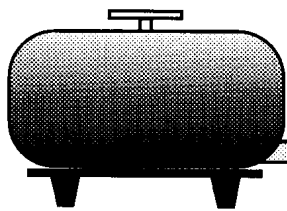


# MARKETING SERVICE

## BULLETIN

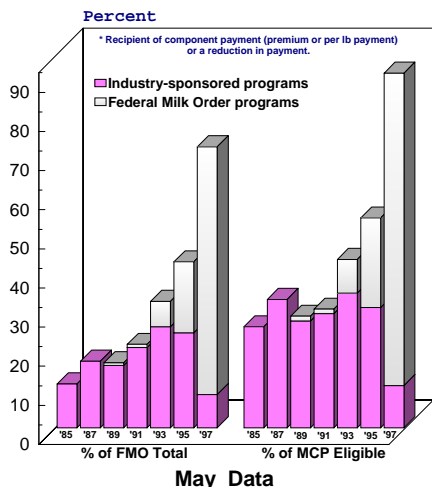


### Multiple Component Pricing Programs Applicable To Federal Milk Order Producers

Multiple Component Pricing (MCP) programs continue to emerge and influence payment to a substantial proportion of dairy farmers in the United States. The proliferation and growth of industry-sponsored and Federal Milk Order (FMO) payment plans has a significant impact on the manner in which dairy farmers are compensated for their marketings. Data compiled by this office indicate that either FMO or industry-sponsored MCP payment procedures were applicable to 79.3 percent of the dairy farmers marketing milk under the FMO program during May 1997. This was an increase of 35.8 percentage points

#### MCP RECIPIENT PRODUCERS \*

As a Percentage of All FMO Producers And All Eligible Producers



compared to May 1985 when 43.5 percent of all FMO producers were eligible for industry-sponsored MCP. (There were no FMO MCP plans in operation during May 1985.) Marketings by MCP-eligible producers changed similarly during this ten year period, increasing from 40.8 percent during May 1985 to 76.1 percent in May 1997.

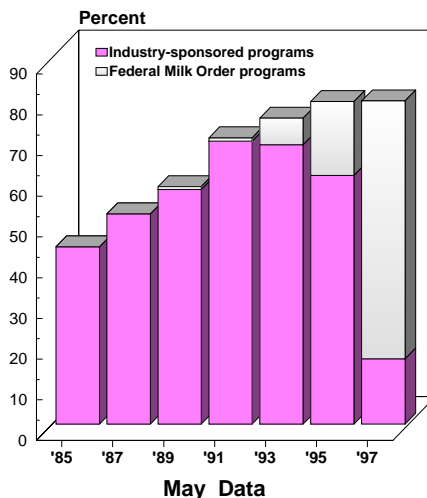
The data pertaining to MCP programs is contained in a report titled **Multiple Component Pricing Programs Applicable To Federal Milk Order Producers, May 1997 Update**. This report updates six previous biennial analyses of MCP programs applicable to FMO producers. Data for these studies was obtained via questionnaires distributed to all Market Administrators and reflects FMO and industry-sponsored MCP programs applicable to all FMO producers.

Producers marketing milk under 27 of the 32 FMOs in operation during May 1997 were subject to payment under some form of MCP program. This compares to 21 out of 44 FMO markets in May 1985. The Chicago Regional, Eastern Ohio-Western Pennsylvania, Eastern South Dakota, Great Basin, Indiana, Iowa, Middle Atlantic, Nebraska-Western Iowa, Ohio Valley, Pacific Northwest, Southwest Idaho-Eastern Oregon, Southern Michigan, and Upper Midwest FMOs had MCP provisions in effect during May 1997. Producers eligible for FMO MCP accounted for 79.8% of the total number of MCP-eligible producers during May 1997. This was up from 22.9% during May 1995.

