Milk Price Reform May Improve Farmer Pay, Not Understanding

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orders from 32 down to from 10 to 14, as mandated in the 1996 Farm Bill.

He said that because Secretary Glickman issued the proposal very recently, and because of its volume and depth, he could only speak from information gathered from USDA news releases and a several-page impact analysis available on the USDA's Internet homepage.

Yonkers first backtracked to provide some historical context for the federal order reform, and how the dairy industry has been responding to the phase-out of federally set milk production support prices (set to be eliminated completely in 2000), as well as milk pricing mechanisms.

He noted that until about 1987 to 1990, the federally set milk-support price represented the foundation for the price paid by processors to farmers for milk, and the two prices tracked closely.

Then the President Bush Administration and Congress put into effect deficit reduction freezes on the support price, which allowed the support price to fall below cost of production.

While the growth of milk production curtailed, it didn't stop.

At the same time, immediate demand for some dairy products grew beyond what the needs of population growth and social change would seem to warrant.

According to Yonkers, weather-caused reductions of the world whole milk powder supplies took up surplus milk, and increased the price for milk to United States dairy farmers.

Since then, prices have spiked dramatically and fallen dramatically.

More recently, after recovering from a late 1996 through early 1997 bottoming, prices have been again recovering.

The highest prices paid for milk in many years was during 1996, but by the end of the year the price had fallen by several dollars per hundredweight — devastating when considering that many dairy producers reportedly operate on less than a $2 per hundredweight profit margin.

As a result of the dramatic decline in the milk price and continued instability in the dairy price received at the farm, income-protection (also called risk reduction) tools, such as dairy futures and futures options have been introduced to serve as price insurance for dairy farmers.

Using such tools, dairy producers can now lock-in a price, which serves to buffer either a decline or rise in actual milk price received.

However, Yonkers dealt more specifically with the proposed changes to federal pricing orders.

There are 32 federal orders which have become established over time. Each is somewhat unique, and they have some different rules and mechanisms for establishing milk prices.

They were instituted by the federal government to help keep dairy farmers in existance in order to keep food available for United States citizens.

The dairy production and marketing environment has changed significantly since they were created, though they have still served to set milk price.

Meanwhile and more recently, the dairy industry began extreme national competition between regional producers and companies that resulted in mergers and closings, as well as strategies to control regional milk and dairy supplies with a longer term interest in controlling production and price.

Thus, the consolidated production and processing industries have grown geographically to the point of overlapping several to many different federal milk orders.

This has caused some grief for those who must calculate the milk's value and how to pay producers, as well as those attempting to market the milk.

Furthermore, mega-chain mega-stores have overtaken a large portion of the domestic retail market, and the chains have enjoyed extreme competitiveness among dairy product suppliers to gain shelf space.

The failure of smaller or less efficient groceries and markets to compete with the mega-stores and chains has resulted in a lack of markets for some relatively small dairy suppliers has added to problems for that group of independent processors.

In effect, the actual flow of milk from farm to end user is almost impossible to track on a daily basis.

That's because large collective marketing organizations and private organizations collect more milk than what they need (to ensure year-round adequate supplies) to fulfill competitive contracts, and/or produce their own varieties of dairy product.

The operational surplus is then sold or used in whatever manner brings the highest return, even if much below cost.

Through collective effort to build a national dairy promotion effort, and because variations have decreased greatly, milk is considered a generic product to the greater dairy industry.

It is promoted and marketed as such.

(There are, of course, those who distinguish their milk. They are those who niche market based on superior or unique taste or quality. As well, the cheese industry has been making some distinctions and paying differently because of the differences in milk proteins between some dairy cattle breeds.)

The actual value of the milk to the farmer depends more on through which, and to which, organization the milk is marketed.

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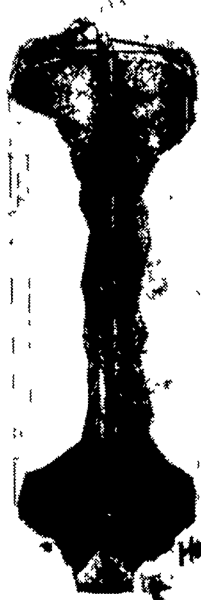

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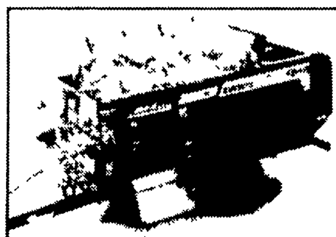

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