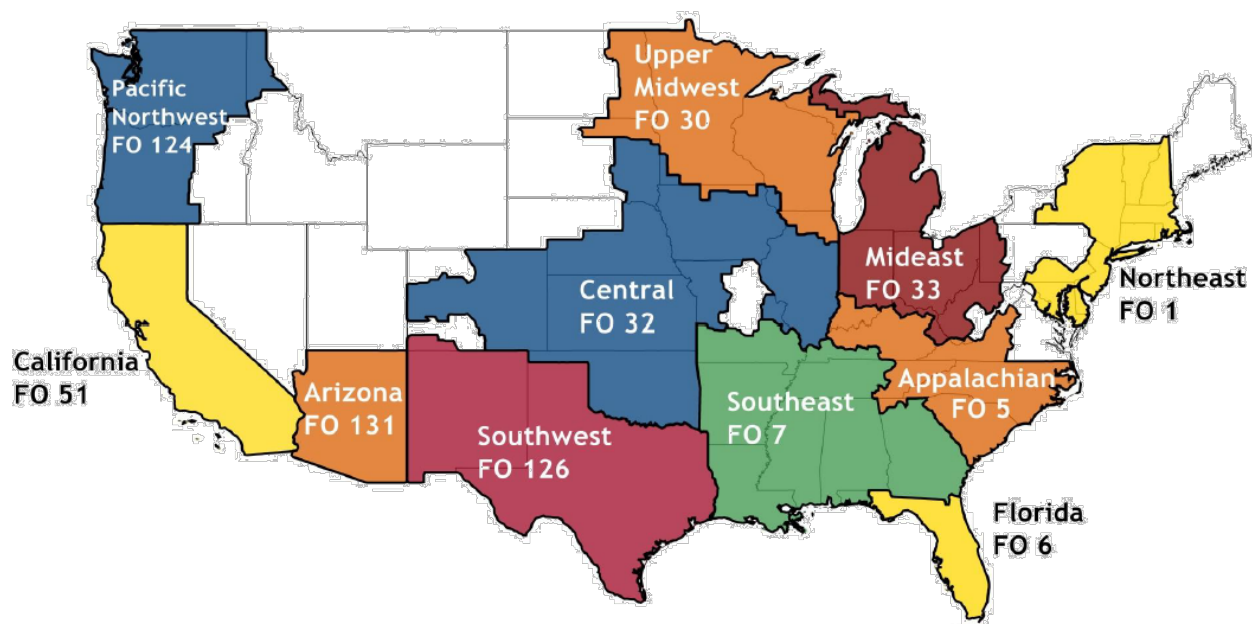


Agricultural Marketing Service

Creating Opportunities for American Farmers and Businesses

USDA Public Meeting: Proposed California Federal Milk Order

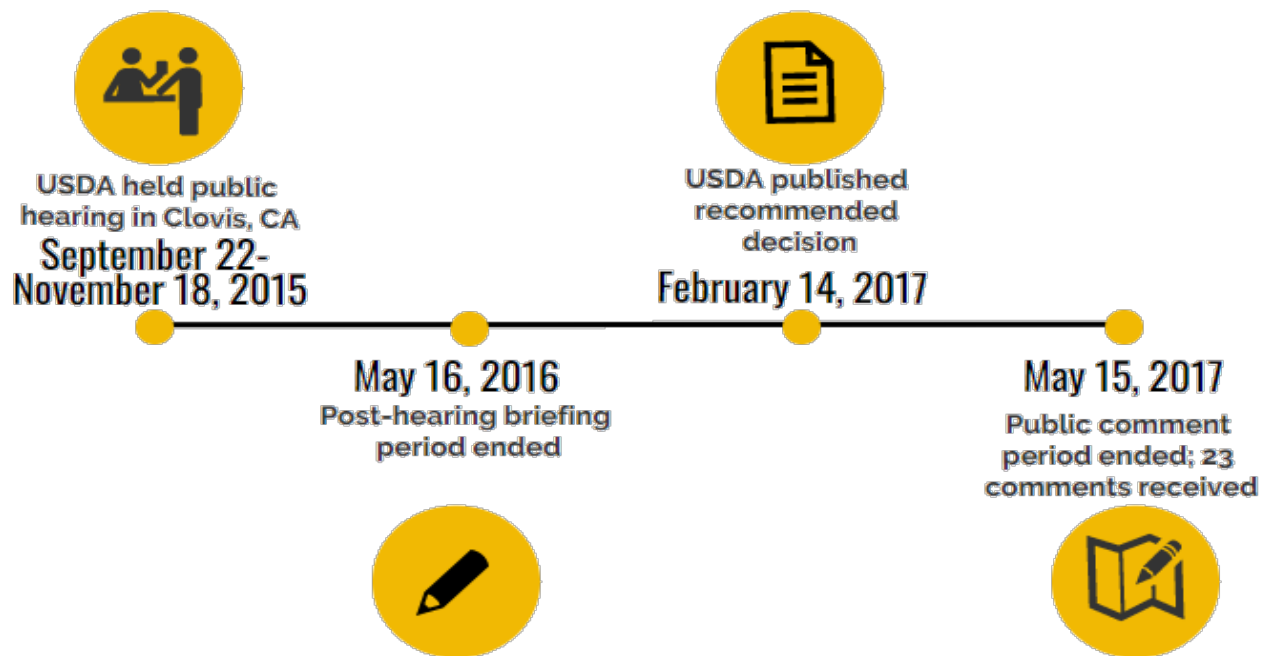


Agenda

- **Rulemaking Process:** *A look back*
- **Overview:** *Proposed CA FMMO Provisions*
- **Update:** *Where are we in the rulemaking process?*
- **Q&A**

CA FMMO: A Look Back

HEARING AND RULEWRITING, 2015-2017



CA FMMO: Certification of the Record

- **February 6, 2018:** USDA issues notice announcing delay of rulemaking due to ALJ issue
- **February 14, 2018:** Secretary of Agriculture appoints USDA Judicial Officer to review CA FMMO hearing record
- **March 9, 2018:** USDA Judicial Officer ratifies CA FMMO hearing record, enabling USDA to move forward with rulemaking proceeding

CA FMMO: Final Decision

April 2, 2018: USDA issues Final Decision

- Continues to recommend establishing a FMMO for California
- Addresses 23 public comments received
- Regulatory Economic Impact Analysis published

Proposed California Federal Milk Marketing Order: Overview

CA FMMO Provisions: Pooling Standards

Standards are:

- Tailored to the local marketing order
- Performance-based
- Designed to encourage service to Class I market

Standards determine:

- ✓ **Plants** eligible to pool their milk supply
- ✓ **Producers** eligible to have their milk pooled
- ✓ **Milk** eligible to be pooled

CA FMMO: Pooling Provisions

- Class I fully regulated plants **must** pool
- Class II, III, and IV manufacturing plants have the option to pool
- Farmers must be **qualified as a producer** so their milk is eligible for pooling
- **Handlers** make pooling decisions

CA FMMO Provisions: Producer Qualification

