Producer milk payment systems in the U.S.

John Geuss for Progressive Dairyman

Editor’s note: This is the first of four articles explaining producer payment systems for milk in the U.S.

The vast majority of producers in the U.S. are paid by one of the three systems – the Federal Milk Marketing Order component payment system, the California payment system and the Federal Milk Marketing Order advanced payment system. These systems share a common theme in that the payment is calculated based on the wholesale price of products produced from milk.

Structured payment systems like the Federal Milk Marketing Orders have been in place for over a century and continue to dominate producer payment for milk in the U.S. The last major revision of the Federal Milk Marketing Order system was implemented in January 2000. This system controls payment for two-thirds of the milk produced in the U.S. The payment systems were developed because milk is essential to health. It was therefore controlled to ensure an adequate supply of fresh milk. Essential to ensuring an adequate supply of fresh milk, producer milk pricing processes were developed to help producers and processors survive financially.

In 1937, California was able to convince the courts their milk supply and usage were not interstate commerce. California was therefore allowed to manage their own payment system. Today, California would have difficulty proving their milk is intrastate, but the system still stands. However, there is serious effort under way to bring California producers back into the federal order system.

More recently, other events have reduced the federal government control of pricing. In May 2004, the Western Federal Milk Marketing Order was disbanded. In this area, milk can be priced by any method agreeable between the producer and the processor. In reality, many of the payment systems are similar to the federal milk order system that existed previously.

A new shifting pattern that can be significant is de-pooling. In some years as much as 20 percent of the milk in the Upper Midwest is “de-pooled,” or removed from the federal order pricing requirements. De-pooling takes place when Class III milk for cheese is priced higher than the weighted value of the other three classes of milk.

Consumption of dairy products has changed materially over the last 50 years. Consumer eating and drinking habits have significantly changed. Per capita fluid milk consumption has dropped by 30 percent since 1960. Per capita butter consumption has dropped by 70 percent since 1930. Cheese per capita consumption has increased 300 percent since 1970. Improved transportation and the dominance of processed milk products that contain less water have reduced geographical barriers, and the U.S. dairy industry is now in transition to be an international business.

These consumption changes have also changed the nature and geographical landscape of milk production. For instance, Florida, which is a fluid milk market, shingles every year – while Wisconsin, where more than 90 percent of the milk is used for cheese, continues to grow.

Florida producers are paid on the advanced system, and Wisconsin producers are paid on the component system. The changing consumption patterns have reduced the amount of milk paid on the advanced system and increased the amount of milk paid on the component system.

The four federal milk orders paid on the ‘advanced’ system, paying for hundredweights of skimmed milk and butterfat, provide primarily fluid milk for drinking. The system is called the ‘advanced’ system because prices are announced in advance of milk production.

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2014 U.S. milk production

Component pricing 55%
Advanced pricing 9%
California 20%
Other 16%

* Including unpooled milk as part of the component total.

2014 milk receipts for six component FMMOs

Class 27%
Class 11%
Class 6%
Class 12%
Class 12%
Class 16%

2014 milk receipts for advanced payment FMMOs

Class 15%
Class 18%
Class 43%
Class 18%
Class 30%

2013 California milk receipts (Class I FMMO Classification)

Class I 13%
Class I 18%
Class I 43%
Class I 30%

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