

Over Order Premiums Soften Support Price Cuts

BY TOM JURCHAK
SCRANTON (Lackawanna Co.)— By now everyone in the dairy industry should know that on January 1 the support price for milk was dropped 50 cents from \$11.10 to \$10.60 for milk of 3.67 percent butterfat or \$10.33 for 3.5 percent butterfat. These are to be the target prices for the national average of manufacturing grade milk. To achieve this the Commodity Credit Corporation has announced their purchase prices for butter, powder and cheese. The butter price was dropped 3.75 cents to \$1.32 a pound; the powder price is down four cents to 72.75 cents and 40 pound blocks of cheese are down 4.75 cents to \$1.15 a pound. The lowered support price was made to comply with the Farm Security Act of 1985 that required such a drop if CCC purchases in the next year were expected to be higher than five billion pounds of milk equivalent. Without a lower support price total purchases were expected to exceed

seven billion pounds and with the lower price are still estimated at six billion pounds.

In addition to the lower price an assessment of 2.5 cents a hundred will be paid by producers to satisfy the Gramm-Rudman-Hollings legislation requiring cuts of 8.5 percent in spending on all government programs. This could have meant a drop of \$1.05 in the support price for milk but because the milk price is supported indirectly through the CCC purchases of butter, powder and cheese the required cuts in program costs could be made with the assessment. These assessments are expected to produce \$26 million this year but the cut in the support price would have cost dairy farmers \$750 million. Price cuts or assessments are never welcomed by producers but in this case with both the 1985 farm bill and the G-R-H bill, things could have been worse when you consider that Congress was trying to reduce farm program costs by \$3 billion this year. In addition, the

support price cannot be changed again until next year and assessments, not price cuts must be used by G-R-H in the future.

Outlook

In spite of, or because of, the cut in the support price and the assessment, most forecasters don't see big changes in government programs in 1988. This will be the first time in five years that there haven't been one or more changes in support prices, assessments, diversions or buy outs. Under the present law the Secretary could start a diversion program in 1988 but it isn't likely at least not until he hears the final report from the National Commission on Dairy Policy that is due in April. Discussions on regional government programs for dairy will speed up but don't look for any new legislation this year. Even a diversion program may be avoided because of regional differences. Besides, if the dairy program is changed other commodity groups will be looking for consideration too. Increases in

milk production expected next year will just about be used up by increases in consumption so the national supply/demand picture won't change much and government costs will be lowered by support price cuts and the assessment. That may be as good as you can expect in an election year so while there may be a lot of legislation proposed, reports made and analyzed; meetings conducted and ideas aired the most important thing to happen to influence the dairy industry next year may be the price of feed.

There is a Way

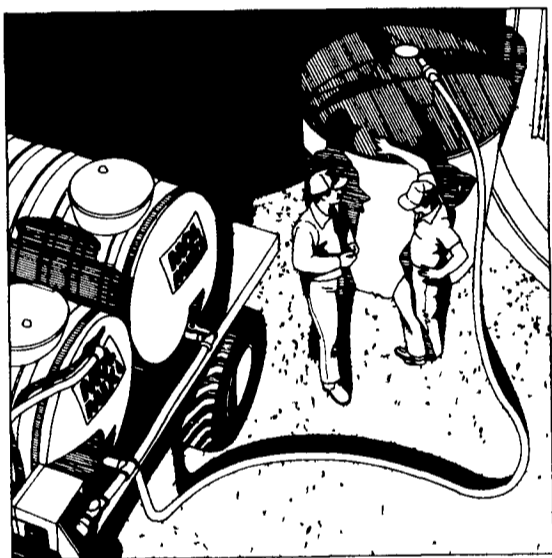
With government inaction for whatever reasons but mainly because it has provided the answer in other markets, over order pricing can be used to close the gap between lower prices and higher costs. It's the biggest obstacle to regional price support programs because everyone else in the country is using it except the northeast. Most dairymen nationally don't want more government control -- they want less -- so they use over order premiums to get from the market what that don't get from government programs. They organize cooperatives to regulate the over order premiums to insure that all dealers pay the same and all producers share equally. Here in the northeast RCMA is the vehicle for producers to use the same strategies in Order 2 in New York and Order 4 in New England. So far New England producers have participated in sufficient numbers to negotiate a 37 cent premium while Order 2 producers have ignored the opportunity in sufficient numbers to achieve only a nine cent premium. Some handlers in Order 2 have opposed the formation of RCMA by offering pre-

miums directly to producers; discouraging them from joining RCMA and refusing to provide information on milk receipts for RCMA members. Many dealers who want to cooperate are discouraged by the few who refuse to participate. Withholding action could be the next step but even that will be less than effective if producers themselves don't participate in larger numbers. Premiums paid by handlers directly to producers serve to meet producer needs temporarily but may disappear with increasing milk supplies or the failure of RCMA.

Order 2 Prices

The real skid in Federal Order milk prices started in December with a 22 cent drop in the Minnesota-Wisconsin Price Series to \$11.12. This is expected to continue until spring when it bottoms out at a support price of \$10.33 for 3.5 milk. That's \$1.09 less than the \$11.42 when the M-W peaked last September. If you could make RCMA work and hold their price of \$14.45 for Class I milk it would mean a premium of \$1.57 on fluid milk or about 66 cents on the blend. Forecasters looking at Order 2 prices for 1988 are estimating a difference of 66 cents less in 1988 than 1987 considering all support price changes and assessments for both years. Fascinating arithmetic but it takes cooperation to make ends meet. The blend price for December in Order 2 was \$12.21 or 48 cents less than November and 57 cents less than last year. It just widened the gap from last year by 21 cents from November to December. In September it was only four cents below the year before now it's 57 cents. Get ready for a longer and faster drop.

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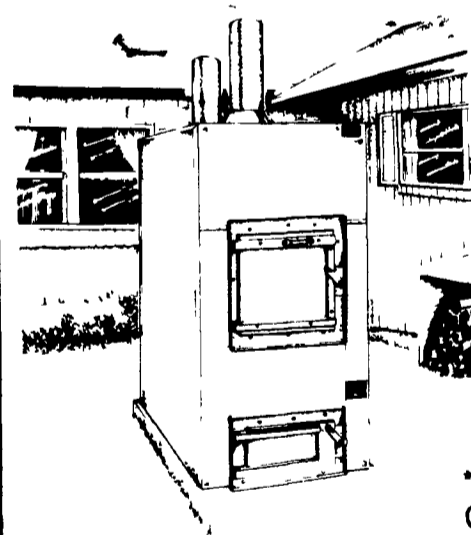
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