The upper right graph depicts the number of MCP-eligible producers as a proportion of all FMO producers for the seven surveys that have been conducted. The upper left graph displays the number of producers as a proportion of the FMO total and as a proportion of the MCP-eligible total that actually received MCP payment (either a premium or a deduction). These producers are referred to as MCP

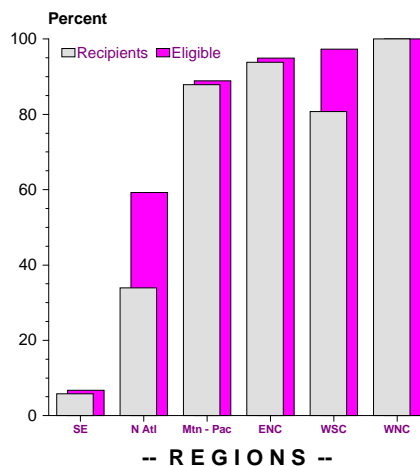
#### PRODUCERS ELIGIBLE FOR MCP PAYMENT

As a Percentage of All FMO Producers



#### ELIGIBLE AND RECIPIENT PRODUCERS

As a Percentage of the FMO Regional Total May 1997

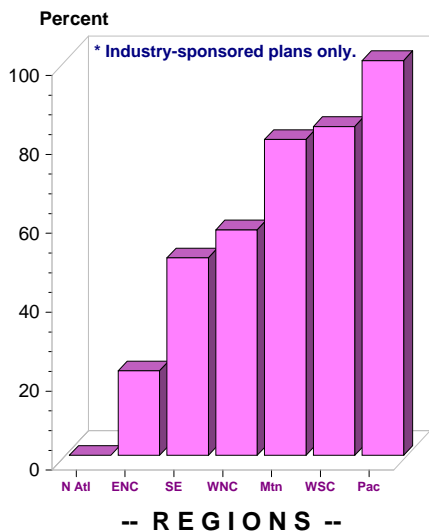


JUNE 1998



## MCP PLANS WITH NEGATIVE ADJUSTMENTS

As a Percentage of the Total Number of Plans\*  
Regional Data - May 1997



recipients. During May 1997, 90.6 percent of all FMO producers eligible for MCP programs actually received a premium or a deduction. This translates into 71.9 percent of all FMO producers. Comparatively, MCP recipients comprised 25.8 percent of all eligible FMO producers during May 1985, and 11.2 percent of all FMO producers.

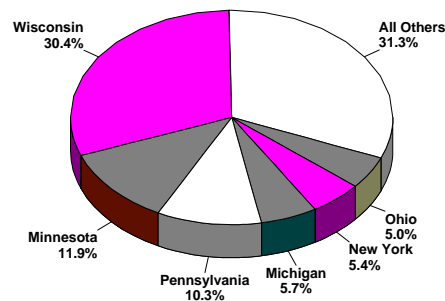
MCP programs applicable to FMO producers varied substantially by region during May 1997. The lower right graph on page 1 details the differences in the number of eligible and recipient producers among six regional groupings of the 32 FMOs. These regions are the: North Atlantic (N Atl), Southeast (SE), East North Central (ENC), West North Central (WSC), West South Central (WSC), and Mountain-Pacific (Mtn-Pac). The WNC Region posted the highest proportion of eligible and recipient producers, with each category equal to 100 percent of the regional FMO total. The SE Region reported a very low incidence of industry-sponsored MCP applicable to FMO dairy farmers with an eligibility rate of only 6.7 percent.

During May 1997, 31.7 percent of all industry-sponsored MCP plans surveyed included negative component adjustments. (This compares to approximately 12 percent during May 1985.) Substantial differences were reported among regions, however. The North Atlantic Region reported the smallest amount with none of the industry-sponsored plans utilizing negative MCP adjustments. The Pacific Region reported the high with 100 percent of all industry-sponsored plans employing negative adjustments. The upper left graph on this page depicts the proportion of the industry-sponsored plans in each region that utilized negative MCP adjustments during May 1997.

A total of 63,961 FMO producer from 40 states were eligible for either FMO or industry-sponsored MCP during May 1997. Wisconsin, with 19,460 FMO dairy farmers eligible, accounted for 30.4 percent of this total. Minnesota recorded the second highest amount, followed by Pennsylvania, Michigan, New York, and Ohio. The pie chart on this page details this data.

