

Presentation to VT Milk Commission
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Part A: Excerpts From the Regulatory Economic Impact Analysis of the Recommended California Federal Milk Marketing Order (pages 1-4)

**Agricultural Marketing Service, Dairy Program - Economics Division,
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(<https://www.ams.usda.gov/sites/default/files/media/RegulatoryImpactAnalysisoftheRecommendedDecision.pdf>)

Part B: Relevant FMMO and CA Statistics (pages 5-6)

AMS Dairy Programs Summary (page 15)

This analysis finds that throughout 2017-2025, adoption of the proposed California FMMO could increase California blend prices at test, which would increase the California all-milk price and California milk production, in turn increasing California producer revenues. The increase in California production causes an increase in U.S. milk production, which has variable impact on product prices and blend prices across the United States.

Impact on Milk Production (page 10)

The higher milk prices forecast in this analysis encourage increased United States milk production with an annual average increase of 1.45 billion pounds above the baseline over 2017-2025 (Table B5). Five regions show higher milk production over all the forecast years, led by the Upper Midwest averaging 720 million pounds, followed by California with 350 million pounds; Southwest, the Former Western region, and Florida each averaged a 280, 190 and 10 million pound increase, respectively, over the baseline. The analysis estimates varying impacts to the remaining regions over the forecast period.

Impact on Prices (pages 8-9)

Under the proposed California FMMO, California blend prices at test for 2017-2025 show an average annual increase of \$0.52 per cwt over the baseline (Table B2).

The Upper Midwest and Southwest FMMOs also show increased average blend prices at test, \$0.50 and \$0.28 per cwt, respectively. The remaining regions show blend price impacts ranging from -\$0.21 to \$0.13 per cwt, on average, over the forecast time period.

Explanation of Price Changes (page 9)

Driving the changes in classified milk prices are the changes in the dairy product prices due to adoption of the proposed California FMMO (Table B3). Cheddar cheese and dry whey prices increase on average \$0.0618 and \$0.0255 per pound, respectively, over 2017-2025. Conversely, butter and nonfat dry milk prices decrease an average of \$0.2127 and \$0.0073 per pound, respectively, over 2017-2025. The analysis reveals that reduced cheese production from California pool milk contributes to increased cheese and whey prices nationally, while more California milk going into butter and powder production leads to decreased prices for these products nationally.

Blend price increases are estimated in FMMOs with relatively higher Class III utilization (Upper Midwest, Southwest and Appalachian), while in 6 of the 7 remaining FMMOs, the average blend prices decrease (Central, Arizona, Northeast, Mideast, Pacific Northwest, Southeast), with Florida averaging no change. Blend prices are affected by class prices, fat test percentages, and the class utilization. Changes from the baseline in average utilizations are shown below. The utilization changes are averaged over the 2017-2025 forecast period.

NE FMMO Blend Prices, Changes from Baseline (Table B4 page 17)

Blend	2017	2018	2019	2020	2021	2022	2023	2024	2025	Avg	Min	Max
	0.25	0.13	-0.10	-0.22	-0.36	-0.27	-0.21	-0.20	-0.21	-0.13	-0.36	0.25

<i>FMMO class prices at test, changes from the baseline (TABLE B11—page 20)</i>												
	2017	2018	2019	2020	2021	2022	2023	2024	2025	Avg	Min	Max
CI I	1.22	0.98	0.70	0.61	0.49	0.60	0.75	0.80	0.79	0.77	0.49	1.22
CI II	-1.11	-1.20	-1.51	-1.65	-1.87	-1.67	-1.54	-1.52	-1.45	-1.50	-1.87	-1.11
CI III	0.77	0.74	0.66	0.49	0.40	0.34	0.22	0.22	0.17	0.45	0.17	0.77
CI IV	-0.91	-0.98	-1.23	-1.34	-1.52	-1.35	-1.25	-1.23	-1.18	-1.22	-1.52	-0.91

De-pooled Milk (page 6)

The pooling analysis estimated, on average, approximately 40 percent of milk normally pooled per year on the proposed California FMMO would not be pooled because of class-to-uniform price relationships. On a classified-use basis, the analysis estimated 51 percent of Class II (1 billion pounds*), 31 percent of Class III (8.5 billion pounds*), and 50 percent of Class IV milk (4.9 billion pounds*) normally pooled per year would not be pooled because of price.

*Volumes from Table B12, page 21.

