle) because of additional costs in producing it. The pricing formula provides for a two-month lag. So by watching the minimum Class I price and the Minnesota-Wisconsin price, the minimum Class I price in that specific order can be determined 60 days in advance.

Do milk marketing orders stabilize the milk market? From This Corner states "yes" emphatically.

Prices established under federal orders are stable. They reflect supply-demand situations and changes in one order's prices would be made in the context of a system of prices of all 47 markets.

But federal orders do not control

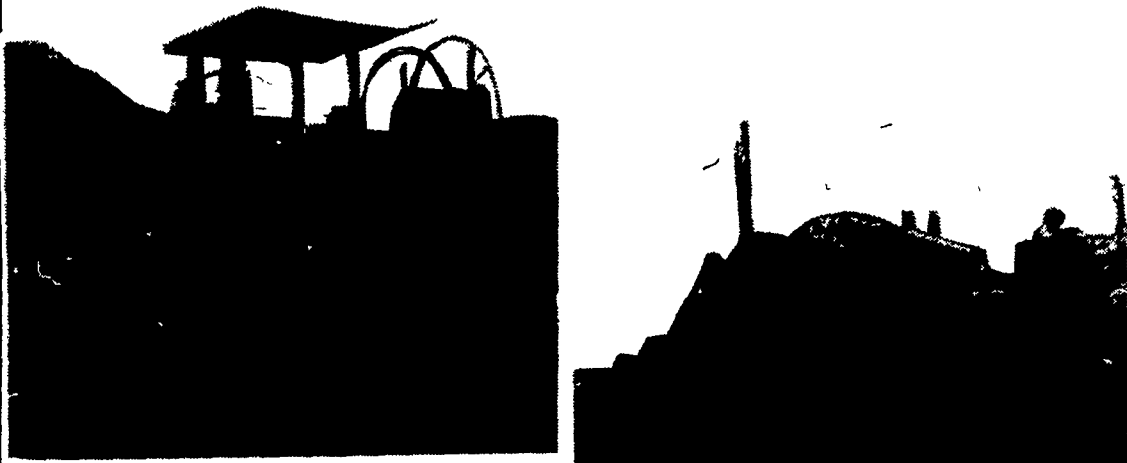
or determine the use of milk. Processors do that based on anticipated orders from their customers. And these orders do not set the prices consumers pay for milk and dairy products at retail outlets. Retail prices for dairy foods are subject to transportation and distribution costs plus the competitive situation in each market.

From This Corner emphasizes that marketing orders do not regulate producers. They came into being only with the support of producers and can be amended or changed only if the amended order is approved by producers. Additionally, the law requires the Secretary of Agriculture to terminate an order if more than one-half the producers involved request it.

Today and tomorrow the federal order program must continue to be flexible so that changes can easily be made to meet changing conditions in the marketplace.



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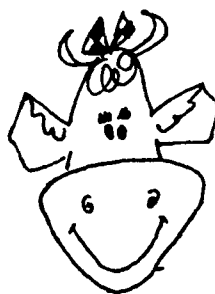


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