How do you qualify as a producer?

- You produce Grade A milk.
- Your milk is received at a pool plant.

How would your milk qualify to pool?

- At least 1-day's milk production must be **physically received** at a pool plant during the first month.

How would you decide to pool my milk?

- Handlers and cooperative handlers, **not individual producers**, make the pooling decision.

Independent Producer Qualification

If you are an Independent Producer:

- You are not a member of a **USDA-FMMO approved** Capper-Volstead cooperative.
- The handler to whom you sell your milk must decide whether to qualify you for pooling by ensuring 1-day's production is physically received at a pool plant during the first month they want to qualify you as a producer.

Cooperative Member Qualification

If you are a Cooperative Member:

- Your Cooperative must be a **USDA-FMMO approved** Capper-Volstead cooperative.
- If your Cooperatives decides to pool milk, they:
 - Will ensure that you and your milk qualify to pool.
 - Can act as a handler making the pooling decision.

Proposed California Federal Milk Marketing Order: Producer Payments

Pricing—Producer's Value of Milk

Producer Payment Includes:

- **Prices per pound** of the Class III values of butterfat, true protein, and other solids contained in your milk pooled.
- **Producer Price Differential (PPD)**
 - The PPD is the remaining market value of your milk after accounting for the Class III component values.
 - The PPD is paid on a per hundredweight (cwt) basis.
 - Your PPD is **adjusted by location**. The adjustment is the difference between the **\$2.10 announcement zone** in Los Angeles County, CA, and the location of the plant where your milk is delivered.

