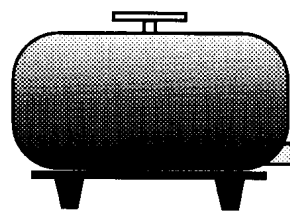
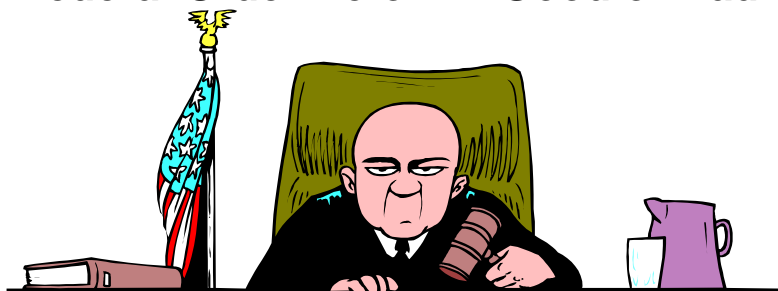


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B U L L E T I N



Federal Order Reform - Good or Bad



Whenever the woes of dairy pricing are discussed in editorials, news columns, or "straight-talk" from the academic world the topic of conversation inevitably turns to the shortcomings of federal milk order reform. Pick a group and you may hear . . .

. . . Farm prices are too low. This is undoubtedly true. Cheese prices and

thus the federal order Class III prices are at recent multi-year lows. Many contend that the federal order reform Class III (cheese) price fails to capture the true cheese value. However, empirical evidence indicates that federal order reform did not create "new" disparities in the Class III series. For example, during 1999 whole milk cheese at federal order prices averaged 13¢ under the average CME 40 Lb. Block price. The "reformed" whole milk cheese price averaged 15¢ under the CME for 2000. Current low prices result from market conditions and are reflected in market prices and are not a consequence of federal order reform.

In fact, federal order reform has moved additional dollars to the dairy farmer side of the ledger. Federal order reform changed the Class I price mover from Class III to the new concept of the "higher of Class III or Class IV." Class IV prices were higher than Class III prices in every month during 2000. The 2000 average Class III price was \$9.74 per cwt. while the average Class IV price was \$11.83 per cwt. Consequently, the Class I dollars in which all farmers share have averaged \$2.09 per cwt. more under federal order reform than they would have been under the "old" system which used the Class III price as the Class I mover. This money would have been lost to the dairy farmer had the mover not been changed under reform..

. . . Prices too high to dairy processors. Many presentations concerning the effect of the federal order reform on prices that processors are required to pay tend to highlight the above scenario of increased Class I costs as an unfair result. The average \$2.09 increase in Class I prices are often the target of consumers and processors. However, in almost all cases, federal order minimum prices for milk going into dairy products is less than one year ago due to depressed dairy market commodity prices.

Many within the dairy industry want federal orders to do more - some want them to do less. Dairy producers want more dollars - processors want to pay less. In most cases, federal order reform has performed in the manner that it was intended. It is important to remember that federal orders and the marketplace are two distinct and separate concepts. Before throwing out the notion of successful federal order reform, it might be prudent to consider just what an "ideal" pricing mechanism might be.

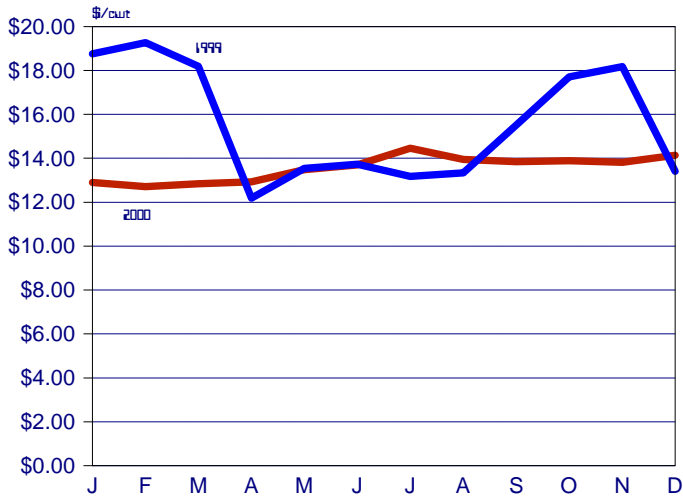
The graphics and tables on the following pages are provided for information. They deal with federal order class prices and federal order values of milk used in selected manufactured products. These graphics and tables provide a glimpse of the past and present dairy environment. Provided are data for 1999 - a year before reform, and 2000 - the first full-year after reform.

