

# MILK 101

Maine Milk Commission



## Understanding Milk Pricing in Maine

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**Maine milk can only be shipped in one direction, or must stay within Maine**



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## Maine Milk Commission (State Order Pricing)

### History and Background

- A Maine Milk Control Law was enacted in **1935** by the 87th Legislature to eliminate a number of serious problems confronting the dairy industry and the consuming public. Glaring conditions necessitating this corrective action included price wars, farmers failing to receive payment for milk deliveries, dealer bankruptcies, consumers receiving low quality milk, etc.
- Under the law, a Maine Milk Commission was created to arbitrate differences, establish minimum prices in designated areas after proper hearings and exercise general supervision over the milk industry. Its basic function was, and still is, **to ensure that there will be a plentiful supply of pure, wholesome milk available at all times, in all places, at reasonable prices.**

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## Maine Milk Commission (State Order Pricing)

- The Maine Milk Commission is comprised of five members, four of whom are appointed by the Governor and shall serve a term of 4 years. Within its membership shall be the Commissioner of Agriculture, Conservation and Forestry, ex-officio and the remaining four members shall have no official business or professional connection or relation with any segment of the dairy industry.
- Among the specified powers granted by the Legislature, the Commission has the authority to set minimum prices paid to producers as well as minimum retail and wholesale milk prices. The Milk Commission is authorized to audit dealers' books and to determine the utilization of all milk purchased.
- The Maine Milk Commission is financed by a \$0.05 per hundredweight fee on milk paid by licensed dealers. The Commission receives no general fund tax monies.

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## FMMO 1 Marketing Area



**Northeast Marketing Area  
Federal Milk Marketing Order 1**  
Shawn M. Boockoff - Market Administrator

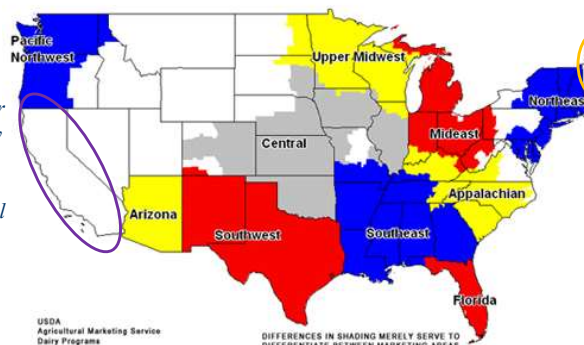
**USDA** United States Department of Agriculture  
Agriculture Marketing Service  
Dairy Program

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## Industry Consolidation has resulted in the majority of Maine Milk being pooled & priced into FMMO-1

### Federal Milk Marketing Order Areas

*A new CA federal order was recently approved to be included in the federal pricing system.*



ME is not officially in Federal Order One – but the 2 major fluid processing plants in ME are subject to federal order pricing because they sell < 25% of their product into states that are in the federal order – so ME dairy farmers are paid federal order pricing by those plants.

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# Maine Milk Commission

(Studies to Determine Appropriate Minimum Pricing Levels)

Studies conducted via RFP/contract on 3-year rotation.

- Cost of Production (Producer Margin) – Ch. 26  
Last completed on 2017 calendar year.  
Awaiting Legislative review/approval – Jan/Feb 2019
- Cost of Processing (Dealer Margin) – Ch. 29  
Study complete on 2018 processing costs.  
Public comment period closed Nov 5, 2018.  
Decision anticipated at Nov 20, 2018 monthly price setting hearing.
- Cost of Retailing (Retailer Margin) – Ch. 27  
(Herbein & Company contracted to conduct this study with a final report due by December 2019.)

