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NAJ FMMO Hearing Brief

National All Jersey (NAJ) has long been a leading advocate of regulatory integrity and of classified price formulas in federal milk marketing orders (FMMO) that enhance milk marketing efficiency and recognize the value of protein and other nonfat solids (NFS) in milk, including multiple component pricing (MCP) programs.

Last June when USDA's Agricultural Marketing Service (AMS) invited interested parties to submit options to amend FMMO pricing provisions, NAJ submitted a proposal to update the standard component factors used in the Class III and Class IV skim milk price formulas. These formulas set the Class I skim milk price in all federal orders and the Class II, Class III, and Class IV skim milk prices in the four fat-skim orders (Arizona, Appalachian, Florida, and Southeast). The Class III skim milk price formula is (protein price * 3.1) + (other solids price * 5.9), and the Class IV skim milk price formula is (nonfat solids price * 9.0). The skim component factors of 3.1 protein, 5.9 other solids, and 9.0 nonfat solids have been used since FMMO reform was implemented in 2000.

There is no dispute that the content of NFS, protein, and other solids in producer milk has progressively and significantly increased since FMMO reform in the late 1990s, as has butterfat content. Average skim milk components in all FMMO markets with available test results for 2000 and 2022 were as follows:

Year	NFS %	Protein %	Other Solids %
2000	9.04	3.13	5.91
2022	9.41	3.39	6.02

The trend of higher solids components in skim milk is expected to continue due to economic signals to producers from component values and improved production techniques. Because the value of farm milk is derived from these components, as incorporated in the uniform multiple component price formulas, increased components in skim milk has resulted in greater value in the skim portion of producer milk compared to component content during early years following FMMO reform.

The greater value in the skim portion of producer milk, however, has not been incorporated into price formula values for Class I milk. Class I skim milk is priced as if it contains 9% NFS (or 3.1% protein and 5.9% other solids). Although the minimum FMMO price paid by Class I handlers is adjusted for variable butterfat content, it is not adjusted for higher (or variable) NFS content. This is significant because USDA has long recognized that Class I prices should be fixed in relation to the value of milk in manufacturing class uses, and in relation to manufacturers' ability to pay for milk.

Since FMMO reform the standard factor Class

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III and IV reference prices per hundredweight result in corresponding increasing spreads between announced "standard" manufacturing class prices and the actual value of manufacturing class milk. As observed by UDSA data and expert witness analysis, the 2022 announced (standard factor) Class III average skim price was $0.83/cwt lower than the actual value of Class III skim milk with average protein and other solids. Similarly, the 2022 announced (standard factor) Class IV average skim price was $0.61/cwt lower than the actual value of Class IV skim milk with average NFS. Amendment of standard skim milk composition factors is necessary to avoid periods of price inversion, depooling disorder, understatement of relative Class I milk values, milk supply inefficiency, and FMMO-created disincentives to supply milk for Class I use.

Several fluid (Class I) handler representatives' missed the point of price spread/effective differential need for component factor updates. They argued that increased components in Class I milk does not make that milk inherently more valuable because higher skim components do not create more packaged product volume nor more packaged product market value. For most Class I products this is true. But the FMMO Class I pricing reference to Class III and IV manufacturing value means that more skim solids and value in manufacturing class milk also results in a higher regulated value for Class I milk if the price relationship is to be maintained.

Class II, III, and IV Prices in Fat-Skim Orders

As mentioned earlier the skim component factors impact the Class II, III, and IV prices in the four fat-skim orders. The following table shows the current factors understate manufacturing milk components in the three southeast orders, but updating the factors to national averages will overstate components in those orders.

