# Multiple Component Pricing In Order 4 To Bring Gains, Losses

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WASHINGTON, D.C. — A recent decision by the U.S. Department of Agriculture to implement a multiple component pricing system in Federal Order 4 would mean small price gains for roughly half of Middle Atlantic area dairymen and small losses for the other half, according to area cooperative officials familiar with the details of the decision.

The recommended decision, announced in May by Daniel Haley, administrator of USDA's Agricultural Marketing Service, is not final. The department has solicited comments, which it will review before issuing a final decision, probably in early September, according to Constance Brenner, a USDA official. Assuming approval of the revised order by the bloc vote of the cooperatives operating in Order 4, the change would become effective sometime between November and January, she said.

The new system would include the level of nonfat milk solids in the calculation of both producer and processor prices under the order, which regulates milk marketing in the metropolitan areas of Baltimore, Philadelphia and Washington, D.C. The current, longstanding system determines prices solely on the basis of volume and butterfat content.

It would be, in the jargon of milk marketing, "revenue neutral." Under the new system, there would be no change in the total amount of money paid by processors to producers, according to Jim Fraher, an economist for Atlantic Dairy Cooperative.

However, farmers whose milk contains more than the average level of nonfat solids in the order stand to gain a few extra cents per hundredweight from implementation while those marketing milk of below-average solids content would lose a few cents. In a study conducted by the Order 4 market administrator's office in March 1988, milk produced by roughly two-thirds of the 6,300 or so regulated dairymen fell within 10 cents of current prices.

"Half will get more; half will get less," said Boyd Cook, general manager of the Middle Atlantic Division of Dairymen Inc.

The nonfat solids provision would work something like the current butterfat differential does. But, Cook noted, the proposed nonfat solids "differential" differs from its butterfat counterpart in that its base point would not remain fixed (as the butterfat base point does at 3.5 percent). Rather, it would fluctuate with the average nonfat solids content of milk pooled in the order, which will tend to vary by season, Cook said.

The change also could affect a couple of cooperative-sponsored premium programs. Atlantic currently segregates a small volume of high solids milk from certain producers to sell to Dietrich's Milk Products Inc., a powder processor. If the order implements multiple component pricing, these farmers would get their premium, in effect, through the order without having to segregate their milk, Fraher said. Dairymen runs a similar program for producers who supply high solids milk to a cheese plant in Hancock, Md. In this case, Cook said, the implementation of the new pricing may not remove the incentive to continue a premium based on protein.

Processors who buy Class I milk for fluid use would not be affected by the change. But handlers buying Class II or III milk for manufactured products would have to take account of nonfat solid levels and pay a premium for shipments of above-average milk.

The change is supported by the four major cooperatives in the market — Atlantic, Dairymen Inc., Maryland and Virginia Milk Producers Cooperative Association, and Valley of Virginia Cooperative Milk Producers Association — which, together, control more than 90 percent of the order's raw milk supply. And it has elicited little opposition from processors in the market, according to Fraher.

The four cooperatives, under the banner of the Pennmarva Dairymen's Federation, originally requested the multiple component pricing plan in the spring of 1990. USDA officials heard testimony on the issue at a two-day hearing in Philadelphia last summer. The only opposition to the proposal there came from representatives of the National Farmers Organization and two firms, Kraft General Foods and the Dean Foods Company, that buy a small amount of Order 4 milk for cheese production. These witnesses favored the use of protein rather than nonfat solids in any multiple component pricing plan for the Middle Atlantic market.

The Pennmarva proposal is based on a multiple component pricing program in effect in the Great Basin Federal Order in Utah. That plan does use protein rather than nonfat solids as its additional pricing component, but local conditions differ, Fraher noted.

Fraher, who testified for Pennmarva at the Philadelphia hearing, characterized the choice of nonfat milk solids primarily as "a producer distribution issue." Most handlers would find the prices they pay unaffected by the new system, he said. Among local buyers of Class II and III milk, the majority make products, such as milk powder and ice cream, whose yields depend more on nonfat-solids than on protein content. Less than 10 percent of the milk pooled in the order is used in cheese production, for which the yield relationship favors protein.

Under a protein-based system, the spread between "winners" and "losers" would be much wider than it would be under the solids-not-fat standard, Fraher noted. Given the lack of incentive for such a standard from the handlers' perspective, Pennmarva officials could not justify these wider swings in producer returns, he said.

Implementing the multiple component pricing plan will better reflect consumers' preference for lower-fat dairy products, according to Bob Yonkers, a Penn State University economist. The well documented gains in consumption of skim or low-fat dairy products has the effect of boosting the value of the nonfat components of milk, but this increased value generally has not been realized at the farm level.

# PennAg Names Scholarship Winners

EPHRATA (Lancaster Co.) — PennAg Industries Association, an Ephrata-based agribusiness trade organization which represents more than 500 firms, has recently announced the winners of its first scholarship awards.

The PennAg Scholarship Fund was created for the benefit of the children of employees of PennAg members. The fund is supported by fund-raising activities, including its "Divots for Degrees" golf tournament, and membership donations.

The 1991 award recipients are Tracey L. Weaver, Brownstown, Pa. and Jennifer R. Leer, Markleton, Pa. Weaver is the daughter of Larry L. and D. Jean Weaver and is a 1991 graduate of Conestoga Valley High School. She wil be attending Millersville University, Millersville, where she will major in elementary education. Leer is the daughter of Benjamin F. and Judith L. Leer and is a 1991 graduate of Rockwood Area Senior High School. Jennifer will be attending Conemaugh Valley Memorial Hospital School of Nursing, Johnstown.

For additional information about PennAg or the scholarship winners, call (717) 733-2238.