



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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Welcome to the California Federal Milk Marketing Order

This *Bulletin* represents the first market information release by the California Milk Marketing Area-Federal Order 51. The *Bulletin* is targeted to all producers delivering milk to handlers regulated under the provisions of the *new* California Federal Milk Marketing Order (CAFMMO). This monthly publication will serve to inform producers of CAFMMO issues, report on the calculation of the monthly statistical uniform price (SUP) and related statistics, and discuss other CAFMMO or broader Federal Milk Marketing Order (FMMO) topics relevant to the California dairy industry.

Although the pricing provisions of the CAFMMO will not become effective until November 1, 2018 (November SUP calculated and announced by December 14, 2018), two **pre-SUP Bulletins** will be issued during the months October and November. These *Bulletins* will serve as informational resources while the California dairy industry completes the transition from the state milk marketing program administered by the California Department of Food and Agriculture to the CAFMMO.

What to Expect

The FMMO program, operating under the oversight of USDA Agricultural Marketing Service Dairy Program, prides itself on being responsive and representative of the dairy industry within the region regulated and/or impacted by the FMMO. With the implementation of the CAFMMO, the California dairy industry will be operating under the same pricing formulations and regulatory structure as the dairy industry regulated by the existing 10 regional FMMOS. Collectively, the now 11 FMMOS will represent about 80 percent of total U.S. milk production.

While there are similarities between the current California state milk marketing program and the new CAFMMO, there are enough differences between the systems that there may be some confusion in the beginning. Along with this *Bulletin*, the CAFMMO website www.CAFMMO.com is a good place to start when looking for information. Under the “**Policy Statement and Decisions**” section, background “*what you need to know*” types of summaries for producers (continued on page 4)

Upcoming Dates:

Class and Component Prices:

- October 17 – Announcement of Class I Price and Advanced Pricing Factors for November 2018
- October 31 – Announcement of Class and Component Prices for October 2018
- November 21 – Announcement of Class I Price and Advanced Pricing Factors for December 2018
- December 5 – Announcement of Class and Component Prices for November 2018

Producer Prices Announced:

- On or Before December 14, 2018 – Statistical Uniform Price Announcement for November 2018

Nonmember Payment Due Dates:

- Partial Payment – On or before the last day of the month for milk received during the first 15 days of the month (ex. Milk from November 1-15 will be paid on or before November 30).
- Final Payment – No later than the 19th day after the end of the month for milk received during the month (ex. Remainder of milk from November will be paid by December 19).

Payment Due Dates From Handler to Cooperative:

- Payments to Cooperatives – 1 day earlier than partial and final payments as stated above. ❖

Review of Pricing in the CAFMMO

November is the first month when the provisions of the California Federal Milk Marketing Order (CAFMMO) are effective. The November advance price-announcing the Class I price for handlers will be released in mid-October. In early December the Class and Component price announcement for the month of November will be released. In mid-December the first CAFMMO “pool calculation” will take place along with the announcement of the statistical uniform price (SUP) for November. The “pool calculation” is the monthly process whereby the classified value of all of the milk “pooled” under the CAFMMO during the month is calculated and a uniform blend price referred to as the statistical uniform price (SUP) is announced. Refer to “Upcoming Dates” schedule on Page 1 for details.

What Will Look Different

One significant difference between the California State Order and the new CAFMMO is how pooled milk is priced to producers. Under the state order pooled milk received uniform per pound prices for butterfat and solids-not-fat that were an aggregation of class component price values, handler credits, and adjustments. Under the CAFMMO, pooled milk also will have a uniform value referred to as the statistical uniform price (SUP) or blend price, but it will be comprised of the applicable month’s value for butterfat, protein, and other solids together with the producer price differential (PPD).

Payment Factors That Make Up the SUP

Pounds of butterfat produced	X	Butterfat price
Pounds of true protein produced	X	Protein price
Pounds of other solids produced	X	Other solids price
Hundredweight (cwt) of milk produced	X	Announced producer price differential (PPD) adjusted by location

Component Prices

Both the California State Order and the CAFMMO use forms of product price formulas to link dairy commodity market values to values for milk and components in each respective class of utilization. Federal orders use weekly national surveys of wholesale prices for butter, nonfat dry milk, cheese and dry whey. The survey prices serve as a basis for Federal order class prices as well as the component prices received by producers. With California now part of the Federal order system, all 11 Federal orders will utilize the same survey based prices to generate class and component prices.

