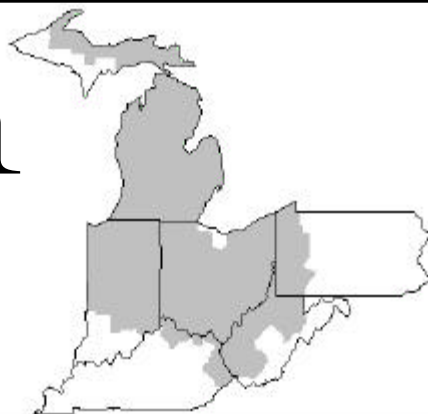


Mideast Market Administrator's Bulletin



Federal Order No. 33

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PRODUCERS APPROVE AMENDMENTS REVISING CLASS III AND IV PRICE FORMULAS

Producers supplying milk for each of the 11 Federal milk markets have approved amendments to the current Class III and IV Federal milk order pricing formulas. USDA determined producer approval by polling the producer cooperative associations in nine of the markets, and by conducting referenda in the Northeast and Mideast markets. The amended orders will become effective for milk marketed on or after April 1, 2003.

The final rule culminates a process that began with the 1996 Farm Bill. Historically, USDA established minimum prices under Federal orders for milk used in manufacturing by surveying the prices paid for manufacturing grade milk by unregulated plants in Minnesota and Wisconsin. However, by the late 1990s, declining supplies of manufacturing grade milk necessitated that a new procedure be developed to determine the value of milk used in manufacturing. As part of a comprehensive effort to consolidate and reform Federal milk marketing orders under the 1996 Farm Bill, USDA developed pricing formulas for Class III and Class IV milk based on wholesale prices of manufactured dairy products. These pricing formulas were implemented on January 1, 2000, as required by the 1996 Farm Bill.

Congress mandated that USDA review the pricing formulas following the reform effort. A public hearing was held May 8-12, 2000, to consider proposals to change the formulas. Effective January 1, 2001, USDA issued revised formulas that were enjoined by a U.S. District Court at the end of January. In October 2001, following the court injunction, USDA issued a recommended decision to alter the pricing formulas. A final decision altering the formulas was issued October 25, 2002, and printed in the *Federal Register* November 7, 2002.

For copies of this final rule and additional information, contact Mideast Market Administrators Office, David Z. Walker, USDA/AMS/Dairy Programs, P.O. Box 30128, Cleveland, OH. 44130-0128, Telephone (440) 826-3220; email: dwalker@fmmacleev.com. The final rule and additional background information can be accessed on the web at <http://www.ams.usda.gov/dairy>.

FORWARD CONTRACTING STUDY RELEASED

The USDA/AMS Dairy Programs has released a study of the implementation of the Dairy Forward Pricing Pilot Program. This program was mandated by The Consolidated Appropriations Act of 2000. The law allows proprietary milk handlers regulated under the Federal milk order program to contract for future deliveries of milk from milk producers or their cooperative associations at prices exempt from minimum Federal milk marketing order blend prices.

This study examines the Dairy Forward Pricing Pilot Program (Program) over the period of time from September 2000 through March 2002, a period of nineteen months. As measured in terms of reduction in price volatility, the Program has been effective. The average monthly price received for contract milk was \$14.02, ranging from a low of \$13.23 to a high of \$14.86. The average monthly price of the same milk, had it not been under contract, was \$14.51, ranging from a low of \$12.04 to a high of \$17.75. Over the study period, the volume of milk marketed under contract was greatest in months when contract prices were below non-contract prices.

Contract prices are influenced by forecasts of market conditions at the time contracts are signed. In this respect, the behavior pattern is similar to that of the CME Class III futures market. Returns to Program participating producers have generally been as good as, if not better than, returns to producers from hedging on the futures market. Data for the study period, and limited information concerning prices past the study period, indicate that prices received for contract milk may be about the same as long-run average non-contract prices for U.S. Grade A milk.

Participation in the Program has been small when considered in terms of numbers of producers, numbers of handlers, or milk quantities. A total of 1,452 producers and 22 handlers participated in the program over the study period. On a monthly average basis, 3.9 percent of eligible producers participated in the program, and 5.7 percent of proprietary manufacturing plants participated. Contract milk averaged 5.3 percent of pooled milk received from eligible producers per month. Participation by producers peaked in April

(continued on Page 3)

JANUARY 2003 POOL SUMMARY

Classification of Producer Milk		Percent
Class I	596,358,649	40.8
Class II	154,264,306	10.5
Class III	651,201,747	44.5
Class IV	61,033,625	4.2
Total	1,462,858,327	100.0

Producer Prices

Producer Price Differential	\$1.27 /cwt
Butterfat Price	1.1856 /lb
Protein Price	1.8164 /lb
Other Solids Price	0.0339 /lb
Somatic Cell Adjustment Rate	0.00057 /cwt
Statistical Uniform Price	11.05 /cwt