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## Chapter 3 Rule: Monthly Schedule of Minimum Prices

Minimum Wholesale & Retail Prices,  
by size of container  
(Based on Chapter 27 & 29 Studies)

Class I Federal Order Announced Price

Federal & State Promotion Fee

Producer Margin (Cost of Production  
Adjustment, based on Ch 26 studies)

Over-Order Premium (Set by Co-ops) - %  
of Class I sales = pd to farmers

Federal Components Pricing

Breakdown of Federal Order Pricing  
Statistical Uniform Blend  
(retroactive 2-months)

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THE MAINE MILK COMMISSION SCHEDULE OF MINIMUM WHOLESALE AND RETAIL		EFFECTIVE DATE: October 28, 2018	ORDER NO: 11-18					
		MINIMUM	MINIMUM					
		WHOLESALE	RETAIL					
GALLON:	Whole Milk	\$3.36	\$3.74					
	Lowfat 2.0%	\$3.14	\$3.52					
	Lowfat 1.5%	\$3.06	\$3.44					
	Lowfat 1.0%	\$2.98	\$3.36					
1/2 GALLON:	Whole Milk	\$3.36	\$3.74					
	Lowfat 2.0%	\$3.14	\$3.52					
	Lowfat 1.5%	\$3.06	\$3.44					
	Lowfat 1.0%	\$2.98	\$3.36					
3 QUART:	Whole Milk	\$2.82	\$3.12					
	Lowfat 2.0%	\$2.65	\$2.85					
	Lowfat 1.5%	\$2.59	\$2.89					
	Lowfat 1.0%	\$2.63	\$2.83					
1/2 GALLON:	Whole Milk	\$2.47	\$2.77					
	Lowfat 2.0%	\$1.72	\$1.85					
	Lowfat 1.5%	\$1.61	\$1.84					
	Lowfat 1.0%	\$1.57	\$1.80					
1/2 GALLON:	Whole Milk	\$1.72	\$1.84					
	Lowfat 2.0%	\$1.61	\$1.80					
	Lowfat 1.5%	\$1.57	\$1.76					
	Lowfat 1.0%	\$1.53	\$1.72					
QUART:	Whole Milk	\$0.99	\$1.11					
	Lowfat 2.0%	\$0.90	\$1.05					
	Lowfat 1.5%	\$0.89	\$1.03					
	Lowfat 1.0%	\$0.89	\$1.01					
1/2 QUART:	Whole Milk	\$0.81	\$0.89					
	Lowfat 2.0%	\$0.75	\$0.77					
	Lowfat 1.5%	\$0.74	\$0.73					
	Lowfat 1.0%	\$0.73	\$0.72					
20 QUART:	Whole Milk	\$18.84	\$18.84					
	Lowfat 2.0%	\$17.73	\$17.73					
	Lowfat 1.5%	\$17.33	\$17.33					
	Lowfat 1.0%	\$16.93	\$16.93					
Class I Price		Actual	Nov-18	\$18.770	Per CWT	Butterfat Price Per Pound	Sep-18	\$2.0250
Milk Commission Premium			Nov-18	\$1.040	Per CWT	Butterfat Price Per Pound	Sep-18	\$2.6442
Statistical Uniform Blend			Nov-18	\$18.770	Per CWT	Other Solids Per Pound	Sep-18	\$6.2098
Total Class I Producer Price			Nov-18	\$21.441	Per CWT	Notfat Solids Per Pound	Sep-18	\$6.8901
Federal Promotion Fee			Nov-18	\$0.200	Per CWT			
Handling Fee			Nov-18	\$2.253	Per CWT			
Total Class I Dealer Cost			Nov-18	\$23.877	Per CWT			
Basic Price of Milk			Nov-18	\$18.770	Per CWT			
Class II Price & Margin			Sep-18	\$18.280	Per CWT			
Class III for			Sep-18	\$18.090	Per CWT			
Class IV for			Sep-18	\$14.810	Per CWT			
Producer Price Differential			Sep-18	\$0.650	Per CWT			
Statistical Uniform Blend			Sep-18	\$16.710	Per CWT			
Butterfat price per lb. Suffolk County, MA			October-18	\$2.818				
Chicago AA Butter Price Announced			October 12, 2018	2.2600				

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## Milk Price depends on Final Disposition

### 4 Classes of Milk

Class I	Fluid milk for drinking (including eggnog & buttermilk)
Class II	Soft products (sour cream, yogurt, cottage cheese, ice cream, etc.)
Class III	Hard cheese, cream cheese, & whey
Class IV	Butter, Powder

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## 3 Checks per month & timing

### Advanced Price:

USDA announces on or before the 23<sup>rd</sup> of each month

Get paid for the first 15 days of the month on an estimate of what the price will be at the end of the month.