What is the Producer Price Differential?

Producer Price Differential:

= \$0.00/cwt, if pool classified value is **equal** to Class III value

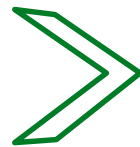
= Positive value, if pool classified value is **greater** than Class III value

= Negative value, if pool classified value is **lower** than Class III value

Positive Producer Price Differential

Pool Revenue

- Class I Handler Value
- Class II Handler Value
- Class III Handler Value
- Class IV Handler Value



Producer Component Values (Class III)

- Butterfat Value
- Protein Value
- Other Solids Value



**POSITIVE
PRODUCER PRICE
DIFFERENTIAL
(PPD)**



Negative Producer Price Differential

Pool Revenue

- Class I Handler Value
- Class II Handler Value
- Class III Handler Value
- Class IV Handler Value

Producer Component Values (Class III)

- Butterfat Value
- Protein Value
- Other Solids Value

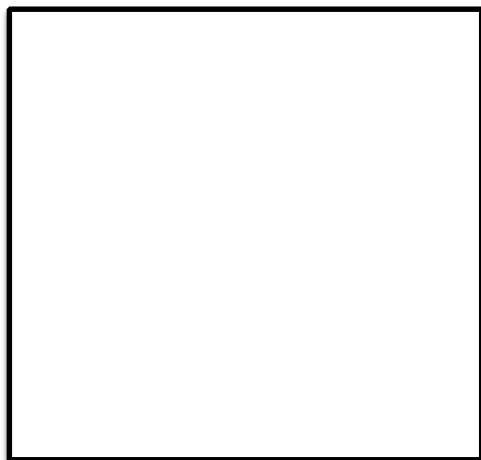


**NEGATIVE
PRODUCER PRICE
DIFFERENTIAL
(PPD)**

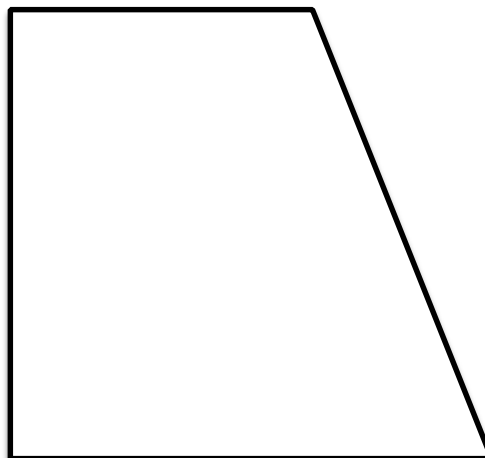


Positive Producer Price Differential

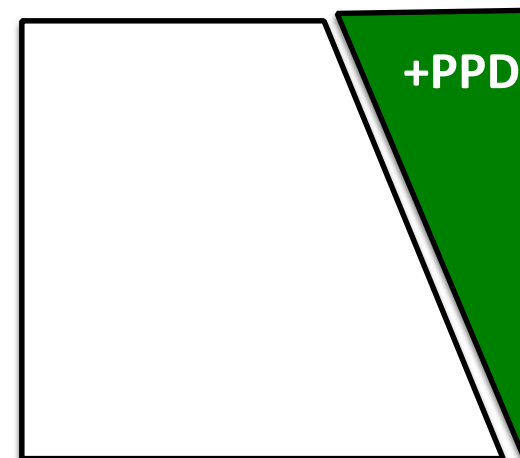
Pool Revenue



Producer Component Values (Class III)