ANNOUNCEMENT OF PRODUCER PRICES

Federal Order No. 33

JANUARY 2003

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

	<u>POUNDS</u>	<u>BUTTERFAT</u>	<u>SKIM / PROTEIN</u>	<u>NONFAT SOLIDS</u>	<u>OTHER SOLIDS</u>	<u>PRICE</u>	<u>VALUE</u>
Class I Skim Value			585,249,239			\$ 8.67 / cwt	\$ 50,741,109.01
Class I Butterfat		11,109,410				1.1984 / lb	13,313,516.94
Class I Location Differential	596,358,649						(314,461.71)
Class II SNF Value				12,970,364		0.8189 / lb	10,621,431.10
Class II Butterfat		12,246,660				1.1926 / lb	14,605,366.72
Class III Protein Value			20,000,080			1.8164 / lb	36,328,145.31
Class III Other Solids Value					37,287,199	0.0339 / lb	1,264,036.05
Class III Butterfat		22,929,018				1.1856 / lb	27,184,643.72
Class IV SNF Value				4,725,062		0.6807 / lb	3,216,349.66
Class IV Butterfat		9,202,008				1.1856 / lb	10,909,900.70
Somatic Cell Value II / III / IV							<u>361,960.51</u>
TOTAL PRODUCER MILK VALUE	1,462,858,327	55,487,096	45,005,381			83,547,442	\$ 168,231,998.01
Overages						\$31,149.16	
Beginning Inventory						(36,986.89)	
TOTAL ADJUSTMENTS							<u>\$ (5,837.73)</u>
TOTAL HANDLER OBLIGATIONS							\$ 168,226,160.28
Total Protein Value			45,005,381 lbs	@	\$181.64		\$ (81,747,774.07)
Total Other Solids Value			83,547,442 lbs	@	00339		(2,832,258.29)
Butterfat Value			55,487,096 lbs	@	1.1856		(65,785,501.02)
Total Somatic Cell Values							<u>(543,986.30)</u>
TOTALS							\$ 17,316,640.60
Net Producer Location Adjustments							\$ 1,285,914.56
1/2 Unobligated Balance Producer Settlement Fund							<u>665,000.00</u>
Total - Divided by Total Pounds			1,462,858,327 lbs		1.3171170		\$ 19,267,555.16
Rate of Cash Reserve					<u>(0.0471170)</u>		<u>(689,254.96)</u>
PRODUCER PRICE DIFFERENTIAL at Cuyahoga County, OH*			1,462,858,327		\$1.27 / cwt		\$ 18,578,300.20

COMPONENT PRICES

COMPUTATION OF UNIFORM PRICE

	January			January	
	<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
Butterfat Price	\$11.856 / lb	\$14.846 / lb	Class III Price - 3.5% BF	\$ 9.78	\$11.87
Protein Price	1.8164 / lb	1.9660 / lb	Producer Price Differential*	<u>1.27</u>	<u>1.01</u>
Other Solids Price	0.0339 / lb	0.1392 / lb	Statistical Uniform Price	\$11.02	\$12.88
Somatic Cell Adjustment Rate	0.00057 / cwt	0.00065 / cwt			
Nonfat Solids Price	0.6807 / lb	0.7761 / lb			

CLASS PRICES

CLASSIFICATION OF PRODUCER MILK

	January			January	
	<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
Class I*	\$12.56	\$13.96	Class I	Product lbs. 596,358,649	Product lbs. 577,948,671
Class II	11.29	12.69	Class II	154,264,306	203,175,073
Class III	9.78	11.87	Class III	651,201,747	584,307,106
Class IV	10.07	11.93	Class IV	<u>61,033,625</u>	<u>60,184,551</u>
			Total	1,462,858,327	1,425,615,401

* Subject to Location Adjustment.

ORDER 33 MARKET SUMMARY

The Producer Price Differential for the Midwest Marketing Area for January 2003 was \$1.27 and the Statistical Uniform Price was \$11.05 for the month. The Statistical Uniform Price is down 7 cents from last month, and is \$1.83 lower than January 2002.

The Producer Butterfat Price of \$1.1856 per pound decreased 0.66 cents from December 2002 and is down 29.90 cents from a year ago. The Protein Price of \$1.8164 is up 6.58 cents from last month and is down 14.96 cents from January 2002. The Other Solids Price in January was \$0.0339 per pound, a decrease from last month's price of \$0.0584 and a decrease of 10.53 cents from last January. The Somatic Cell Adjustment rate for January was \$0.00057.