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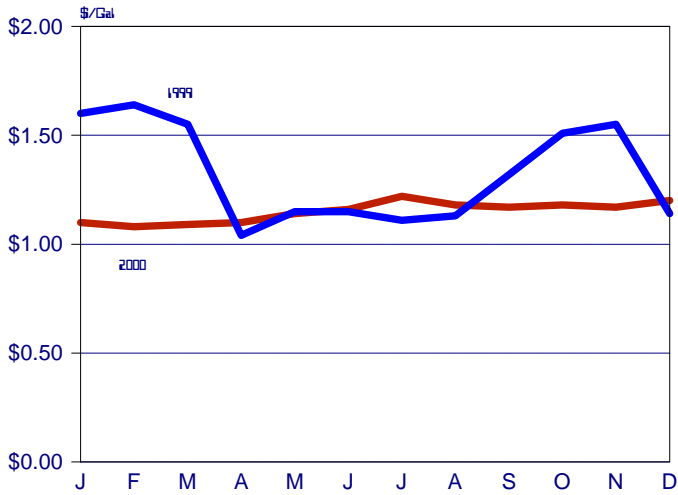
Class I 3.5% BF - St. Louis



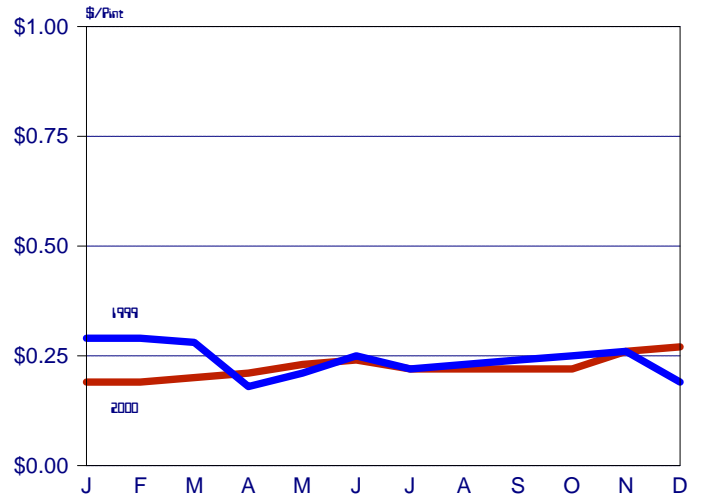
Class II 3.5% BF



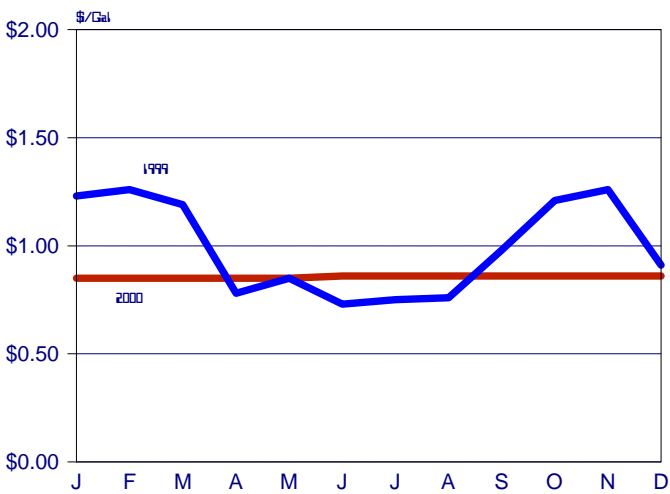
Homo @ 3.25% BF



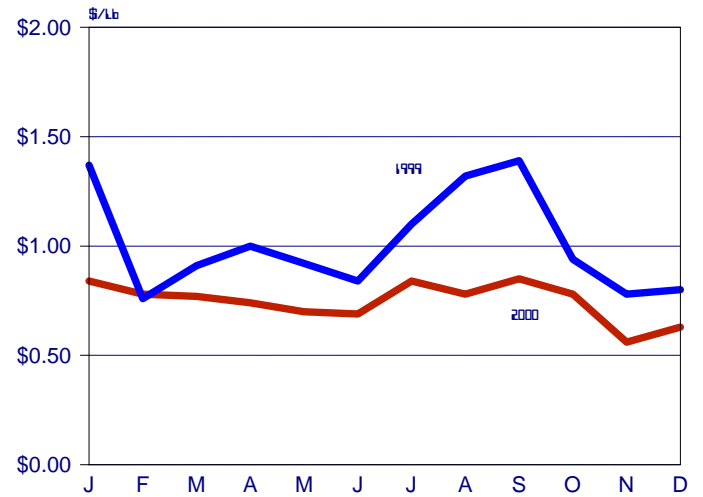
Half & Half @ 10.5% BF



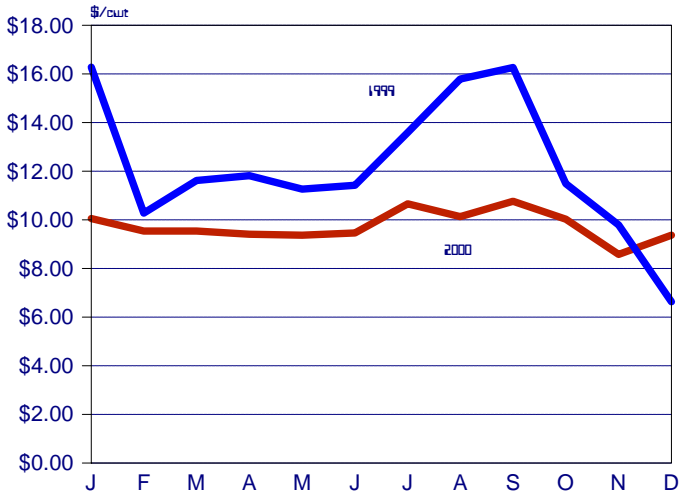
Fat Free @ 0.2% BF



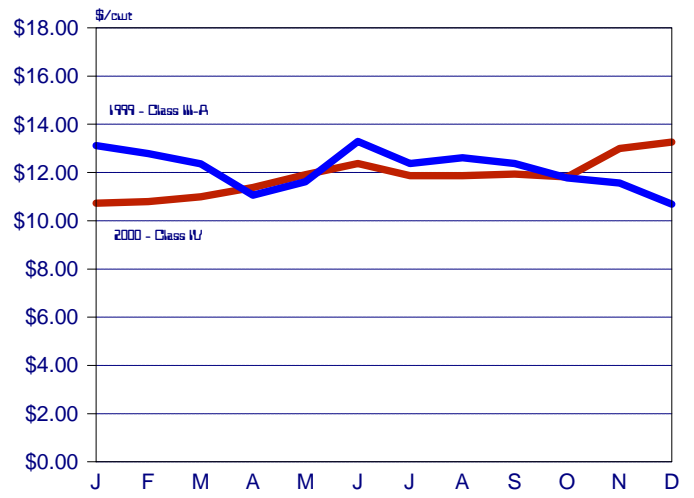
Part Skim Mozzarella



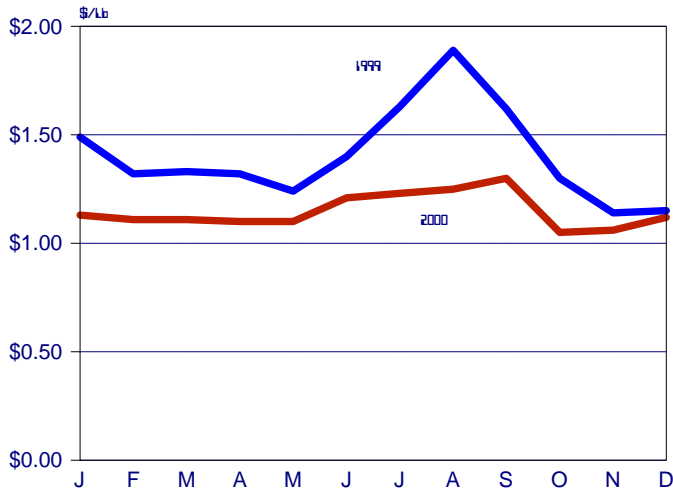