Arrives to farmers anytime from the 25<sup>th</sup> of the current month to the 10<sup>th</sup> of the next month

### Class & Component Prices:

("Settlement" check)

USDA announces on or before the 5<sup>th</sup> of each month (for the previous month)

Covers the last 13-16 days of the month and makes adjustments between the anticipated price and the actual price

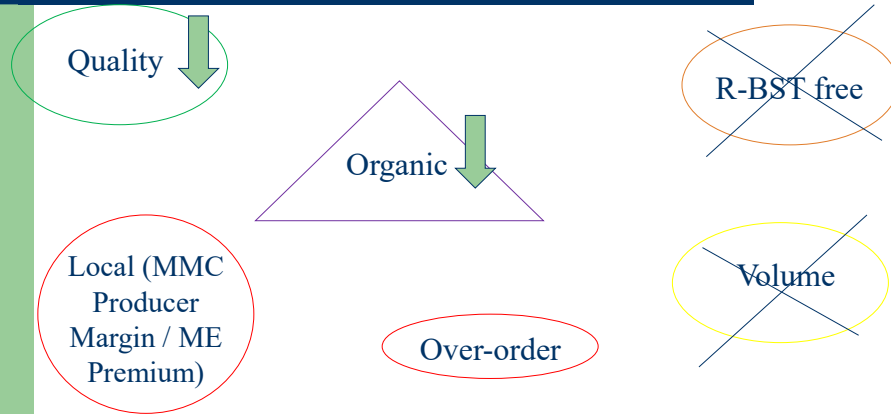
### Maine Pool Payment:

Determined on-before the 10<sup>th</sup> of the month for previous month. Sent to farmers/co-ops within 10 days

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## Market Premiums



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## Maine Milk Commission (Maine Milk Pool)

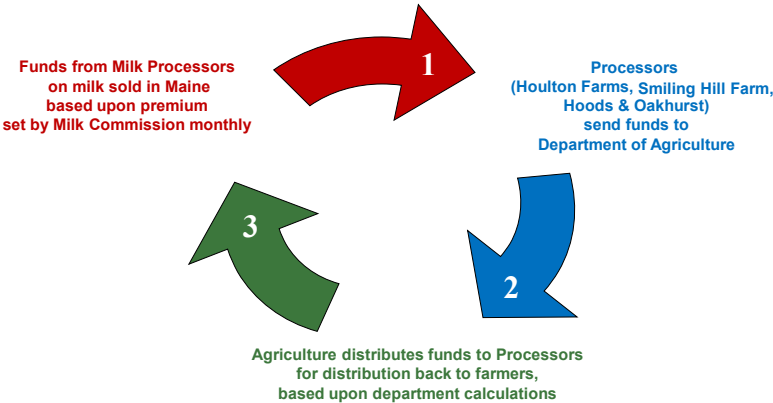
- The Maine Milk Pool was created by state statute in 1983, to allow the Commission to assess a Producer Margin (also known as a “Cost of Production adjustment”, or “an Adjustment for Maine conditions”) as needed through the Maine Minimum Price setting system.
- Established as a set amount, but calculated using the each milk dealer’s Class I utilization rate, the amount is collected each month from each milk handler/dealer, pooled together, and equally distributed to Maine dairy farms.
- Initially limited to 15-cents/cwt, the Producer Margin is established each month through rulemaking, after a public hearing during which testimony can be offered to update the Commission on the financial conditions of Maine farms. In later years, the Producer Margin has risen as high as \$1.68/cwt, however, declines in Class I sales have also lead to smaller percentages of the set amount being collected and distributed.

