Multiple Component Price Receive Boost

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WASHINGTON, DC — Multiple component pricing advocates nationwide could receive a major boost if U.S. Department of Agriculture officials okay a joint butterfat and protein-based pricing scheme in a Western federal milk order.

Officials of the department's Agricultural Marketing Service, which oversees the nationwide federal order system, are preparing a final decision on the plan, according to Will Blanchard, deputy administrator of the Dairy Division of AMS.

In July, USDA issued a "recommended decision" to incorporate the pricing provisions in a new order that would result from the merger of the current Great Basin and Lake Mead federal orders that regulate milk marketing in Utah and neighboring states. The department is weighing additional comments before making a final decision, which observers expect to see before the end of the year.

Should the plan gain final approval — it also must be ratified by affected producers voting in a referendum — it would mark the first instance in which a component other than butterfat is used to price milk in a federal order. That's a long sought goal among advocates of multiple component pricing.

Erick Metzger, executive leader of the American Guernsey Association, said the implementation of component pricing in one federal order would provide a precedent for establishing similar plans in other orders. Calvin Covington, assistant secretary of National All-Jersey Inc., agreed, although he noted the recommended decision states its pricing plan is not a model for other federal orders.

Nevertheless, the impending decision has already aroused local interest. Delegates at last week's annual meeting of Atlantic Dairy Cooperative directed the staff to work towards implementing a pricing plan similar to the Great Basin-Lake Mead one in federal orders 2 and 4, which govern milk marketing in the Mid-Atlantic area. Cooperative officials said they would ask for a hearing before federal officials soon.

Covington said National All-Jersey, which coordinates marketing efforts for members of the American Jersey Cattle Club (and which also receives substantial financial support from Guernsey breeders, according to Metzger), has been intimately involved in the Great Basin case. Getting the federal order system to adopt multiple component pricing is one of the group's major goals and a logical outgrowth of successful efforts to get handlers and cooperatives to adopt individual plans, Covington said.

More than half of the nation's milk supply now has access to some form of such pricing; protein premiums and cheese-yield pricing are the most common, Covington said. In its recommended decision, USDA cited the existence of several such plans in the Great Basin and Lake Mead orders. Other orders in which a number of such programs already exist, such as federal orders 1, 2 and 4 in the Northeast, are good candidates for an order-wide approach, Covington said.

Jim Fraher, an economist for Atlantic, said a single pricing plan is preferrable to a patchwork of individual programs. "The federal order approach is better in that it will be uniform and it will pool the added value." Fraher argued that some of the current protein premium programs don't pass along to dairymen the full value of the protein.

Implementing multiple component pricing in a federal order also would make it applicable to all the producers, not just those who are supplying certain plants or cooperatives. According to an analysis of the Great Basin-Lake Mead plan prepared by Fraher, every dairyman regulated by the new order there would receive a blend price determined primarily by the amount of protein and butterfat in his milk.

Under the current pricing scheme in federal orders, only butterfat content matters; as its level rises, so does the price per hundredweight. The effect of this butterfat differential remains the same in the new plan, although it is calculated differently. The big change is that protein content also matters. In fact, protein levels would have about the same impact as butterfat content in adjusting producer prices.

Under the plan, the various "Class" prices paid by handlers would continue to provide the basis for producer prices. Fluid handlers would continue to pay the same Class I price, which is adjusted only for butterfat content. But handlers who buy milk for making cheese (Class III) or other products (Class II) would see some changes because their prices would be adjusted for both protein and butterfat.

The plan is designed to be "revenue neutral"; that is, the overall amount of money changing hands between producers and handlers in the order would not vary from the total dictated by the current system. Individual shares would change, however.

Among producers, those whose milk contains a higher than average amounts of protein and butterfat would benefit while those with lower than average levels would suffer. In an example cited by USDA, a dairyman selling milk that contains 3.5 percent butterfat and 3.0 percent protein would (given the same Class prices) receive 77 cents less — $11.18 rather than $11.95 — under the plan. By contrast, a dairyman selling milk with 5.0 percent butterfat and 4.0 percent protein would get 76 cents more — $15.11 rather than $14.35.

The fact that Class I prices would not change under the plan is critical to its acceptance by fluid handlers, according to William Tinklepaugh, an economist for the Milk Industry Foundation. The foundation, which represents the interests of milk bottlers and other handlers, opposes the use of protein or solids-not-fat levels in pricing fluid milk because its members "do not want to pay more for some-

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