Class III 3.5% BF



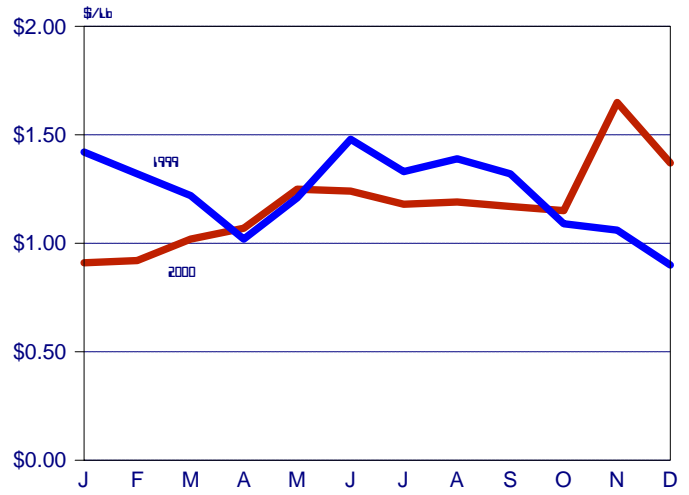
Class III-A & Class IV



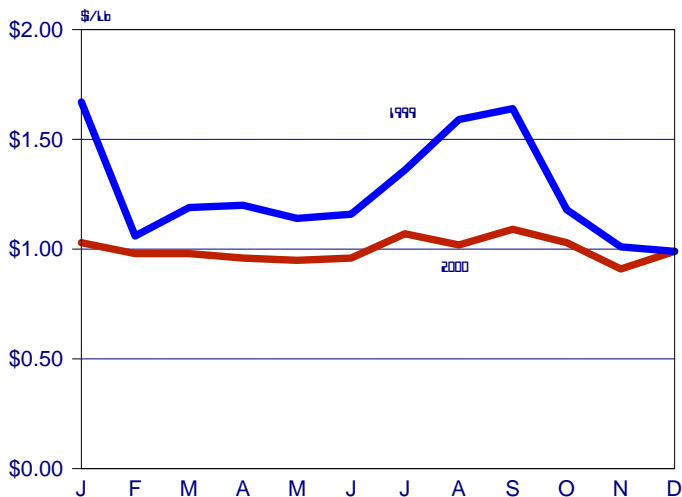
CME 40# Block



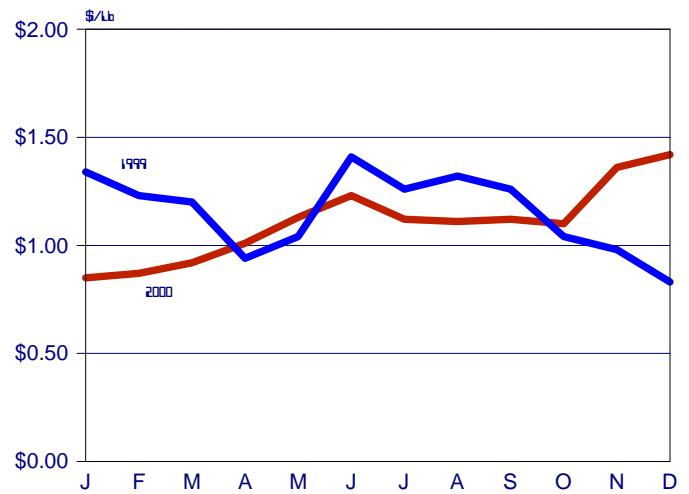
CME Grade AA Butter Price



Whole Milk Cheese



Butter



	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	<u>12/2000</u>	<u>11/2000</u>	<u>12/2000</u>	<u>11/2000</u>	<u>12/2000</u>	<u>11/2000</u>
Pacific Northwest	12.27	13.66	2.90	3.23	33.29	35.06
Western	11.20	10.68	1.83	2.11	27.42	28.71
Arizona-Las Vegas	12.40	11.84	-----	-----	32.28	36.87
Central	11.38	10.85	2.01	2.28	30.55	30.43
Southwest	12.91	12.59	3.54	4.02	49.90	52.65
Upper Midwest	10.60	10.00	1.23	1.43	20.39	21.66
Southeast	14.51	14.14	-----	-----	66.33	68.55
Mideast	12.16	11.91	2.79	3.34	46.39	45.70
Appalachian	14.83	14.76	-----	-----	66.34	74.50
Northeast	13.72	13.36	4.35	4.79	47.94	49.16
Florida	16.10	15.90	-----	-----	86.45	90.14

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