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# Maine Milk Pool Program

## Flow of funding



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# Maine Milk Commission

## Chapter 14 Rule: 30 Days Notice

01 DEPARTMENT OF AGRICULTURE, CONSERVATION AND FORESTRY  
015 MAINE MILK COMMISSION

**SUMMARY:** Notice requirement adopted by the Maine Milk Commission for distributors to give before terminating milk deliveries to a customer.

Distributors must give 30 days written notice by registered or certified letter before terminating delivery to any customer in their delivery area or in the traditional delivery areas of a distributor they have purchased. The 30 days notice requirement does not apply to cancellations resulting from failure to pay bills.

2. The notice will identify the closest delivery point where the distributor's product will be available for pickup by the affected customer.
3. The distributor will identify other distributors, if any, by name and address who are servicing the area and from whom a replacement supply may be available.
4. A copy of the notice dated and signed by an official of the distributor will be sent to the Maine Milk Commission identifying the customer by name and address, within the same 30 days requirement.

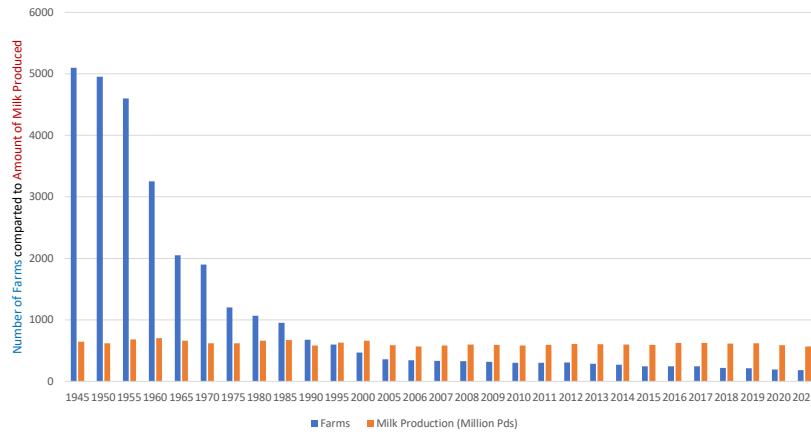
STATUTORY AUTHORITY: 7 M.R.S.A. §2953 (PL 1975, c. 5A Section 2, May 11, 1989).  
EFFECTIVE DATE: January 1, 1990

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# Maine Dairy Farms vs. Milk Production 1945-2020

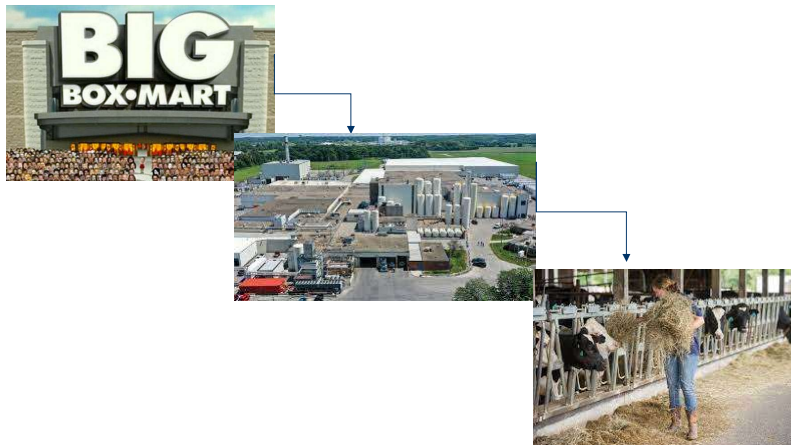
Maine's Milk Production & Farm Numbers 1945-2021



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# CONSOLIDATION

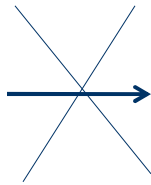


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## The Pricing Disconnect....



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## Maine's Organic Dairy Farmers also Feel the Pinch – but slightly differently



Maine organic dairy farmers can benefit from the predictability of contract pricing, but are subject to significantly higher input costs & compliance requirements for certification.