Average FMMO Skim Components 2020, 2022 And Orders 5, 6, and 7 Averages for 2022

		Components in % and Pounds/CWT Skim		
FMMO Order(s)	Year	Protein	OS	NFS
National	2020	3.30	6.01	9.31
National	2022	3.39	6.02	9.41
Appalachian (5)	2022	3.27	6.02	9.29
Florida (6	2022	3.20	5.99	9.18
Southeast (7)	2022	3.38	6.01	9.38
3-market Av.	2022	3.30	6.01	9.30

In each of the three southeast markets, during 2022 more protein, other solids, and nonfat solids were produced per cwt. skim milk than imputed by the current price formulas (3.1 protein, 5.9 other solids, and 9.0 NFS). The formulas create discounted prices. Based on 2022 component prices, the 2022 composition average for the three markets reveals current undervaluation of – a) protein per hundredweight of skim by $0.463 in Order 5, $0.272 in Order 6, and $0.763 in Order 7; and b) NFS by $0.436 in Order 5, $0.270 in Order 6, and $0.571 in Order 7.

AMS has a decision to make. If the standard component factors are not updated, Class I will be undervalued in all orders, and, in addition, Classes II, III, and IV will be undervalued in the fat-skim orders. Updating the skim component factors will bring Class I prices in

line with manufacturing milk values across the MCP orders but will overvalue manufacturing milk prices in the fat-skim orders. Assuming AMS decides to update the skim component factors, NAJ proposed four options to address the southeast pricing issue.

1. The issue can be ignored, and manufacturing milk can be overpriced. Buyers of manufacturing milk, primarily Class II, would likely contest that decision.

2. AMS could address the issue by considering MCP pricing for current fat/skim markets, either in a reopening of this hearing (which would be most efficient), or in a separate (less efficient) hearing following a decision in this proceeding. Hearing evidence unquestionably demonstrates that MCP pricing in the fat/skim markets would avoid the uniform price issues and avoid results in which skim components are overpriced, underpriced, or not priced at all in fat/skim markets. The FMMO Reform objective of charging the "same price per component pound" for all manufacturing class use in all markets could then be realized (or reestablished) by an MCP hearing for the four markets soon.

3. For manufacturing class prices in fat/skim markets, AMS could use different skim milk factors than apply to the Class I price mover(s), just as FMMOs in the past used different formulas for the "basic formula price" (Class I use) and for Class III (manufacturing class) pricing purposes. Perhaps, for example, Northeast Order average skim milk composition values should be used for fat/skim market Class II, III and IV manufactured price formulas because Northeast averages correspond more closely to averages observed in the three southeast markets. This might produce regulated prices that are 'just about the same' to competing handlers within fat/skim markets, but not provide inter-market price uniformity.

4. The fat/skim manufacturing class prices could be left where they are for now with the understanding that the issue will be addressed in some manner in the near future.

AMS is in the process of reviewing over 12,000 pages of the hearing transcript and more than 500 exhibits. Interested parties have until April 1 to file post-hearing briefs. A recommended decision is expected by early July, although an additional two weeks may pass before it is officially published in the Federal Register. Another 60 days will be given to interested parties to submit comments and exceptions to the recommended decision. Then AMS will issue a final decision 60 days later (November), followed by a producer referendum. The final step will be for AMS to announce when the price amendments will take effect for the orders that approve the Final Decision. Any orders that do not approve the Final Decision will be disbanded.

The process that started May 1, 2023 with NMPF's hearing request is slowly nearing completion. The task before AMS is formidable. But NAJ is confident that the agency can again, reconcile competing interests in its role as "protagonist for provisions in the order which, in the wide experience of its staff, would best serve the stated purposesof the (Agricultural Marketing Agreement) Act." Nourse Report, pp III-8, III-31.

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NAJ Milk & Component Outlook - *February 2024 Jersey Price Comparisons*

February '24 STATISTICAL BLEND PRICE

Northeast (Boston)	$19.69
Appalachian (Charlotte)	$21.00
Southeast (Atlanta)	$21.51
Florida (Tampa)	$22.88
Mideast (Cleveland)	$17.96
Upper Midwest (Chicago)	$16.40
Central (Kansas City)	$17.64
California (Los Angeles)	$17.41
Southwest (Dallas)	$18.18
Arizona (Phoenix)	$19.04
Pacific Northwest (Seattle)	$17.96
ALL FMMO MARKET AVERAGE	**$19.06**

Prices reflect Federal Order minimum blend prices for city shown.