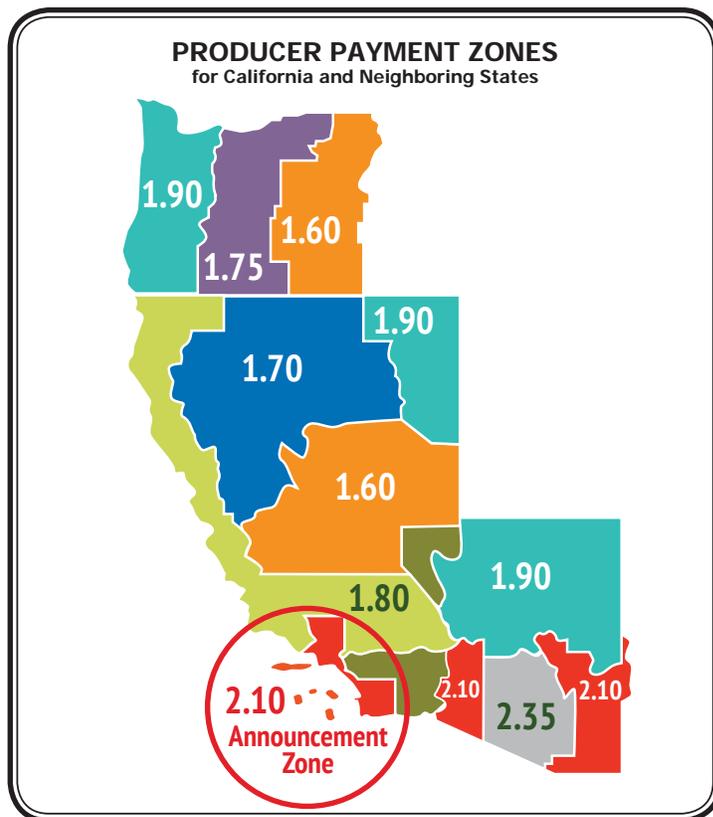
Producer Price Differential

The producer price differential (PPD) portion of a producer’s payment is a calculated number representing class price differences, location adjustments, the test of pooled milk relative to Federal order class price component test assumptions, and how the milk was utilized by class. A different way to think about the PPD is that it equals the value of all pooled milk at class values less its value at Class III component prices. Revenues left over after this calculation are returned to producers on a pro-rata hundredweight basis.

It is expected that the PPD will be both positive and negative depending on how commodity prices and their associated component and class prices change over time, the location where the milk is received, the component test of milk in the pool, and how pooled milk is utilized among the four classes. As commodity prices fall, PPD’s can increase; as commodity prices increase, PPD’s can decrease.

PPD Payment

The PPD payment is adjusted by location of the plant where a producer’s milk is delivered. The blend price and PPD will be announced each month at the \$2.10 differential zone for Los Angeles County, CA. If a producer delivers milk to a plant located in another pricing zone (see map of producer payment zones for California and neighboring states), the PPD value they receive will be adjusted by the difference between \$2.10 and the differential zone of where the plant is located. ❖



Understanding Your Milk Check

With the start of the California Federal Milk Market Order (CAFMMO), producers will be paid for multiple components (butterfat, true protein, and other solids) and a producer price differential (PPD). The PPD is the producer's per hundredweight (cwt) share of the value generated by the market wide pool.

Under this system, the pounds of butterfat, true protein, and other solids in a producer's milk largely determine that producer's pay price. The PPD makes up the balance of the total gross payment to a farmer. The PPD varies due to changes in class prices and milk utilization from month to month. PPD values also are affected by the zone location of the plant(s) to which the milk is shipped during the month.

Explanation of Gross Calculation

To get a better idea of how the PPD and component pricing result in the total gross payment to the farmer, we will look at an example of a hypothetical farm that produces 1,000,000 pounds of milk per month, using July 2018 component prices and the average July 2018 California butterfat test and estimated average protein and other solids tests. To derive this farmer's gross payment, first multiply the test percent of a component by the total pounds of milk produced (as done in the accompanying hypothetical milk check). Then multiply the result by that component's price per pound. Doing this for each component – butterfat, true protein, and other solids – will result in the total component value. Multiply the PPD by the total pounds produced and divide by 100. The sum of the total component value and the PPD value is the total gross payment to the farmer.

Your Net Check After Gross

In addition to the gross value portion of a producer's milk check, any premiums and/or deductions will likely be included. Premiums and deductions often vary by handler. Producers may see a hauling deduction reflecting the cost of moving milk from the farm to a plant. Other deductions may include dairy promotion and cooperative dues and marketing fees. Milk producers that are not a cooperative member will receive market services from the CAFMMO, including verification of component testing, market information, and other field services, and will see a deduction on their check for this.