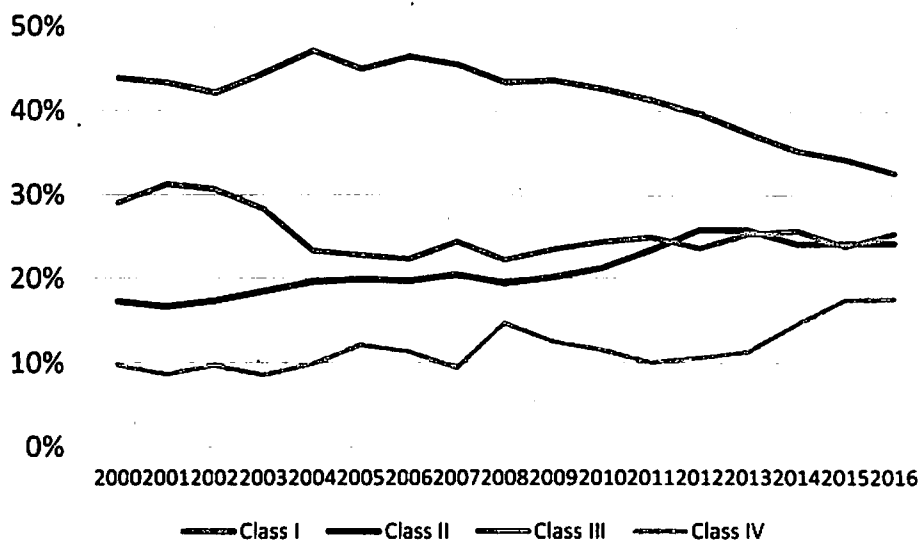
De-pooled Milk, Nationally (page 11-12)

First, the forecasted increase in cheese prices (Table B3) and corresponding changes in minimum Class III prices (Table B11) is likely to drive changes in milk pooling decisions in heavy cheese producing regions such as the Southwest and Upper Midwest. It is probable that increases in minimum Class III prices will drive manufacturers to opt to increase the amount of manufacturing milk they choose to not pool, or lower over-order premiums in response to the increase in regulated prices. Compounding the issue is the lack of data on California manufacturers' decisions to not pool milk as the California industry has operated for decades under the CSO that generally required mandatory pooling of all milk. It is especially likely that the current blend to all-milk price relationship will change under a California FMMO because milk will no longer be required to be pooled, but how that relationship will change is unknown because of a lack of historic data. Additionally, it would be reasonable to expect some volume of milk pooled by cooperatives and delivered to nonpool plants would be paid for by the nonpool plant at less than minimum FMMO prices, as FMMOs allow for such practice.

2016 NE FMMO, US FMMO and CA Milk Production and Utilization

	Class I	Class II	Class III	Class IV	Total
NE	8.83	6.55	6.87	4.75	27.01
US	41.10	18.10	55.90	18.60	133.70
CA	5.27	3.36	18.79	13.08	40.50

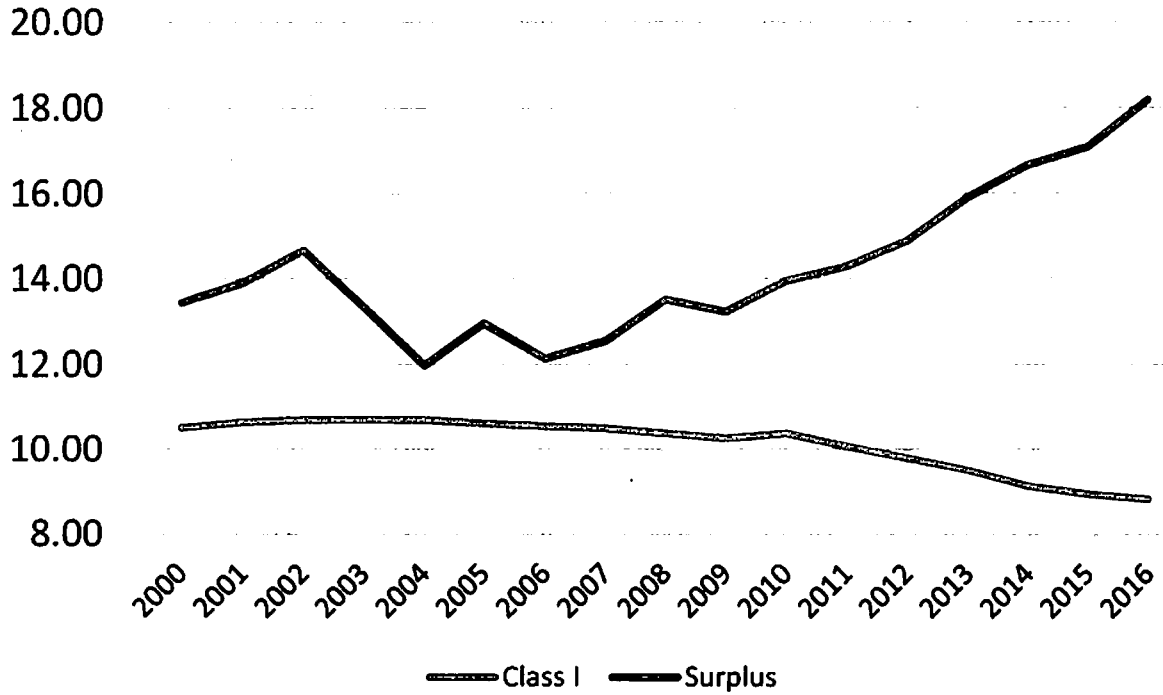
NE FMMO Utilization (%)



Boston/NE FMMO Class 1 Percent Utilization

	Bos Order	FMMO 1	
	<u>1979</u>	<u>2000</u>	<u>2016</u>
CL I	58%	44%	33%
II	42%	17%	24%
III		29%	26%
IV		10%	18%

FMMO 1 Fluid and Surplus Utilization (Bil lbs)



FMMO 1 Fluid and Surplus Utilization (%)