## ELIGIBLE FMO PRODUCERS

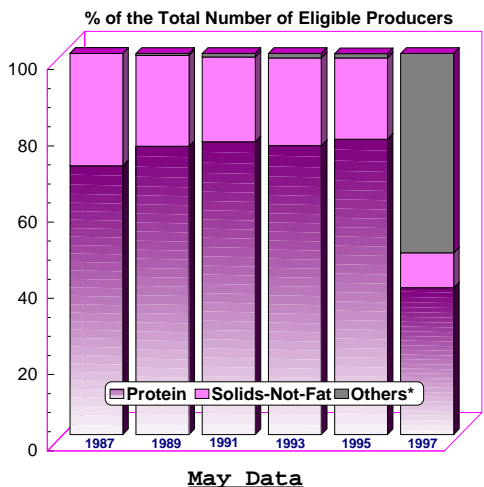
May 1997



Percentage Of All Eligible Farms

## PRODUCERS ELIGIBLE FOR MCP PAYMENT : PERCENTAGE BY PROGRAM TYPE\*

Industry-Sponsored & FMO MCP Programs

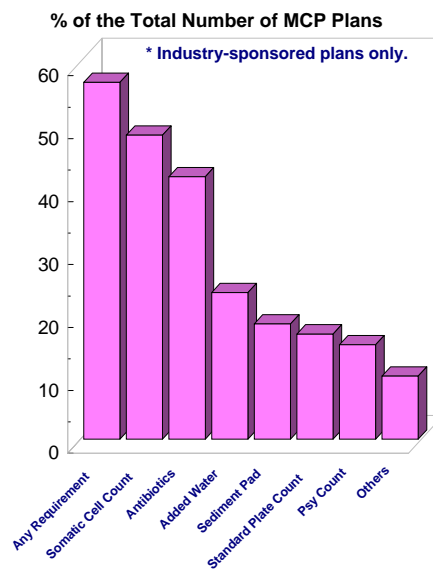


\* The other category includes programs that pay for more than one nonfat component, as well as plans that pay based on cheese yield formulas. Data for May 1985 was not available.

"Other" MCP payment plans were the most prevalent type used during May 1997, accounting for 52.3 percent of the total number of producers eligible for either FMO or industry-sponsored MCP. The "Other" category includes programs that pay for more than one nonfat component as well as plans that pay based on cheese yield formulas. FMO producers were eligible for protein pricing in 25 of the 40 states that reported incidences of MCP during May 1997. Protein pricing accounted for 38.5 percent of the total number of MCP-eligible producers, and it was the only type of MCP plan used in 14 states. Solids-Not-Fat (SNF) pricing accounted for the remaining 9.2 percent of the total number of producers eligible for MCP. The graph to the left depicts the proportion of the total number of eligible producers by each type of MCP payment plan for the last six surveys.

## QUALITY TESTS / REQUIREMENTS

MCP Plans\* Using Each Type - May 1997



The most common base percentage for positive protein adjustments for industry-sponsored MCP programs fell within the 3.10 to 3.19 percentage range, although bases

**MULTIPLE COMPONENT PRICING PROGRAMS APPLICABLE TO FEDERAL MILK ORDER PRODUCERS:  
INDUSTRY-SPONSORED & FEDERAL MILK ORDER PROGRAMS -- MAY 1997**

**Selected Statistics**

	<u>1997</u>	<u>1995</u>	<u>1993</u>	<u>1991</u>	<u>1989</u>	<u>1987</u>	<u>1985</u>
Number of FMOs .....	<b>32</b>	38	40	42	41	43	44
FMOs with MCP Programs .....	<b>27</b>	30	29	30	22	22	21
% of the Total .....	<b>84.4</b>	78.9	72.5	71.4	53.7	51.2	47.7
Number of FMO Producers .....	<b>80,609</b>	90,498	95,564	100,331	103,235	106,880	116,511
Number of MCP-Eligible FMO Producers ..	<b>63,961</b>	71,677	71,726	70,536	60,168	55,294	50,643
% of the FMO Total .....	<b>79.3</b>	79.2	75.1	70.3	58.3	51.6	43.5
Number of MCP-Recipient * Producers .....	<b>57,931</b>	38,428	30,849	21,394	17,090	18,120	13,040
% of the MCP-Eligible Producers .....	<b>90.6</b>	53.6	43.0	30.3	28.4	32.8	25.7
% of the FMO Total .....	<b>71.9</b>	42.5	32.3	21.3	16.6	17.0	11.2
FMO Marketings (millions) .....	<b>10,216.7</b>	10,275.0	9,954.4	9,352.4	9,175.8	8,948.4	8,603.4
MCP-Eligible Marketings (millions) .....	<b>7,779.1</b>	7,825.9	7,218.9	6,345.3	4,892.0	4,300.7	3,507.6
% of the FMO Total .....	<b>76.1</b>	76.2	72.5	67.8	53.3	48.1	40.8
MCP-Recipient * Marketings (millions) .....	<b>7,021.4</b>	4,720.5	3,302.9	2,129.3	1,358.7	1,346.6	946.2
% of the MCP-Eligible Producers .....	<b>90.3</b>	60.3	45.8	33.6	27.8	31.3	27.0
% of the FMO Total .....	<b>68.7</b>	45.9	33.2	22.8	14.8	15.0	11.0