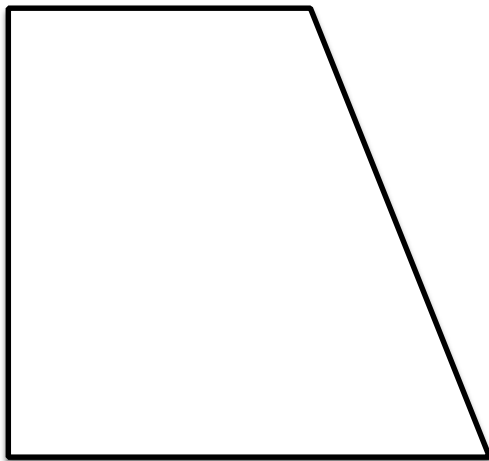
Payment Breakdown



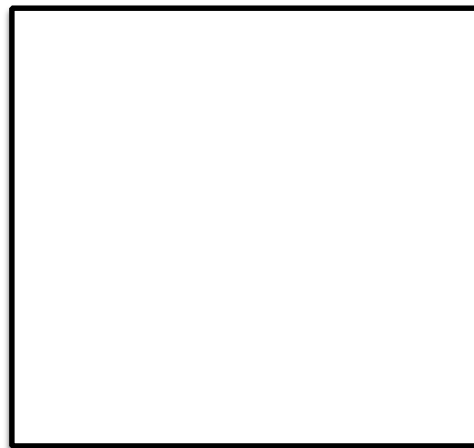
When the value of the pool is **greater** than your Class III component value payments, the PPD is **positive**

Negative Producer Price Differential

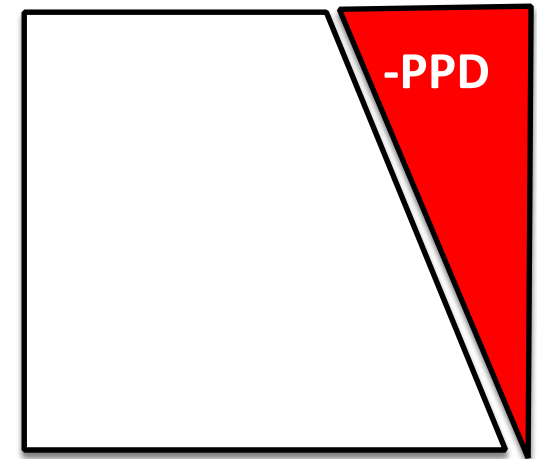
Pool Revenue



Producer
Component Values (Class III)



Payment
Breakdown



When the value of the pool is **less** than your Class III component value payments, a PPD is **negative**

Producer Price Differential

Important to remember:

- Prices announced *before* the month:
 - Class I prices
 - Class II skim price and Class II nonfat solids price
- Prices announced *after* the month:
 - Butterfat price
 - Class III and Class IV prices
- Producers paid at Class III component values
- Negative PDDs can occur at times because of classified price relationships

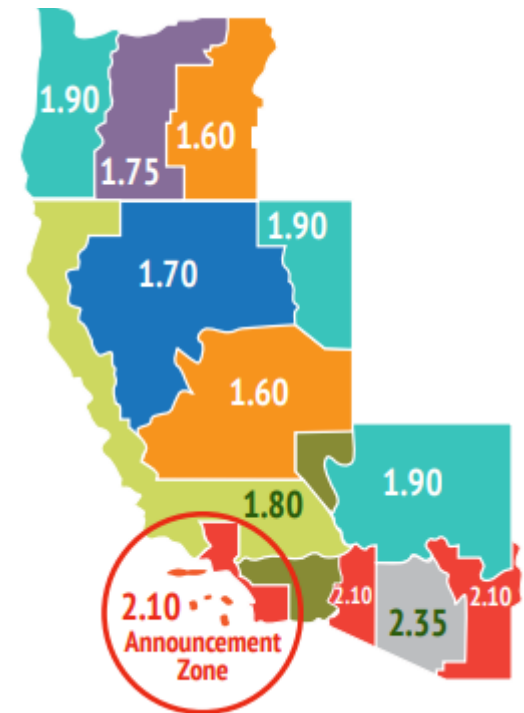
Pricing—Location Adjustment

PRODUCER PAYMENT ZONES for Oregon, California, Nevada & Arizona

- Order Blend price announced at the Los Angeles \$2.10 zone
- Prices received by producers will reflect location pricing (*by the plant of first receipt*)

Examples:

- If you deliver to a plant located in the \$1.60 zone
Your PPD = announced PPD - \$0.50 / cwt
- If you deliver to a plant located in the \$1.80 zone
Your PPD = announced PPD - \$0.30 / cwt



How is my payment calculated?