The producer will see a line item for an authorized deduction to fund the California quota system. One distinct difference between the CAFMMO relative to the state order is that the Federal order pool will not be adjusted, before the blend price is calculated, for the value of the quota. The quota program will be conducted through the Quota Implementation Plan (QIP) by the California Department of Food and Agriculture (CDFA) under the

authority of the state of California. More information on the QIP can be found at: <https://www.cdffa.ca.gov/dairy/ProducerReviewBoard.html>. ❖

Example Milk Check

Farm: Golden State Farm			Check no. 1234	
Total Pounds: 1,000,000				
	<i>Test</i>		<i>Price</i>	<i>Gross</i>
	<i>percent</i>	<i>Pounds</i>	<i>per pound</i>	<i>dollars</i>
Butterfat	3.75	37,500	\$2.5287	\$94,826.25
True Protein	3.07	30,700	\$1.4827	\$45,518.89
Other Solids	5.80	58,000	\$0.1422	\$8,247.60
			<i>Price</i>	
			<i>per cwt</i>	
PPD*		1,000,000	\$0.30	\$3,000.00
Total gross payment:				\$151,592.74
Federal Order Gross price per cwt:				\$15.16
CDFA Quota Premium				\$ +.++
Additional Items Producer may see on Milk Check				
Other Premiums				\$ +.++
Potential Deductions:				
CDFA Quota Assessment				\$ -.-
Hauling Deduction				\$ -.-
Cooperative Dues				\$ -.-
Promotion				\$ -.-
Market Service Deduction				\$ -.-
Net Pay:				\$ ++,+++.
Net Pay Price per cwt:				\$ ++.++
* PPD at \$2.10 differential zone location. Deliveries to plants located in other differential zones may result in lower PPD values.				
Note: This example directly applies to a nonmember producer. Federal orders enforce minimum payments to nonmember producers. Cooperatives may elect to make specific adjustments to member-producer milk checks that may not be represented in this example.				

What is True Protein?

True Protein is one of three milk components that producers gross payment is largely based on under the California Milk Marketing Order. True protein in the milk is the total nitrogen minus the non-protein nitrogen (NPN). Total protein includes the NPN. Reasons true protein are used in pricing include that NPN does not have biological value as protein, does not add to cheese yield, can be highly variable in milk, and its use can cause confusion if other pricing systems use only true protein. The formula for pricing protein changed from a total protein basis to true protein as of January 2000 pricing, following Federal Milk Marketing Reform. ❖



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Welcome *(continued from page 1)*

and handlers can be found. The home page has links to several publications that take a deeper look on a variety of topics including: “price formulas”, “producer milk qualification”, “pooling decision” to name a few.

While choosing permanent office locations and staffing for the CAFMMO are underway, experienced personnel from the 10 existing FMMOS can assist with questions that producers or handlers may have and a temporary office is located in Woodland, CA. If you have questions, please email them to: **market.admin@cafmmo.com** or call **(530)662-2037**. In the meantime, attend information sessions that your handlers, cooperatives or trade associations may conduct with FMMO staff, review the articles in this and future *Bulletins* or on the website, and ask questions. USDA Agricultural Marketing Service Dairy Program and the new CAFMMO are pleased to now be part of the California dairy industry and look forward to fulfilling our mission of *helping to facilitate the efficient marketing of milk and dairy products* through the longstanding FMMO program. ❖

USDA Civil Rights Policy Statement

The hallmark of my tenure as Secretary of the U.S. Department of Agriculture (USDA) is to do right and feed everyone and I don’t intend for that to be just a hollow creed. This pledge is at the heart of our work, which includes our commitment to protecting the civil rights of all USDA employees and customers.

Doing right means treating all people equally, regardless of race, religion, gender, national origin, or any other characteristic. We are part of the same human family, imbued with dignity and worthy of respect. I expect every USDA employee to foster a workplace free from discrimination, harassment, and retaliation so everyone can reach his or her full potential. Our workplace will be a model for proper enforcement of civil rights protections, not only because it’s the law, but also because it’s the right thing to do.

Feeding everyone means it doesn’t matter what you look like or where you come from, USDA programs are for you. Hunger knows no color or creed. Whether we are responding to disasters with food aid, cultivating sustainable agriculture programs overseas, or improving school meals here at home, at USDA we know food has the power to unite.

When you start with a simple expression of integrity and equality, upholding civil rights and all the freedoms enshrined in our laws is not just compulsory, it becomes intrinsic. For that reason and working together, we will continue to return to our touchstone: Do right ... by everyone ... and feed everyone.

Sonny Perdue
Secretary