USDA Public Meeting:
Proposed California Federal Milk Order
Agenda

• **Rulemaking Process:** *A look back*

• **Overview:** *Proposed CA FMMO Provisions*

• **Update:** *Where are we in the rulemaking process?*

• **Q&A**
CA FMMO: A Look Back

HEARING AND RULEWRITING, 2015-2017

USDA held public hearing in Clovis, CA
September 22-November 18, 2015

May 16, 2016
Post-hearing briefing period ended

USDA published recommended decision
February 14, 2017

May 15, 2017
Public comment period ended; 23 comments received
CA FMMO: Certification of the Record

- **February 6, 2018:** USDA issues notice announcing delay of rulemaking due to ALJ issue
- **February 14, 2018:** Secretary of Agriculture appoints USDA Judicial Officer to review CA FMMO hearing record
- **March 9, 2018:** USDA Judicial Officer ratifies CA FMMO hearing record, enabling USDA to move forward with rulemaking proceeding
CA FMMO: Final Decision

April 2, 2018: USDA issues Final Decision
- Continues to recommend establishing a FMMO for California
- Addresses 23 public comments received
- Regulatory Economic Impact Analysis published
Proposed California Federal Milk Marketing Order:
Overview
Standards are:
- Tailored to the local marketing order
- *Performance-based*
- Designed to encourage service to Class I market

Standards determine:
- ✓ *Plants* eligible to pool their milk supply
- ✓ *Producers* eligible to have their milk pooled
- ✓ *Milk* eligible to be pooled
Class I fully regulated plants **must** pool
Class II, III, and IV manufacturing plants have the option to pool
Farmers must be **qualified as a producer** so their milk is eligible for pooling
**Handlers** make pooling decisions
How do you qualify as a producer?

- You produce Grade A milk.
- Your milk is received at a pool plant.

How would your milk qualify to pool?

- At least 1-day’s milk production must be **physically received** at a pool plant during the first month.

How would you decide to pool my milk?

- Handlers and cooperative handlers, **not individual producers**, make the pooling decision.
If you are an Independent Producer:

- You are not a member of a USDA-FMMO approved Capper-Volstead cooperative.
- The handler to whom you sell your milk must decide whether to qualify you for pooling by ensuring 1-day’s production is physically received at a pool plant during the first month they want to qualify you as a producer.
If you are a Cooperative Member:

- Your Cooperative must be a **USDA-FMMO approved** Capper-Volstead cooperative.
- If your Cooperatives decides to pool milk, they:
  - Will ensure that you and your milk qualify to pool.
  - Can act as a handler making the pooling decision.
Proposed California Federal Milk Marketing Order: Producer Payments
Producer Payment Includes:

- **Prices per pound** of the Class III values of butterfat, true protein, and other solids contained in your milk pooled.

- **Producer Price Differential (PPD)**
  - The PPD is the remaining market value of your milk after accounting for the Class III component values.
  - The PPD is paid on a per hundredweight (cwt) basis.
  - Your PPD is **adjusted by location**. The adjustment is the difference between the $2.10 announcement zone in Los Angeles County, CA, and the location of the plant where your milk is delivered.
What is the Producer Price Differential?

Producer Price Differential:

= $0.00/cwt, if pool classified value is equal to Class III value

= Positive value, if pool classified value is greater than Class III value

= Negative value, if pool classified value is lower than Class III value
Positive Producer Price Differential

Pool Revenue

- Class I Handler Value
- Class II Handler Value
- Class III Handler Value
- Class IV Handler Value

Producer Component Values (Class III)

- Butterfat Value
- Protein Value
- Other Solids Value

POSITIVE PRODUCER PRICE DIFFERENTIAL (PPD)
Negative Producer Price Differential

Pool Revenue

- Class I Handler Value
- Class II Handler Value
- Class III Handler Value
- Class IV Handler Value

Producer Component Values (Class III)

- Butterfat Value
- Protein Value
- Other Solids Value

NEGATIVE PRODUCER PRICE DIFFERENTIAL (PPD)
When the value of the pool is greater than your Class III component value payments, the PPD is positive.
Negative Producer Price Differential

When the value of the pool is less than your Class III component value payments, a PPD is negative.
Important to remember:

- Prices announced **before** the month:
  - Class I prices
  - Class II skim price and Class II nonfat solids price
- Prices announced **after** the month:
  - Butterfat price
  - Class III and Class IV prices
- Producers paid at Class III component values
- Negative PDDs can occur at times because of classified price relationships
Pricing—Location Adjustment

- Order Blend price announced at the Los Angeles $2.10 zone
- Prices received by producers will reflect location pricing *(by the plant of first receipt)*

**Examples:**

- If you deliver to a plant located in the $1.60 zone
  \[\text{Your PPD} = \text{announced PPD} - 0.50 \text{ / cwt}\]

- If you deliver to a plant located in the $1.80 zone
  \[\text{Your PPD} = \text{announced PPD} - 0.30 \text{ / cwt}\]
How is my payment calculated?