Pounds of butterfat produced \times butterfat price

+ Pounds of true protein produced \times protein price

+ Pounds of other solids produced \times other solids price

+ (cwt of milk \times PPD*)

- Authorized Deductions

= Producer Payment

*Adjusted for location

Pricing—Producer's Value of Milk

A Producer Payment ALSO Includes Authorized Deductions:

- CDFA-administered quota assessment.
- National Dairy Promotion and Research Board assessment.
- California FMMO Market Administrator Assessment if services are provided to producers (excluding cooperative members already receiving market services).
 - Producers receiving FMMO marketing services would be assessed a maximum of \$0.07 per cwt on their pooled milk. Services include verifying weights, samples and tests of producer milk; providing market information for producers not receiving such services from a cooperative
- Other deductions authorized in writing by you, the producer

Pricing—Component Price Calculations

FMMO component prices:

- Butterfat Price:
 - (NDPSR butter price - \$0.1715) * 1.211
- Nonfat solids Price:
 - (NDPSR NFDM price - \$0.1678) * .99
- Protein Price:
 - (NDPSR cheddar cheese price - \$0.2003) * 1.383
– (Butterfat adjustment)
- Other Solids Price:
 - (NDPSR dry whey price - \$0.1991) * 1.03



Announcement of Class and Component Prices

United States Department of Agriculture

Agricultural Marketing Service Dairy Programs Market Information Branch
CLS-0318 April 4, 2018

March 2018 Highlights

Class II Price was \$13.88 per hundredweight for the month of March 2018. The price per hundredweight increased \$0.44 from the previous month.

Class III Price was \$14.22 per hundredweight for the month of March 2018. The price per hundredweight increased \$0.82 from the previous month.

Class IV Price was \$13.04 per hundredweight for the month of March 2018. The price per hundredweight increased \$0.17 from the previous month.

Announcement of Class and Component Prices for March 2018

Class II Price:	\$13.88	(per hundredweight)
Class II Butterfat Price:	\$2.4343	(per pound)
Class II Skim Milk Price ¹ :	\$5.55	(per hundredweight)
Class III Price:	\$14.22	(per hundredweight)
Class III Skim Milk Price:	\$5.93	(per hundredweight)
Class IV Price:	\$13.04	(per hundredweight)
Class IV Skim Milk Price:	\$4.71	(per hundredweight)
Butterfat Price:	\$2.4273	(per pound)
Nonfat Solids Price:	\$0.5232	(per pound)
Protein Price:	\$1.8066	(per pound)
Other Solids Price:	\$0.0556	(per pound)
Somatic Cell Adjustment Rate:	0.00078	(per 1,000 somatic cell count)
Product Price Averages:		
Butter	\$2.1759	(per pound)
Nonfat Dry Milk	\$0.6963	(per pound)
Cheese	\$1.5542	(per pound)
Dry Whey	\$0.2531	(per pound)

¹ February 2018 Advanced Price Announcement

*announced on or before the 5th of the following month

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^{1/} February 2018 Advanced Price Announcement

*announced on or before the 5th of the following month

How are prices announced?

EXAMPLE



FEDERAL MILK ORDER No. 1 Northeast Marketing Area

89 South Street, Boston MA 02111-2671
 Mailing Address:
 P.O. Box 51478
 Boston, MA 02205-1478
 Tel.: (617) 737-7199 — Fax: (617) 737-8002
 email: NortheastOrder@fedmilkf.com
 website: www.fmmone.com

Albany:
 302A Washington Avenue East
 Albany, NY 12203-7903
 Tel.: (518) 452-4410
 Fax: (518) 464-6468

Alexandria:
 P.O. Box 25828
 Alexandria, VA 22313-5828
 Tel.: (703) 549-7000
 Fax: (703) 549-7003

JANUARY 2018 POOL PRICE ANNOUNCEMENT

Producer Milk	Percent	Pounds	Minimum Class Price
Class I	33.4	762,059,432	\$18.69
Class II	23.7	541,627,441	14.11
Class III	25.8	589,661,458	14.00
Class IV	17.1	389,279,157	13.13
Total Producer Milk	100.0	2,282,627,488	

