Recent Changes to FMMO Provisions

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Market Administrator
Federal Orders 6 & 7
Atlanta, GA

35th Annual Southern Dairy Conference
January 28, 2009
Ex-Parte Restrictions

- Not discussing merit (7 CFR §900.16)
- This will be published on USDA website
Issues Facing the Southeast

- Declining milk production
- Increasing cost of supplying fluid markets
  - Class I price surface gives insufficient incentive to move milk for fluid use
  - Transportation credits cover only a portion
- Manufacturing class prices (esp. Class II) do not reflect transit cost/location value
**The total pounds of milk pooled on any federal order from the states of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri and Tennessee**

**2000-2007**

Down 24.4% from '00 to '07 [-3.5%/yr]

Down 5.9% from '06 to '07
State Milk Production (bil)

2000 - 2007

% Change 00' to 07'
FL: -16.1%
MO: -23.0%
KY: -25.1%
GA: -3.2%
TN: -27.2%

Combined: -19.0%
07' Milk/Cow: 16,500
State Milk Production (bil)

2000 - 2007

% Change 00' to 07'
LA: -50.8%
MS: -40.7%
AR: -57.2%
AL: -42.0%

Combined: - 48.1%
07'Milk/Cow: 14,100
Total Producer Milk and Number of Farms *
(*Pooled on Southeast & Florida Orders only)

2000 - 2007

Southeast States & Florida Combined

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Producer Milk (Billions)</th>
<th>No. Farms</th>
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</thead>
<tbody>
<tr>
<td>2000</td>
<td>4,927</td>
<td>8,16</td>
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<tr>
<td>2001</td>
<td>4,575</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>4,430</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>4,107</td>
<td></td>
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<tr>
<td>2004</td>
<td>3,662</td>
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<td>2005</td>
<td>3,366</td>
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<tr>
<td>2006</td>
<td>3,184</td>
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<tr>
<td>2007</td>
<td>2,968</td>
<td>6,38</td>
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</table>

Milk: -22%
Farms: -40%
Federal Orders 6 & 7
Atlanta Market Administrator

AMS / Dairy Programs

Interim Final Rule Issued – March’08

→ **Temporary Adjustments to Class I Prices in Appalachian, Florida and Southeast**

1. Temporary adjustments to Class I pricing surface
2. Lower diversion percentage limits
3. Change delivery day requirements
4. Expand transportation credits

**NOTE:** *Increase to maximum administrative assessment (From 5 to 8 cents) addressed separately*
# Price Adjustments (Effective 5/1/08)

<table>
<thead>
<tr>
<th>City</th>
<th>State</th>
<th>Class I Differential</th>
<th>Class I Price Adjustment</th>
<th>Adjusted Differential</th>
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<tbody>
<tr>
<td>Clewiston,</td>
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<tr>
<td>Winter Haven,</td>
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<td>5.40</td>
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</table>
1 – Price Adjustments (Effective 5/1/08)
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<th>State</th>
<th>City</th>
<th>Class I Differential</th>
<th>Class I Price Adjustment</th>
<th>Adjusted Differential</th>
</tr>
</thead>
<tbody>
<tr>
<td>AL</td>
<td>Birmingham</td>
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<td>Nashville</td>
<td>2.60</td>
<td>0.30</td>
<td>2.90</td>
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</table>
1 – Price Adjustments (Effective 5/1/08)
FO 6 Impact of Price Adjustments

FO 6 Differential Per CWT – 2007 & 2008

Since May '08:
Avg. $1.49 per cwt more in differential value
FO 6 Impact of Price Adjustments

Since May '08: Avg. $3.2 million more in differential value
FO 6 Impact of Price Adjustments

Since May '08: Avg. $1.22 per cwt or 6.0% higher uniform price
FO 7 Impact of Price Adjustments

Since May '08:
Avg. $0.37 per cwt more in differential value

Avg Differential Value Per CWT
W/O Temp Adjust

FO 7 Differential Per CWT – 2007 & 2008
FO 7 Impact of Price Adjustments

FO 7 Differential Value – 2007 & 2008

Class 1 Differential Value

W/O Temp Adjust

Since May '08:
Avg. $1.4 million more in differential value

Millions

$15

$14

$13

$12

$11

$10

$9

$8

0701 0703 0705 0707 0709 0801 0803 0805 0807 0809 0811
FO 7 Impact of Price Adjustments

Since May '08:
Avg. $0.26 per cwt or 1.3% higher uniform price
2 – Diversion Limits

FO 7 Diversion Limits as Percentages

- From: 50% Jan to Jun and 33% Jul to Dec
- To: 25% Jan, Feb and Jul to Nov and 35% Mar to Jun and Dec
2 – Diversion Limits

FO 7 Diversion Limits as Pounds - 2008

- Old Limits
- New Limits
- Producer Milk Not Physically Received at a Pool Plant
3 – Delivery Day Requirements

FO 7 Touch Base Requirements

Days

Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec

Old
New
Farm Count – 2000-08

- Total Farm Count
- Farms Inside FO 7
- Farms Outside FO 7

Order Changes Implemented
GAS'N'GO

Regular IF YOU HAVE
Self

Plus TO ASK YOU
Self

Super CANT AFFORD IT
Self
FO 7 Seasonality of Supply

March - Sept. Swing:
'00: -29%
'01: -32%
'02: -29%
'03: -29%
'04: -25%
'05: -26%
'06: -29%
'07: -26%
'08: -37%
FO 7 Producer Milk by Source (%)
4 – Transportation Credits

- **Add January and February**
  - *Were shown to be months with sufficient volumes of supplement milk to be added*

- **Pay on full load**
  - *Old rules reimbursed TC milk at lower of plant’s or market’s Class I utilization (i.e., less than 100%), but…*
  - *…TC milk travels to serve fluid demand, so ALL milk on the tanker will now be eligible for reimbursement*
4 – Transportation Credits

- **Simplify producer eligibility**
  - Old rule: Must not be pooled more than 2 months during February to May period, AND not more than ½ of production to be eligible
  - Now, Must not be pooled ½ days OR ½ milk during March to May period to be eligible
  - Equivalent standard, less ‘red tape’, hopefully more efficient

- **Increase max assessment from 20 to 30 cent**
  - If necessary, could add $4.7-5.0 million
  - Effective May 1, assessment is 30 cents
Transportation Credits (mil)


Dollars Claimed

Dollars Paid

2007 begins ‘fuel cost adjustor’; averaged $0.00454/cwt/mile
No "Pro-rating" of TCBF payouts (100% of Claims paid)

61% of Claims Paid
Distance FO 7 TCBF Milk Travels

Weighted average distance between farm and plant for TCBF milk pooled on FO 7.
QUESTIONS?

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