**% Change - 1997 Versus Previous Years:**

Number of FMOs .....	-15.8	-20.0	+23.8	-22.0	-25.6	-27.3
FMOs with MCP Programs .....	-10.0	-6.9	-10.0	+22.7	+22.7	+28.6
Number of FMO Producers .....	-10.9	-15.6	-19.7	+21.9	-24.6	-30.8
Number of MCP-Eligible FMO Producers .....	-10.8	-10.8	-9.3	+6.3	+15.7	+26.3
Number of MCP-Recipient * Producers .....	+50.8	+87.8	+170.8	+239.0	+219.7	+344.3
FMO Marketings .....	-0.6	+2.6	+9.2	+11.3	+14.2	+18.8
MCP-Eligible Marketings .....	-0.6	+7.8	+22.6	+59.0	+80.9	+121.8
MCP-Recipient * Marketings .....	+48.7	-112.6	+229.8	+416.8	+421.4	+642.1

\* Recipient FMO producers (and their corresponding marketings) include all producers who received MCP payment or reduction in payment. This includes those receiving MCP payment per pound of component and those receiving a per hundredweight premium or deduction. During May 1985 there were 15 *industry-sponsored* MCP programs with deductions for component tests below the individual plan's base level. This number increased to 28 during May 1987, to 47 in May 1989, to 58 in May 1991, to 67 in May 1993, but it declined to 57 during 1995 and dropped to 19 in May 1997. During this time frame the number of FMOs with MCP payment provisions increased from 0 in 1985 to 13 during May 1997. Approximately 2.1% of the recipient producers (3.7% of the recipient marketings) received MCP per hundredweight deductions during May 1997. Some "double-counting" of the total number of MCP programs may exist due to the overlap of programs among FMOs. The number of MCP programs will not correspond to the number of organizations using MCP programs since individual organizations may employ more than one MCP program, and may operate in more than one market.

A comparison of Blend Prices for milk of 3.5% butterfat content is provided for selected Federal milk marketing orders:		May 1998	April 1998	May 1997
		Southeast (Zone 7)	\$15.04	\$15.54
	Chicago Regional (Zone I)	11.68	12.71	11.49
	Greater Kansas City	14.07	14.96	14.15
	Indiana	13.82	14.30	13.45
	Iowa (Zone I)	12.08	13.00	11.94
	Southwest Plains (Zone I)	13.24	14.13	13.22
	Central Illinois (Zone I)	13.40	14.44	13.38
	Southern Illinois - Eastern Missouri (Base Zone)	13.15	13.95	12.88

were as low as 3.00 percent and as high as more than 3.50 percent. The most common base component percentage for positive SNF adjustments was the 8.70 to 8.79 percent range, with a low of 8.60 percent and a high of 8.89 percent.

Quality standards are generally used in conjunction with industry-sponsored MCP programs. Quality standards were used as a prerequisite for MCP payment in 56.7 percent of the industry-sponsored MCP plans applicable to FMO producers during May 1997. Somatic cell count maximum levels were specified in all but five of the plans with quality requirements (48.3 percent of all industry-sponsored MCP plans), while standard plate count maximum levels were used in 16.7 percent of the industry-sponsored MCP programs. Tests for antibiotics were included in 41.7 percent of the industry-sponsored MCP plans, while tests for added water were included in 23.3 percent. Sediment pad tests and maximum psychrotrophic bacteria (psy) counts were two other quality criteria employed by several of the industry-sponsored MCP programs applicable to FMO producers. The lower right graph on page 2 further details the quality test/requirements used in the various industry-sponsored MCP plans.

**Selected summary data pertaining to the seven MCP studies that have been published are contained in the table on the previous page. More detailed data regarding the 1997 study, or any of the previous studies, can be obtained by contacting this office.**

**FEDERAL MILK MARKET ADMINISTRATOR**  
 UNITED STATES DEPARTMENT OF AGRICULTURE  
 P.O. BOX 701440  
 TULSA, OKLAHOMA 74170-1440

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