Computation of Uniform Price (per cwt @ Suffolk County, MA - Boston)		Class III & Producer Component Prices	
Producer Price Differential	\$1.70	Protein Price	\$1.6612 /lb
Class III Price (@ 3.5% Butterfat)	\$14.92	Butterfat Price	2.4531 /lb
Statistical Uniform Price (@ 3.5% Butterfat)	\$15.70	Other Solids Price	0.0787 /lb
Statistical Uniform Price (@ Average Pool Component Tests)	\$17.15	Nonfat Solids Price	0.5235 /lb

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL				
	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	746,054,756	\$10.23	76,321,401.54	
Butterfat	16,004,676	2.5200	40,331,783.52	
Less: Location Adjustment to Handlers			(2,841,999.73)	\$113,811,185.44
Class II— Butterfat	30,901,319	2.4601	76,020,334.88	
Nonfat Solids	47,319,865	0.6333	29,967,670.48	105,988,005.36
Class III— Butterfat	28,209,990	2.4531	69,201,926.45	
Protein	18,604,017	1.6612	30,904,993.04	
Other Solids	33,482,675	0.0787	2,635,086.51	102,742,006.00
Class IV— Butterfat	15,532,766	2.4531	38,103,428.28	
Nonfat Solids	34,669,538	0.5235	18,149,503.16	56,252,931.44
Total Classified Value				\$378,794,128.24
Add: Average—All Classes				106,074.49
Inventory Reclassification—All Classes				59,130.90
Other Source Receipts	1,188,803 Pounds			47,290.75
Total Pool Value				\$379,006,624.38
Less: Producer Component Valuations @ Class III Component Prices				(352,640,161.49)
Total PPD Value Before Adjustments				\$26,366,462.89
Add: Location Adjustment to Producers				12,716,279.42
One-half Unobligated Balance—Producer Settlement Fund				686,133.80
Less: Producer Settlement Fund—Reserve				(943,999.25)
Total Pool Milk & PPD Value	2,283,816,291 Producer pounds			\$38,824,876.86
Producer Price Differential		\$1.70		
Statistical Uniform Price		\$15.70		

(Selected pool and price statistics on reverse side)

Erik F. Rasmussen, Market Administrator

- AMS publishes component prices as well as Class II, III, and IV milk in the **Announcement of Class and Component Prices** released no later than the 5th of the following month, located at www.ams.usda.gov/mnreports/dymclassprices.pdf.
- Producer prices are announced **on or before the 14th day after the end of the month.**
- While prices are announced at the standard 3.5% butterfat, payments are based on **what you actually produce.**

When do you receive a payment?

Proposed CA FMMO Producer Payment Schedule

Payment to Producers	Payment Date
Partial Payments	On or before the last day of the month for milk received during the first 15 days of the month
Final Payments	Received by producers no later than the 19 th day after the end of the month
Payments to Cooperatives	Moved 1 day earlier for both partial and final payments

Who pays you?

Cooperatives who are the “Pooling Handler” for the milk they market (member or independent):

- Account to the pool at minimum classified use value for raw milk
- Pay minimum blend prices to independent producers
- May pay a reblended price to cooperative members

Proprietary Handlers who pool milk of independent producers:

- Pay minimum blend price to independent producers

Proposed California Federal Milk Marketing Order: Order Provisions Continued

Comparison: CSO and CA FMMO Classification

CSO Class	Proposed California FMMO Class	Product
Class 1	Class I	Fluid
Class 2 & 3	Class II	Soft products
Class 4b	Class III	Hard Cheeses
Class 4a	Class IV	Butter and Powders

CA FMMO Provisions: Quota Recognition

- California Quota Program remains separate from FMMO
- CDFA will continue to maintain, administer, and enforce the program, independent of FMMO
- Quota recognition in the CA FMMO would be through an **authorized deduction** in payments due to producers
- CDFA would determine and announce the deduction amount

CA FMMO Provisions: Exempt Plant Status

Plants may receive exempt status IF they:

- Have under 150,000 pounds/month of Class I route disposition
- Are operated by a government agency or colleges/universities with no commercial disposition
- Have all route disposition allocated to charitable purposes

CA FMMO Provisions: Producer-Handler Status

You may become a producer-handler IF you:

- Operate a farm and a distributing plant at **your sole enterprise and risk**
 - Have distributing plant fluid milk sales **under 3 million pounds** per month
 - Receive milk solely from your own farm or from other fully regulated handlers;
 - Purchase milk from other fully regulated handlers **under 150,000 pounds** per month; AND
 - Request producer-handler status (determined by the Market Administrator)
- Once an entity obtains producer-handler status, they are **exempt** from the pricing and marketwide pooling provisions of the order, but they still have reporting obligations.