Pounds of butterfat produced $\times$ butterfat price

+ Pounds of true protein produced $\times$ protein price

+ Pounds of other solids produced $\times$ other solids price

+ (cwt of milk $\times$ PPD*)

- Authorized Deductions

= Producer Payment

*Adjusted for location
A Producer Payment ALSO Includes Authorized Deductions:

- CDFA-administered quota assessment.
- National Dairy Promotion and Research Board assessment.
- California FMMO Market Administrator Assessment if services are provided to producers (excluding cooperative members already receiving market services).
  - Producers receiving FMMO marketing services would be assessed a maximum of $0.07 per cwt on their pooled milk. Services include verifying weights, samples and tests of producer milk; providing market information for producers not receiving such services from a cooperative
- Other deductions authorized in writing by you, the producer
FMMO component prices:

- **Butterfat Price:**
  - $(\text{NDPSR butter price} - 0.1715) \times 1.211$

- **Nonfat solids Price:**
  - $(\text{NDPSR NFDM price} - 0.1678) \times 0.99$

- **Protein Price:**
  - $(\text{NDPSR cheddar cheese price} - 0.2003) \times 1.383$
  - (Butterfat adjustment)

- **Other Solids Price:**
  - $(\text{NDPSR dry whey price} - 0.1991) \times 1.03$

*announced on or before the 5th of the following month*
FMMO component prices:

- Butterfat Price:
  - (NDPSR butter price - $0.1715) * 1.211
- Nonfat solids Price:
  - (NDPSR NFDM price - $0.1678) * .99
- Protein Price:
  - (NDPSR cheddar cheese price - $0.2003) * 1.383
- Other Solids Price:
  - (NDPSR dry whey price - $0.1991) * 1.03

*announced on or before the 5th of the following month
FMMO component prices:

- Butterfat Price:
  - (NDPSR butter price - $0.1715) * 1.211
- Nonfat solids Price:
  - (NDPSR NFDM price - $0.1678) * 0.99
- Protein Price:
  - (NDPSR cheddar cheese price - $0.2003) * 1.383
    - (Butterfat adjustment)
- Other Solids Price:
  - (NDPSR dry whey price - $0.1991) * 1.03

*announced on or before the 5th of the following month
Pricing—Component Price Calculations

FMMO component prices:

- Butterfat Price:
  - (NDPSR butter price - $0.1715) * 1.211
- Nonfat solids Price:
  - (NDPSR NFDM price - $0.1678) * .99
- Protein Price:
  - (NDPSR cheddar cheese price - $0.2003) * 1.383 – (Butterfat adjustment)
- Other Solids Price:
  - (NDPSR dry whey price - $0.1991) * 1.03

*announced on or before the 5th of the following month
How are prices announced?

- AMS publishes component prices as well as Class II, III, and IV milk in the Announcement of Class and Component Prices released no later than the 5th of the following month, located at www.ams.usda.gov/mnreports/dymclaspices.pdf.
- Producer prices are announced on or before the 14th day after the end of the month.
- While prices are announced at the standard 3.5% butterfat, payments are based on what you actually produce.
When do you receive a payment?

<table>
<thead>
<tr>
<th>Proposed CA FMMO Producer Payment Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment to Producers</strong></td>
</tr>
<tr>
<td>Partial Payments</td>
</tr>
<tr>
<td>Final Payments</td>
</tr>
<tr>
<td>Payments to Cooperatives</td>
</tr>
</tbody>
</table>
Who pays you?