February '24 MONTHLY MILK VOLUME (Million #)

Northeast (Boston)	2,159
Appalachian (Charlotte)	418
Southeast (Atlanta)	272
Florida (Tampa)	215
Mideast (Cleveland)	1,271
Upper Midwest (Chicago)	2,544
Central (Kansas City)	1,188
California (Los Angeles)	1,959
Southwest (Dallas)	1,020
Arizona (Phoenix)	395
Pacific Northwest (Seattle)	576
ALL FMMO MARKET TOTAL	**12,019**

Total Grade A milk volume sold under FMMO during month.

February '24 JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$23.32
Appalachian (Charlotte)	$24.27
Southeast (Atlanta)	$24.71
Florida (Tampa)	$26.74
Mideast (Cleveland)	$21.77
Upper Midwest (Chicago)	$19.92
Central (Kansas City)	$21.34
California (Los Angeles)	$18.13
Southwest (Dallas)	$21.67
Arizona (Phoenix)	$22.35
Pacific Northwest (Seattle)	$20.82
ALL FMMO MARKET AVERAGE	**$22.28**

Prices reflect FMMO minimum prices at Jersey component values.

February, '24 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$23.64
Appalachian (Charlotte) (includes protein prem.)	$24.69
Southeast (Atlanta)	$24.71
Florida (Tampa)	$26.74
Mideast (Cleveland) (includes protein premium)	$22.36
Upper Midwest (Chicago) (includes cy premium)	$20.27
Central (Kansas City)	$21.34
California (Los Angeles)	$18.13
Southwest (Dallas)	$21.67
Arizona (Phoenix) (includes protein)	$22.79
Pacific Northwest (Seattle)	$20.82
ALL FMMO MARKET AVERAGE	**$22.47**

Includes a protein premium of $0.05 for every 0.01% increase in protein over the market average.

February '24 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$3.95
Appalachian (Charlotte)	$3.69
Southeast (Atlanta)	$3.20
Florida (Tampa)	$3.86
Mideast (Cleveland)	$4.40
Upper Midwest (Chicago)	$3.87
Central (Kansas City)	$3.70
California (Los Angeles)	$0.72
Southwest (Dallas)	$3.49
Arizona (Phoenix)	$3.75
Pacific Northwest (Seattle)	$2.86
ALL FMMO MARKET AVERAGE	**$3.41**

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

February '24 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	20.1%
Appalachian (Charlotte)	17.6%
Southeast (Atlanta)	14.9%
Florida (Tampa)	16.9%
Mideast (Cleveland)	24.5%
Upper Midwest (Chicago)	23.6%
Central (Kansas City)	21.0%
California (Los Angeles)	4.1%
Southwest (Dallas)	19.2%
Arizona (Phoenix)	19.7%
Pacific Northwest (Seattle)	15.9%
ALL FMMO MARKET AVERAGE	**17.9%**

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION

	Feb-24
Butterfat	5.19
TRUE Protein	3.97
Other Solids	5.73
Solids Not Fat (SNF)	9.70
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.74
CME Block Cheese Price	$ 1.58

REGULATED MILK PRICES

	Feb-24
FMMO Milkfat	$ 3.1031
FMMO True Protein	$ 1.2255
FMMO Other Solids	$ 0.2738

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:

	Feb-24
FMMO Milkfat Adjustment	$3.01
FMMO True Protein Adjustment	$0.74
FMMO Other Solids Adjustment	($0.01)

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NAJ Milk & Component Outlook - *2024 Prices through February*

2024 AVERAGE STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER

Northeast (Boston)	$19.50
Appalachian (Charlotte)	$21.05
Southeast (Atlanta)	$21.56
Florida (Tampa)	$22.97
Mideast (Cleveland)	$17.93
Upper Midwest (Chicago)	$15.99
Central (Kansas City)	$17.43
California (Los Angeles)	$17.10
Southwest (Dallas)	$17.95
Arizona (Phoenix)	$18.92
Pacific Northwest (Seattle)	$17.67
ALL FMMO MARKET AVERAGE	**$18.91**

Prices reflect Federal Order minimum blend prices for city shown.