*Increasing competition from milk-alternative beverages and slower-than-anticipated growth in organic milk sales have created slack in the supply-and-demand balance of organic milk, leading to an erosion of premiums, addition of marketing/transportation charges, implementation of quota limitations on production, and reduction in contract prices.*

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## Early Maine State Efforts

1984 – Maine dairy farmers created a volunteer group to talk about industry challenges & find ways to work together to solve them. (Creation of Maine Dairy Industry Association)

1991 – Created the Maine Dairy Farm Stabilization Act & Vendor Fee (*MRSA Title 36; Part 7; Ch. 708-A* - Collected 5-cent/gal on milk processed in Maine and paid \$ from dedicated account back to Maine dairy farmers.)

1994 – Massachusetts enacted similar legislation, which was struck down by the courts (*West Lynn Creamery, Inc. v. Healy* 512 US 186 - 1994)

1994 – Maine revised its program in response to the court case.

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## Regional & Federal Changes

1997 – Northeast Dairy Compact was ratified by NE states and approved by Congress.

Maine repealed its Dairy Farm Stabilization / Vendor Program.

2000 – Federal Order System implemented component based pricing (instead of the Minnesota-Wisconsin price discovery system).

2001 – Northeast Dairy Compact failed to be re-authorized by Congress.

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## The Tier Program Concept

Fill the gap between the price farmers are paid and their cost of production



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## Current Maine Dairy Stabilization Program Tier Levels

(Effective 8-1-2022)

Tier Level:	Annual Production Range:	Target Price:
Tier 1	0 – 16,790 CWT	\$23.05
Tier 2	16,791 to 49,079 CWT	\$21.44
Tier 3	49,080 to 76,803 CWT	\$20.93
Tier 4	Over 76,803 CWT	\$20.21

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## Traveling through the Tiers

June – Everyone’s production starts at 0 pounds = Tier 1

Move through the Tiers

More cows = move faster

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## Understanding How to Calculate the Tier Payments

(November 2023 prices)

Basic Price for Milk (Statistical Blend)	\$20.74
Over Order Premium for ( average / 33% in ME Class I utilization of \$1.04)	+ \$ .32

*Organic farms do not receive an Over Order Premium,  
So \$0 is added to the blend – making the calculation  
simpler and more accurate to predict.*

**= \$ 21.06**

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## Traveling through the Tiers

Each farm's production is individually tracked each month

Each farm's Tier Payment is individually calculated for each month

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## Understanding How to Calculate the Tier Payments

(November 2023 prices)

	<u>Support Level</u>	<u>Minimum Price</u>	<u>Tier Payment</u>
Tier 1	\$23.05	\$21.06	= <b>\$1.99 / cwt</b>
Tier 2	\$21.44	\$21.06	= <b>\$0.38 / cwt</b>
Tier 3	\$20.93	\$21.06	= <b>no payment</b>
Tier 4	\$20.21	\$21.06	= <b>no payment</b>

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*1-18-24 edition*

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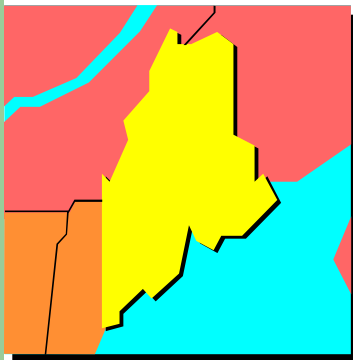
## NEW Maine Dairy Stabilization Program Tier Levels (Effective 7-1-2024)

Tier Level:	Annual Production Range:	Target Price:
Tier 1	0 – 16,790 CWT	\$24.51
Tier 2	16,791 to 49,079 CWT	\$23.37
Tier 3	49,080 to 76,803 CWT	\$22.60
Tier 4	Over 76,803 CWT	\$21.88

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## Milk Money – Part 2



### Milk Handling Fee

First entity to touch milk, pays fee to state of Maine

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# Current Handling Fee Schedule

Effective March 2010

Class I Price of Milk		Class I of Milk	Per Gallon Fee
\$21.00	and over		\$ 0.04
\$20.00	to	\$20.99	\$ 0.08
\$19.50	to	\$19.99	\$ 0.12
\$19.00	to	\$19.49	\$ 0.16
\$18.50	to	\$18.99	\$ 0.20
\$18.00	to	\$18.49	\$0.24

Handling Fee increases incrementally by \$.04 every \$.50 of Class I price

Maximum Fee Rate = \$0.84 / gal

(reached when Class I price falls below \$10.99/cwt)

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# Dairy Program(s) Flow of funding

**Milk Handling Fee**

**0.5% of slots revenue from Oxford Casino**

**Maine Dairy Stabilization "Tier" Payments to Farmers**

Maine Milk Commission establishes rate each month based on Federal Order Class I Milk Price.

