

Plant-Point Pricing in the Proposed Northeast Order

Under the new regulations presented in the final decision on Federal Milk Marketing Order Reform, producers in the consolidated Northeast order will be paid on a *plant-point* pricing basis. For producers associated with Order No. 2, plant-point pricing will be a change from the present pricing method. Currently, producers pooled under Order No. 2 are paid on a *farm-point* pricing basis where the location of a farm's milkhouse is the pricing point. The township in which a farm's milkhouse is located determines the zone of the farm and the amount of adjustment (positive or negative) to the announced marketwide uniform price to arrive at an adjusted uniform price for a respective farm. Under plant-point pricing, the location of the plant where a producer's milk is shipped becomes the pricing point. This means that milk is priced FOB the plant of first receipt, and the charge for transporting milk from farm to plant may become a significant negotiating issue between a producer and a milk buyer. Order No. 2 is the only federal order that now operates under a farm-point pricing system.

Pricing Differences

Farm-point pricing regulations utilize the marketwide pool to cover some of the costs of hauling for producers. Currently, a deduction of 15 cents per hundredweight is made from the pool prior to calculating the Order No. 2 uniform price. This deduction, known as the "transportation credit," is credited to the buyers (handlers) of milk and has the effect of reducing all producers' blend prices by 15 cents per hundredweight. The credit does, however, offset 15 cents of hauling costs that might otherwise be directly charged to producers. Under the consolidated Northeast order and plant-point pricing, the transportation credit will be eliminated.

Zone Adjustments

While there will no longer be a zone adjustment for producers based on the location of a farm's

milkhouse, producers will receive an adjustment in their net pay price based on the zone of the plant(s) receiving their milk. Suffolk County, Massachusetts (Boston area), will be the base county or highest zone for the consolidated Northeast order. Plant zone values will radiate out by county and decrease as you move away from Suffolk County, MA. This means, for example, that a producer located in Onondaga County, NY (Syracuse area), shipping milk to Suffolk County, MA (Boston area), would receive a higher plant zone adjustment than another producer also located in Onondaga County, NY, but shipping milk to an Albany County, NY (Albany area), plant. In this case, the plant zone adjustment for a producer shipping to the Suffolk County destination would be 60 cents per hundredweight greater than the plant zone adjustment for a producer shipping to Albany County. A counterweight to the higher zone price is that a producer's hauling charges would likely be higher transporting milk to a Boston area destination than to the closer Albany location. In general, under plant-point pricing shipping milk to plants located relatively closer to Suffolk County, MA, will result in a higher plant zone adjustment, but depending on the location of the farm, higher hauling charges may be incurred moving milk a greater distance. Producers shipping milk to a nearby plant(s) that may be a considerable distance from Suffolk County, MA, will receive a lower plant zone adjusted price, but also should incur lower hauling charges.

Order No. 2 provisions allow proprietary handlers to charge producers for their actual costs of hauling milk minus the 15-cent transportation credit and minus the change in the zone value moving milk from a country zone to a zone closer to metropolitan New York. This office audits the hauling records of proprietary handlers to verify that handlers are not overcharging hauling amounts. ♦

U.S. Milk Production, Disposition, and Income Summarized

Cash receipts from U.S. marketings of milk during 1998 totaled \$24.3 billion, an increase of 16 percent from 1997. Producer returns averaged \$15.57 per hundredweight, 15 percent higher than the previous year. Milk marketings totaled 156 billion pounds, 1 percent above 1997. These figures are all from USDA's recently released *Milk Production, Disposition, and Income 1998 Summary*.

Of total U.S. milk production, 59.1 percent was used in manufactured products; 35.7 percent in fluid products; 0.9 percent by producers on their own farms; and the remainder was assigned to balancing inaccuracies

in utilization estimates such as milk equivalent conversions.

On a milk value basis, California accounted for 17.6 percent of the total milk marketings in 1998. Wisconsin was second with 14.4 percent followed by New York with 7.4 percent. These equate to an average per hundredweight price of \$15.01 in California, \$15.50 in Wisconsin, and \$15.40 in New York for milk sold to plants and dealers in 1998. Compared to 1997, California's average value was \$2.39 higher per hundredweight; Wisconsin was up \$2.17 and New York was \$2.00 higher. ♦