2024 MILK VOLUME (Million #)

Northeast (Boston)	4,415
Appalachian (Charlotte)	894
Southeast (Atlanta)	592
Florida (Tampa)	445
Mideast (Cleveland)	2,766
Upper Midwest (Chicago)	5,173
Central (Kansas City)	2,478
California (Los Angeles)	4,033
Southwest (Dallas)	2,107
Arizona (Phoenix)	847
Pacific Northwest (Seattle)	1,185
ALL FMMO MARKET TOTAL	**24,935**

Total Grade A milk volume sold under FMMO.

2024 AVERAGE JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$23.13
Appalachian (Charlotte)	$24.30
Southeast (Atlanta)	$25.83
Florida (Tampa)	$26.86
Mideast (Cleveland)	$21.66
Upper Midwest (Chicago)	$19.46
Central (Kansas City)	$20.96
California (Los Angeles)	$18.25
Southwest (Dallas)	$21.31
Arizona (Phoenix)	$22.27
Pacific Northwest (Seattle)	$20.43
ALL FMMO MARKET AVERAGE	**$22.22**

Prices reflect FMMO minimum prices at Jersey component values.

2024 AVERAGE JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$23.45
Appalachian (Charlotte) (includes protein prem.)	$24.73
Southeast (Atlanta)	$25.83
Florida (Tampa)	$26.86
Mideast (Cleveland) (includes protein premium)	$22.26
Upper Midwest (Chicago) (includes cy premium)	$19.80
Central (Kansas City)	$20.96
California (Los Angeles)	$18.25
Southwest (Dallas)	$21.31
Arizona (Phoenix) (includes protein)	$22.71
Pacific Northwest (Seattle)	$20.43
ALL FMMO MARKET AVERAGE	**$22.42**

Includes a protein premium of $0.05 for every 0.01% increase in protein over the market average.

2024 AVERAGE DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$3.95
Appalachian (Charlotte)	$3.68
Southeast (Atlanta)	$3.55
Florida (Tampa)	$3.89
Mideast (Cleveland)	$4.33
Upper Midwest (Chicago)	$3.80
Central (Kansas City)	$3.52
California (Los Angeles)	$1.14
Southwest (Dallas)	$3.35
Arizona (Phoenix)	$3.79
Pacific Northwest (Seattle)	$2.75
ALL FMMO MARKET AVERAGE	**$3.43**

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

2024 AVERAGE PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	20.3%
Appalachian (Charlotte)	17.5%
Southeast (Atlanta)	15.9%
Florida (Tampa)	16.9%
Mideast (Cleveland)	24.1%
Upper Midwest (Chicago)	23.8%
Central (Kansas City)	20.2%
California (Los Angeles)	6.7%
Southwest (Dallas)	18.7%
Arizona (Phoenix)	20.0%
Pacific Northwest (Seattle)	15.6%
ALL FMMO MARKET AVERAGE	**18.2%**

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION	2024
Butterfat	5.23
TRUE Protein	3.98
Other Solids	5.73
Solids Not Fat (SNF)	9.71
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.78
CME Block Cheese Price	$1.55

REGULATED MILK PRICES	2024
FMMO Milkfat	$3.0398
FMMO True Protein	$1.1760
FMMO Other Solids	$0.2578

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:	2024
FMMO Milkfat Adjustment	$2.73
FMMO True Protein Adjustment	$1.11
FMMO Other Solids Adjustment	($0.01)

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