Sent to State & Deposited in a non-lapsing, **dedicated** account to be used for the Tier Program.

**When Milk Blend Price falls below safety net levels**

=  
Farms paid according to cost of production for their amount of milk produced

Fee is paid by *Consumers* when they buy milk.

Oxford \$ **must be all used** for Tier payments **BEFORE** accessing any General Fund \$

Fee is collected by *Processors & Retailers* and sent to Maine Revenue Services.

State Deposits Handling Fee in the **General Fund**.



If not enough Oxford \$ to cover all payments, DACF requests **General Fund** transfers based upon monthly calculations of need.

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# Forecasting is Educated Guessing

## NORTHEAST MILK PRICE FORECASTS, 2020 - 2021

January 5, 2020



2020	COMPONENT PRICES PER POUND				BOSTON BLEND PRICE @3.5 bf	CLASS PRICES				Class III Futures	DMC Margin*
	BUTTER	PROTEIN	OTHER SOLIDS	PPD/cwt.		I	II	III	IV		
JAN	\$2,112	\$2,361	\$0,742	-\$1.73	\$18.78	\$22.25	\$17.05	\$17.05	\$16.85	\$17.05	\$10.72
FEB	\$1,981	\$3,031	\$0,175	\$1.12	\$18.12	\$20.80	\$16.84	\$17.00	\$16.20	\$17.00	\$10.06
MAR	\$1,918	\$2,842	\$0,181	\$1.49	\$17.74	\$20.71	\$16.75	\$16.25	\$14.86	\$16.25	\$9.15
APR	\$1,322	\$2,482	\$0,179	\$1.85	\$14.92	\$18.88	\$13.87	\$13.07	\$11.40	\$13.07	\$6.03
MAY	\$1,376	\$2,092	\$0,186	\$1.33	\$13.47	\$16.19	\$12.30	\$12.14	\$10.67	\$12.14	\$5.37
JUN	\$1,859	\$4,535	\$0,170	-\$5.38	\$15.66	\$14.66	\$12.96	\$21.04	\$12.89	\$21.04	\$9.99
JUL	\$1,958	\$5,629	\$0,149	-\$5.46	\$18.08	\$19.80	\$13.78	\$24.54	\$13.77	\$24.54	\$12.41
AUG	\$1,627	\$4,439	\$0,139	-\$1.75	\$18.02	\$23.03	\$13.26	\$19.77	\$12.52	\$19.77	\$10.83
SEP	\$1,593	\$3,394	\$0,124	\$0.37	\$16.80	\$21.69	\$13.16	\$16.43	\$12.74	\$16.43	\$9.40
OCT	\$1,639	\$5,075	\$0,153	-\$4.54	\$17.07	\$18.46	\$13.63	\$21.61	\$13.47	\$21.61	\$11.73
NOV	\$1,555	\$5,623	\$0,189	-\$5.07	\$18.27	\$21.29	\$13.96	\$23.34	\$13.30	\$23.34	\$11.87
DEC	\$1,540	\$3,028	\$0,225	\$1.34	\$17.07	\$23.12	\$14.01	\$15.73	\$13.36	\$15.73	\$10.12
AVG	\$1,707	\$3,756	\$0,168	-\$1.08	\$17.08	\$20.16	\$14.29	\$18.16	\$13.49	\$18.16	\$9.76