Cooperatives who are the “Pooling Handler” for the milk they market (member or independent):
- Account to the pool at minimum classified use value for raw milk
- Pay minimum blend prices to independent producers
- May pay a reblended price to cooperative members

Proprietary Handlers who pool milk of independent producers:
- Pay minimum blend price to independent producers
Proposed California Federal Milk Marketing Order: Order Provisions Continued
### Comparison: CSO and CA FMMO Classification

<table>
<thead>
<tr>
<th>CSO Class</th>
<th>Proposed California FMMO Class</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1</td>
<td>Class I</td>
<td>Fluid</td>
</tr>
<tr>
<td>Class 2 &amp; 3</td>
<td>Class II</td>
<td>Soft products</td>
</tr>
<tr>
<td>Class 4b</td>
<td>Class III</td>
<td>Hard Cheeses</td>
</tr>
<tr>
<td>Class 4a</td>
<td>Class IV</td>
<td>Butter and Powders</td>
</tr>
</tbody>
</table>
CA FMMO Provisions: Quota Recognition

- California Quota Program remains separate from FMMO
- CDFA will continue to maintain, administer, and enforce the program, independent of FMMO
- Quota recognition in the CA FMMO would be through an **authorized deduction** in payments due to producers
- CDFA would determine and announce the deduction amount
Plants may receive exempt status IF they:

- Have under 150,000 pounds/month of Class I route disposition
- Are operated by a government agency or colleges/universities with no commercial disposition
- Have all route disposition allocated to charitable purposes
CA FMMO Provisions: Producer-Handler Status

You may become a producer-handler IF you:

- Operate a farm and a distributing plant at your sole enterprise and risk
- Have distributing plant fluid milk sales under 3 million pounds per month
- Receive milk solely from your own farm or from other fully regulated handlers;
- Purchase milk from other fully regulated handlers under 150,000 pounds per month; AND
- Request producer-handler status (determined by the Market Administrator)

Once an entity obtains producer-handler status, they are exempt from the pricing and marketwide pooling provisions of the order, but they still have reporting obligations.
Proposed California Federal Milk Marketing Order: Rulemaking Process Update
Update: Where are we in the Rulemaking Process?

- USDA issued a Final Decision (April 2, 2018)
- Affected producers vote on proposed FMMO
- USDA determines producer approval
- USDA issues final rule or termination of proceeding
- USDA implements order (if approved by producers)
Producers eligible to vote supplied CA with Grade A milk during May 2017.

Your USDA-FMMO approved Cooperative may bloc-vote on behalf of its members.

Votes are on the entire order as proposed, not individual provisions.

You should have received either a mailing containing general information or a ballot, depending on whether your Cooperative has opted to bloc-vote.
If you did not receive a ballot and believe that you should have, send an email to californiainfo@ams.usda.gov or call (202-720-4392)

If your Cooperative has elected to bloc vote, you were not sent a ballot.
Each producer (business organization) gets a **single vote.**

**IF** a producer has more than one dairy farm, the following applies:

<table>
<thead>
<tr>
<th>Cooperative Farms</th>
<th>Farms that are both Cooperative and Independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vote goes to Cooperative (bloc vote) with greatest volume. Only the volume of milk delivered to that Cooperative will be counted. <strong>IF</strong> the Cooperative with the greatest volume decides not to bloc vote, the producer will vote but <strong>ONLY</strong> the volume of milk delivered to that Cooperative will be counted.</td>
<td>If total volume of independent milk is greater than the total volume of the Cooperative milk → vote is cast by the <strong>producer</strong> and only the volume of milk delivered as independent milk will be counted.</td>
</tr>
<tr>
<td></td>
<td>If total volume of Cooperative milk is greater than the total volume of independent milk → vote is cast by the <strong>Cooperative</strong> and only the volume of milk delivered to that Cooperative is counted.</td>
</tr>
</tbody>
</table>
The order will be approved if “YES” ballots are received by:

- 2/3 of **voting** producers OR
- 2/3 of **voting** milk volume

- Ballots must be postmarked by **May 5, 2018**.
Overview: Producer Approval Notification

- USDA issued a Final Decision (April 2, 2018)
- Affected producers vote on proposed FMMO
- USDA determines producer approval
- USDA issues final rule or termination of proceeding
- USDA implements order (if approved by producers)

- USDA will announce the result of the referendum in the Federal Register through:
  
  - A Final Rule *(if approved by producers)*, OR
  - A Termination of Proceeding
If approved by producers, USDA will work to implement a CA FMMO.

Implementation date would be targeted for late fall 2018.
For more information:
www.ams.usda.gov/caorder

Questions…

Californiainfo@ams.usda.gov