January producer receipts of 1.46 billion pounds were 7.3 percent higher than December 2002, and 2.6 percent higher than January 2002 production of 1.43 billion pounds. Producer milk allocated to Class I accounted for 40.8 percent of the total producer milk in January 2003, more than the 40.4 percent in December and the 40.5 percent in January 2002. A total of 10,547 producers were pooled on the Midwest Order with an average daily delivery of 4,474 pounds compared to 11,143 producers pooled in January 2002 with an average daily delivery of 4,127 pounds.

The market average content of producer milk was as follows: Butterfat 3.79%; Protein 3.08%; Other Solids 5.71% and Nonfat Solids 8.79%.

(continued from Front Page)

2001 with 1,141 producers participating, but dropped off sharply in 2002, reaching a low point of 137 producers in February 2002. Participation by handlers peaked in September and October 2001 with 21 handlers participating. Participation declined to 16 handlers by March 2002. For participating handlers, the average percentage of eligible producer milk under contract in markets with participation in 2001 ranged between 23 and 30 percent. The percentage dropped to less than 15 percent in 2002.

During the study period, there was a decrease in the percentage of small producers participating in the Program. More than half of the participants marketed less than 100,000 pounds per month at the start of the study period. The percentage in this small-producer category had declined to less than 20 percent by the end of the study period. By contrast, the percentage of large producers—those marketing more than 1 million pounds per month—made up around 3 percent of the total at the beginning of the study period, and increased to around 20 percent by 2002.

Although there has been forward contract activity in seven of the eleven Federal Milk Marketing Orders, activity has been concentrated overwhelmingly among cheese manufacturers in the north central area of the country. Most of the participating producers and handlers pooled milk on the Upper Midwest, Central, and Mideast orders. On average about 46 percent of the contract milk has been pooled on the Upper Midwest order. Of the total number of producers, 45 percent have farms located in Wisconsin while 33 percent have farms located in Minnesota. Although the Central order had fewer participating producers than the Upper Midwest, the Central order had the highest participation rate among eligible producers in most months. With the exception of the four beginning months of the Program, more than half of the participating handlers have had milk pooled on the Upper Midwest order. Further information and a copy of the study can be found at www.ams.usda.gov/dairy/index.htm

USDA ANNOUNCES INTERIM ORDER TO AMEND THE CENTRAL MILK MARKETING ORDER

The U.S. Department of Agriculture issued an interim order amending the current pooling provisions of the Central milk marketing

order. The tentative final decision for the Central order, issued November 8, 2002, was approved by dairy farmers.

This interim order amends pooling standards to prevent the inappropriate pooling of milk on the Central order. The approved amendments eliminate the ability to simultaneously pool milk on the Central milk order and on a State-operated order that has marketwide pooling. The interim order will: establish lower but year-round supply plan performance standards; not consider the volume of milk shipments to distributing plants regulated by another Federal milk order as a qualifying shipment on the Central order; exclude from receipts diverted milk made by a pool plant to another pool plant in determining pool plant diversion limits; and, establish a "net shipments" provision for milk deliveries to distributing plants.

The interim order was published in the February 12 *Federal Register* and becomes effective on March 1, 2003.

DECEMBER MILK PRODUCTION UP 1.8 PERCENT

Milk production in the 20 major States during December totaled 12.2 billion pounds, up 1.8 percent from December 2001. November revised production, at 11.7 billion pounds, was up 1.4 percent from November 2001. The November revision represented a decrease of 0.4 percent or 43 million pounds from last month's preliminary production estimate.

Production per cow in the 20 major States averaged 1,567 pounds for December, 18 pounds above December 2001.

The number of milk cows on farms in the 20 major States was 7.80 million head, 47,000 head more than December 2001, and 6,000 head more than November 2002.

The Mideast Marketing Area has four states represented in the 20 major states used above. They are Indiana, Michigan, Ohio, and Pennsylvania. Milk production in these Mideast states during December totaled 2.0 billion pounds, down 0.1 percent from December 2001.

Production per cow in the Mideast states averaged 1,526 pounds for December, 21 pounds above December 2001.

The number of cows on farms in the Mideast states was 1.3 million head, 6,000 head less than December 2001.

Weighted Averages - Butterfat, Protein, Other Solids, Somatic Cell Count by State

Federal Order No. 33

State	December 2002*						December 2001				
	Number of Producers	Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)	Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)
Michigan	2,555	458,567	3.74	3.09	5.72	258	464,324	3.73	3.07	5.72	264
Ohio	2,662	310,674	3.93	3.16	5.69	300	334,582	3.82	3.11	5.69	284
Wisconsin	2,038	259,115	3.81	3.05	5.67	257	357,822	3.78	3.05	5.66	286
Indiana	1,287	137,261	3.88	3.14	5.70	266	129,508	3.86	3.12	5.70	2.95
Pennsylvania	1,406	120,759	3.92	3.14	5.66	368	134,865	3.87	3.10	5.66	323
New York	488	47,774	3.81	3.07	5.66	273	103,989	3.71	3.00	5.68	231
Illinois	88	12,337	3.89	3.06	5.74	293	12,770	3.81	3.08	5.73	303
West Virginia	86	6,410	3.96	3.19	5.67	403	7,676	3.80	3.16	5.68	371
Minnesota	44	4,127	3.87	3.10	5.75	300	4,052	3.83	3.09	5.76	425
Other	96	6,557	3.95	3.14	5.69	332	9,981	3.85	3.12	5.70	325
Total/Average	10,750	1,363,582	3.83	3.11	5.69	280	1,559,570	3.78	3.08	5.69	281

* Totals may not add due to rounding. Data provided on a one month delay basis.



