

Milk Price Reform

(Continued from Page A25)

At any time, Pennsylvania-produced milk can be shipped to surrounding states, or into the Southeast, southern states, or Mid West.

Likewise, milk produced in those regions can find its way easily into Pennsylvania.

Sometimes the milk leaves the state, gets processed and is returned for retail.

In calculating the producer price, the industry has been faced with complex pricing structures that don't necessarily fit with the reality of milk use, trade or shipment.

But over the years, different pricing classes of milk have been created to reflect the different uses of milk and milk components.

Very generally, Class I milk is drinking milk, while Class II is ice cream, Class III is butter, and Class IV is that used for manufacturing other foods.

If a processor makes mostly butter, or bottles mostly drinking milk, both uses need the purchase of whole, raw milk.

Since demand (consumer and manufacturer) for the individual dairy products varies according to season, and sometimes fad or rumor, the price paid for the raw milk to supply those dairy products varies.

In some cases, such as when the Northeast was shipping milk to the Southeast because it was short of drinking milk, the Northeast milk powder business and other users of milk faced short supplies.

However, in times when the drinking milk supply is satisfied, surpluses can get dumped on the rest of the milk-use industry, causing prices to plummet.

The way farmers are paid for their milk takes into account all the uses of the milk.

Even if the drinking milk price (Class I) is strong, if there is too much butter, then the low price for butter moderates the drinking milk price.

That was the case for years when the American public first took up the non-fat dietary fad and the government had large stocks of purchased butter surpluses.

Under such a price balancing system, even with high Class I prices the farmer can get a lower price for his milk.

The Minnesota-Wisconsin pricing series was used for years, effectively using the cost of production in the region as a starting basis to set price.

It has been replaced effectively by the Basic Formula Price (BFP), which places more emphasis on cheese values.

The BFP has been modified because of still-suspicious 1996 trading that occurred on the Green Bay National Cheese Exchange (now defunct). The cheese price dropped significantly causing the price of milk to plummet, though demand for milk overall didn't appear to be diminished.

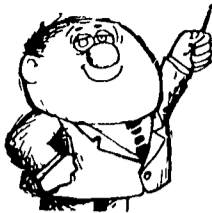
The event caused an uproar, especially since the Cheese Exchange represented about 1 percent of the cheese in the United States.

The USDA now prices cheese by surveying several different markets to arrive at an average.

According to Yonkers, the federal order reform proposal would

change the BFP too.

Another change is that the price of milk within the proposed federal orders would base the price of milk according to where the milk is processed, or received.



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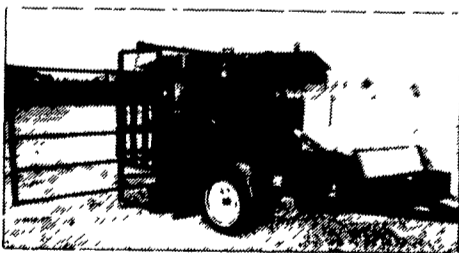
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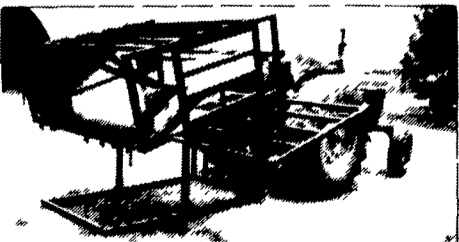
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Not where it was produced.

Yonkers said the proposed pricing structure reform would create a more incremental zoning change, to lessen the difference in milk price received near the borders of

two different federal orders.

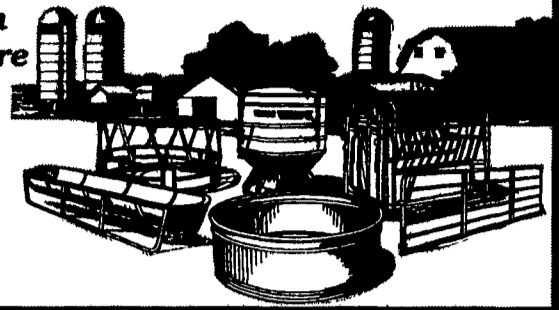
"Federal orders regulate processors who have purchased product. Federal orders do not relate to where milk is produced," Yonkers said.

(Turn to Page A40)

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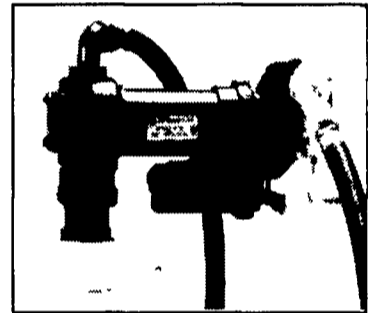
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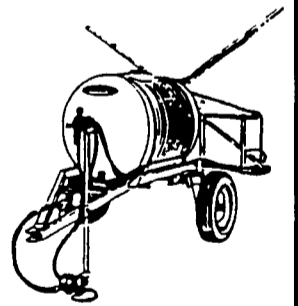
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