Proposed California Federal Milk Marketing Order: Rulemaking Process Update

Update: Where are we in the Rulemaking Process?



CA FMMO: Producer Approval Process



- Producers eligible to vote supplied CA with Grade A milk during May 2017.
- Your USDA-FMMO approved Cooperative may bloc-vote on behalf of its members.
- Votes are on the **entire order** as proposed, not individual provisions.
- You should have received either a mailing containing general information or a ballot, depending on whether your Cooperative has opted to bloc-vote.

CA FMMO: Producer Ballot

Approved Form
OMB No. 0581-0300

MILK PRODUCER'S BALLOT CALIFORNIA MARKETING AREA

A summary of the California Federal Milk Marketing Order, as proposed, upon which you are voting along with the Notice of Referendum are included with this ballot. A copy of the FMMO, as proposed, can be secured from the Referendum Agent at the address shown on the Notice of Referendum.

INSTRUCTIONS - Fill in ALL blank spaces, indicate your approval or disapproval by placing an "X" in the appropriate box, place your ballot in the enclosed self-addressed stamped envelope, and mail your ballot so that it will be postmarked on or before the date specified in the Notice of Referendum.

I, _____, hereby certify that I am a dairy farmer. I also
Print Your Name Here

certify that, during May 2017, I was a producer of milk as defined in the proposed order regulating the handling of milk in the California marketing area.

I further certify that I currently deliver or ship Grade A milk to the plant of

_____ located in _____
Plant Name City & State

Signature - Do Not Print Print Your Mailing Address

Producer Number or Patron Number - If Known Print Your City, State, Zip

Do you approve the issuance by the Secretary of Agriculture of the order regulating the handling of milk in the proposed California marketing area?

YES

Place An "X" In One
Box Only

NO

THIS BALLOT AND THE INFORMATION CONTAINED THEREON WILL BE KEPT CONFIDENTIAL

A DESCRIPTION OF THE ORDER MAY BE FOUND ON THE REVERSE SIDE

If you did not receive a ballot and believe that you should have, send an email to californiainfo@ams.usda.gov or call (202-720-4392)

If your Cooperative has elected to bloc vote, you were not sent a ballot.

CA FMMO: Producer Voting Explanation



- Each producer (business organization) gets a **single vote**.
- IF** a producer has more than one dairy farm, the following applies:

Cooperative Farms	Farms that are both Cooperative and Independent	
Vote goes to Cooperative (bloc vote) with greatest volume. Only the volume of milk delivered to that Cooperative will be counted. IF the Cooperative with the greatest volume decides not to bloc vote, the producer will vote but ONLY the volume of milk delivered to that Cooperative will be counted.	If total volume of independent milk is greater than the total volume of the Cooperative milk →	vote is cast by the producer and only the volume of milk delivered as independent milk will be counted
	If total volume of Cooperative milk is greater than the total volume of independent milk →	vote is cast by the Cooperative and only the volume of milk delivered to that Cooperative is counted

CA FMMO: Producer Approval Determination



- The order will be approved if “YES” ballots are received by:
 - ✓ 2/3 of voting producers OR
 - ✓ 2/3 of voting milk volume
- Ballots must be postmarked by **May 5, 2018**.

Overview: Producer Approval Notification



- USDA will announce the result of the referendum in the **Federal Register** through:
 - A Final Rule **(if approved by producers)**, OR
 - A Termination of Proceeding

Overview: FMMO Implementation



- If approved by producers, USDA will work to implement a CA FMMO.
- Implementation date would be targeted for late fall 2018.

For more information:
www.ams.usda.gov/caorder

Questions...

Californiainfo@ams.usda.gov