2021	COMPONENT PRICES PER POUND				BOSTON BLEND PRICE @3.5 bf	CLASS PRICES				Class III Futures	DMC Margin*
	BUTTER	PROTEIN	OTHER SOLIDS	PPD/cwt.		I	II	III	IV		
JAN	\$1,614	\$3,140	\$0,249	-\$0.36	\$16.09	\$18.40	\$14.39	\$16.46	\$13.95	\$16.71	\$8.49
FEB	\$1,702	\$3,492	\$0,255	-\$0.63	\$17.23	\$20.01	\$15.27	\$17.85	\$14.58	\$17.87	\$6.24
MAR	\$1,821	\$3,463	\$0,258	-\$0.45	\$17.75	\$20.59	\$15.75	\$18.20	\$15.10	\$18.03	\$6.06
APR	\$1,895	\$3,330	\$0,252	-\$0.16	\$17.87	\$20.79	\$16.33	\$18.03	\$15.54	\$17.98	\$5.71
MAY	\$1,931	\$3,282	\$0,250	\$0.00	\$18.00	\$20.81	\$16.42	\$18.00	\$15.73	\$17.99	\$5.64
JUN	\$1,956	\$3,285	\$0,249	\$0.00	\$18.08	\$20.92	\$16.56	\$18.09	\$15.87	\$17.99	\$5.61
JUL	\$1,891	\$3,172	\$0,252	\$0.09	\$17.99	\$20.96	\$16.78	\$17.90	\$16.12	\$17.81	\$5.70
AUG	\$2,040	\$3,083	\$0,254	\$0.38	\$18.19	\$21.02	\$17.06	\$17.81	\$16.37	\$17.70	\$5.83
SEP	\$1,907	\$3,143	\$0,249	\$0.48	\$18.26	\$21.04	\$16.96	\$17.78	\$16.30	\$17.82	\$6.06
OCT	\$1,975	\$3,124	\$0,243	\$0.62	\$18.26	\$20.94	\$17.00	\$17.64	\$16.32	\$17.56	\$6.92
NOV	\$1,975	\$3,098	\$0,238	\$0.66	\$18.20	\$20.89	\$16.96	\$17.54	\$16.24	\$17.41	\$7.01
DEC	\$1,981	\$3,008	\$0,244	\$0.89	\$18.14	\$20.86	\$17.15	\$17.25	\$16.48	\$17.35	\$7.08
AVG	\$1,904	\$3,218	\$0,250	\$0.13	\$17.84	\$20.60	\$16.39	\$17.71	\$15.72	\$17.69	\$6.20

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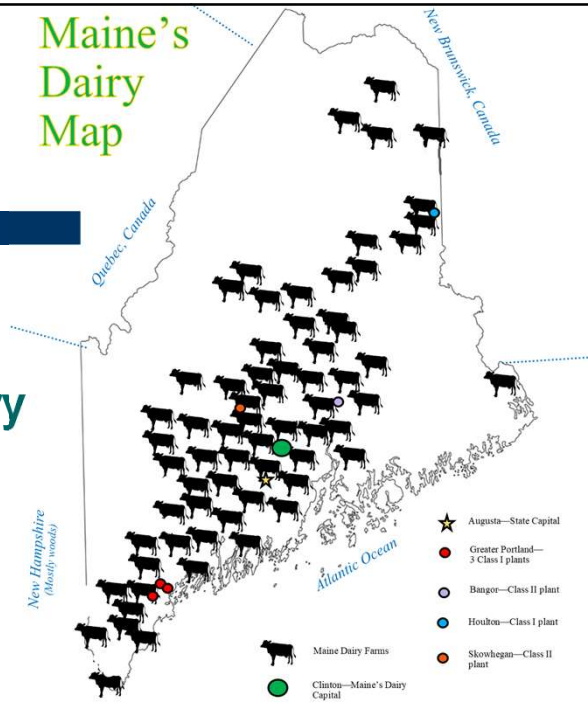
\* USDA actual and estimated margin from the All-Milk price minus an estimated feed ration based on the formula used in the Dairy Margin Coverage Program.

Prepared by: Catherine de Ronde - Agri-Mark Dairy Cooperative

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# Maine's Dairy Map

## Maine Dairy farms 2023



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