

Bailey Reports On Milk Pricing At Lancaster Dairy Days

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LANCASTER (Lancaster Co.) — Changes in the milk pricing system and the 22-year low in the on-farm milk price have lots of farmers talking lately. Some even feel like they're in the dark about what's going on.

During Lancaster County's Dairy Day on Tuesday, Dr. Ken Bailey from Penn State shed some light on the situation.

Bailey is the milk marketing and dairy policies specialist for Penn State. Part of his job at Penn State includes objectively analyzing the milk pricing system and what's going on in the milk marketing scene.

According to Bailey, a lot is happening nationally on milk pricing. President Bill Clinton talked about a safety net for family farms in his State of the Union address. Clinton's budget also called for a two-year extension of the milk price support programs.

The Secretary of Agriculture recently held a two-day session with legislators to look at federal marketing orders and how Class III and IV milk prices are formulated. Although a lot of things were discussed during the two-day session, the group didn't come to any conclusions

on the situation.

"It's been an interesting week — a lot has been happening, but the current milk pricing system keeps going," said Bailey.

The first question Bailey addressed is why are milk prices so low. "The west is expanding like crazy," said Bailey. "Cheap feed and good milk prices drove the expansion."

"The problem was that there weren't enough people in the west to drink the milk. So they built huge cheese plants and drove cheese stocks up," explained Bailey. "People did eat a lot of cheese last year, which caused stocks to fall at record numbers. But, at the end of the year, they didn't decline enough."

Bailey mentioned that several farmers asked him what they're going to do with \$10 milk. "When we talk about \$10 milk, we're talking about Class III price," said Bailey. "The farmer's price is going to be higher."

The farmer's milk price is a combination of the farmer's Class III price for butterfat, protein, and other solids, along with the producer price differential, over-order premiums, and quality premiums.

The producer price differential is the adjustment added to the Class III price to account for

Class I, II, and IV prices. This price is formulated based on milk delivered in Boston.

Since not all milk is delivered directly to Boston, a location adjustment is made for milk delivered to other areas. Bailey expects farmers in Lancaster will get 35 cents less for their producer price differential than the price set in Boston.

According to Bailey, the benefits of the new milk pricing system include more transparent pricing, more up-to-date pricing, pricing based on components, and no more basic formula price.

"Farmer's milk prices will respond more quickly to changes in the cheese and butter prices than in the past," said Bailey. "If the cheese or the butter prices increase, the higher price

will show up the next month in the farmer's milk check."

"Two things you won't find anywhere on your check is the basic formula price and the butterfat differential," said Bailey. "They're gone."

Under the new milk pricing system, several steps occur to come up with the farmer's milk price. The first step is a NASS (National Agricultural Statistics Survey) survey of cheese, butter, nonfat dry milk, and whey prices.

The next step uses the NASS weekly dairy product prices to compute advanced prices for Class I and Class II milk. Computing the other class prices is the next step.

"The farmers don't need to know what the Class I, II, III, and IV milk prices are," said

Bailey. "But the market administrator and cooperatives need to know what these prices are to compute the producer price differential."

The fourth step is computing the pool value of the milk, which is the producer price differential. This takes the price at the federal level and brings it down to the local federal order.

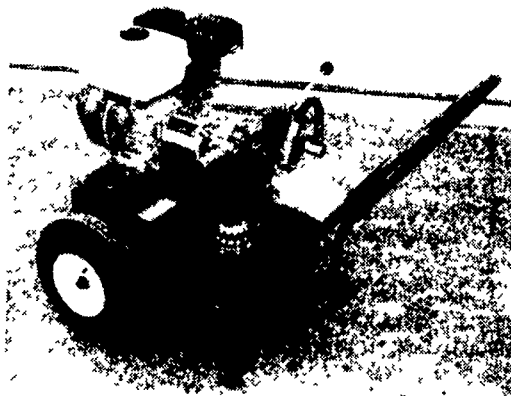
The fifth step involves taking the federal order price and adjusting it to where the farmer's milk is delivered. This is when the location adjustment is established.

The final step is computing the farm price. Every farmer's price will differ based on the components in his milk. Farmers with higher fat, protein, and other solids will receive a higher

(Turn to Page A38)

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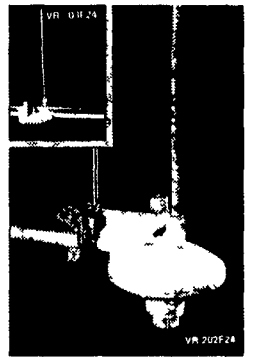


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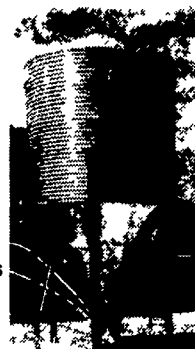


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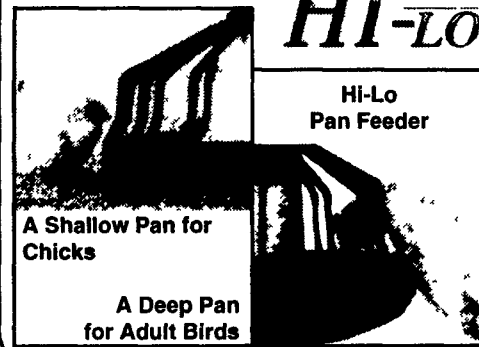
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