MACMMA Helps Offset Low Milk Prices

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FREDERICK, MD—At a time when over-order premiums represent the best hope of mitigating the effect of the current low prices on area dairymen, the Middle Atlantic Cooperative Milk Marketing Agency presents the most consistently successful example of local bargaining efforts, according to dairy economists and other observers in the region.

Since September 1987, this group -- known by its acronym, MACMMA -- has extracted higher prices for local dairymen than the minimums set by federal and state regulations in the Mid- Atlantic marketplace. It has continued to provide these so-called over-order premiums as other such bargaining groups have been less successful.

Together with the Pennsylvania Milk Marketing Board -- which established a kind of over-order price of its own in September 1988 -- MACMMA was able to maintain its premium even during the record high milk prices of the fall of 1989. Now that milk prices have tumbled, it has established its highest premium ever.

MACMMA officials said the organization recently reached an agreement with Federal Order 4's milk processors to continue the $1.35 a hundredweight premium currently in effect for both MACMMA and PMMB through March 1992. The extra money paid to dairymen from this premium amounts to 50-60 cents, depending on the Class I utilization percentage in the order and the amount of the premium used to offset increased hauling charges.

The recently negotiated agreement has a built-in adjustment to lower the cost to handlers if milk prices rise unexpectedly, according to Bob Vaughn, a local cooperative leader. If Class I prices rise more than 60 cents above the March 1991 Class I price of $13.19, then the MACMMA premium will be reduced by the amount of the increase over 60 cents.

Industry observers say a lot of the credit for MACMMA's success belongs to the strong cooperative presence in Federal Order 4, which regulates milk marketing in the Middle Atlantic area. The over-order bargaining group is the creation of three cooperatives -- Maryland and Virginia Milk Producers Cooperative Association, Atlantic Dairy Cooperative and the Middle Atlantic Division of Dairymen Inc. -- that together control more than 90 percent of raw milk supplies in the region. By contrast, RCMA, which began charging premiums at the same time as MACMMA but has been unable to sustain them, operates in an Order 2 market in which about half the milk is produced by independent dairymen.

MACMMA's leaders themselves credit the Pennsylvania Milk Marketing Board for its willingness to set its own bonus price beginning in September 1988 and to renew it periodically since then. The current PMMB premium is due to expire at the end of June unless extended, but MACMMA officials said they hope to make the case for extension at a hearing expected to be held next month.

The relationship is mutually supportive, according to industry officials. MACMMA extends over-order pricing to parts of the market that PMMB, whose price-setting jurisdiction is limited to in-state processors, cannot. That minimizes the impact of different raw milk prices in a market, such as the Baltimore- Washington-Philadelphia one -- where milk crosses state lines. PMMB, for its part, extends over-order pricing beyond the Order 4 market and has provided the lead vehicle for raising the level of such premiums.

"The fact that PMMB is the agency getting that price in Pennsylvania is one of the reasons we've been able to hold that price," said Jim Fraher, an economist for Atlantic.

Bob Yonkers, a dairy economist at Penn State University, sees yet another key to the success of MACMMA: its willingness to negotiate with processors rather than attempting to dictate prices.

"That's an instance where the over-order bargaining agency sits down with the handlers to bargain in good faith," he said.

MACMMA leaders acknowledge this conciliatory approach and cite one additional factor. The agency has been successful because it has been able to pay out to producers all the money it collects in premiums; it has no administrative overhead, according to Jim Click, a Maryland and Virginia official.

Since September 1988, when the imposition of bonus PMMB pricing set the over-order premium at $1.05, the bottom line MACMMA has achieved for its dairymen has ranged from 42 to 53 extra cents a hundredweight, depending on Class I utilization percentages. In December 1990, when MACMMA-PMMB moved to a $1.35 premium, the extra 30 cents provided local dairymen with relief from higher charges from haulers facing higher fuel costs, according to Fraher.

Although this partnership has meant millions of dollars in extra income for local dairymen, it does have its limitations. In setting prices, either in Pennsylvania or throughout other parts of the Order 4 market, cooperative leaders have to take account of the raw milk prices paid in neighboring regions because fluid sales patterns typically overlap. Thus, MACMMA did not charge the additional 30 cents to some New Jersey processors who compete with handlers from Federal Order 2, according to Paul Hand, Atlantic's general manager.

"Supply-demand conditions set a very definite upper limit on what kind of over-order premium we can establish.