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Agriculture**

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**FEDERAL ORDER DATA
JANUARY 2003**

<u>Marketing Area</u> 1/	<u>Producer Milk</u>	<u>Class I</u>	<u>Producer</u>	<u>Statistical</u>
	<u>Total</u>	<u>Class I</u>	<u>Price Differential</u>	<u>Uniform Price</u>
	(000)	(000)		
FO 1 Northeast - (Boston)	2,058,167	932,008	\$2.41	\$12.19
FO 5 Appalachian - (Charlotte)	578,496	412,970	2/	12.94
FO 6 Florida - (Tampa)	256,031	227,650	2/	14.18
FO 7 Southeast - (Atlanta)	663,968	426,901	2/	12.68
FO 30 Upper Midwest - (Chicago)	1,845,766	362,372	0.58	10.36
FO 32 Central - (Kansas City)	1,676,984	437,164	0.89	10.67
FO 33 Mideast - (Cleveland)	1,462,858	596,359	1.27	11.05
FO 124 Pacific Northwest - (Seattle)	620,224	188,939	0.98	10.76
FO 126 Southwest - (Dallas)	838,639	371,606	2.10	11.88
FO 131 Arizona-Las Vegas - (Phoenix)	272,292	88,117	2/	10.97
FO 135 Western - (Salt Lake City)	507,837	95,158	0.71	10.49

1/ Names in parentheses are principal points of markets.

2/ Producers in these markets are paid on the basis of a uniform skim and butterfat price.

MINIMUM PARTIAL PAYMENT PRICE FOR FEBRUARY 2003 \$9.78 /cwt.



**MIDEAST MARKETING AREA
FEDERAL ORDER 33**

**BALANCE SHEET
MARKETING SERVICE FUND**

As of December 31, 2002

ASSETS

Current Assets:

Cash and Bank Deposits	\$ 140,033.18
Investments	500,000.00
Accounts Receivable - Handlers	183,956.93
Allow ance for Uncollectible Accounts	(187.35)
Accounts Receivable - Other	.00
Accrued Interest Receivable	3,606.34

Other Assets:

Prepaid Expenses	\$ 7,409.22
Deposits	43.66

Fixed Assets:

Motor Vehicles	\$ 517,967.39
Accumulated Depreciation	(351,900.01)
Furniture and Equipment	72,908.32
Accumulated Depreciation	(57,764.13)
Laboratory Equipment	634,349.75
Accumulated Depreciation	(611,874.15)
Leasehold Improvements	78,134.02
Accumulated Depreciation	<u>(65,143.14)</u>

Total Assets **\$1,051,540.03**

LIABILITIES AND OPERATING BALANCE

Current Liabilities:

Accounts Payable - Other	\$.00
Accrued Employee Salaries Payable	9,119.16
Accrued Employee Annual Leave	100,371.16
Payroll Contributions and Withholdings	2,230.86

Operating Balance **\$ 939,818.85**

Total Liabilities and Operating Balance **\$1,051,540.03**

**MIDEAST MARKETING AREA
FEDERAL ORDER 33**

**INCOME AND EXPENSE STATEMENT
MARKETING SERVICE FUND**

For the Year Ending December 31, 2002

Income:

Assessments or Deductions	\$2,253,793.52
Late Payment Charges Assessed	.00
Interest Eamed	9,086.13
Miscellaneous	<u>48,155.10</u>

Total Income

\$2,311,034.75

Expenses:

Salaries and Services	\$1,175,432.28
Travel	133,998.21
Communications	114,277.93
Employer Payroll Contributions	287,793.93
Insurance	8,208.44
Rent - Buildings and Equipment	78,701.70
Repairs and Maintenance	25,703.71
Supplies	136,772.41
Testing and Weighing	26,135.47
Utilities	15,638.18
Depreciation of Fixed Assets	192,400.79
Conferences and Meetings	.00
Training	6,823.65
Uncollectible Accounts	.00
Miscellaneous	2,203.06
Amortization of Leasehold Improvements	<u>19,486.41</u>

Total Expenses

\$2,223,576.17

Net Income

\$ 87,458.58