



Federal Milk Marketing Orders and their Role in Dairy Pricing

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Key Points:

- **Farmgate prices of nearly two-thirds of the nation's raw milk are regulated under an administrative system known as Federal Milk Marketing Orders (FMMO). There are ten individual orders, each defined for a specific geographic region.**
- **The FMMO system is designed to promote two key objectives: (a) to ensure that the supply of raw milk will be adequate to accommodate consumer demand for fluid milk, at a reasonable price; and (b) to facilitate orderly marketing within the marketplace.**
- **The system's overarching goal is to "balance market power between farmers and milk handlers, while reducing the 'destructive competition' between milk producers that can drive down prices, to their mutual detriment."**
- **Two key provisions underpin the FMMO system: classified pricing of milk, according to how it is used; and pooling of purchasers' receipts across all classifications, with the pool proceeds used to pay farmers equitably, regardless of how their milk is used.**
- **Four broad uses of milk are recognized, each designated as a separate class (Classes I, II, III, and IV). Class I milk is used for dairy beverage products. The other three classes of milk each cover different groups of manufactured dairy products.**
- **Minimum prices are set for each class. Weekly surveys are conducted to determine the market-based prices of dairy products such as butter, cheese, whey, and nonfat dried milk. The FMMO's pricing system uses a series of formulas that link the prices of the four classes of milk to the market-based prices of the dairy products.**
- **All ten Federal Milk Market Orders use the same formulas and the same wholesale price surveys in setting their Class II, III, and IV milk prices, so these three prices of raw milk are exactly the same across all ten orders.**
- **Class I milk prices usually are set well above those for the other three classes of milk, to ensure that each order will have enough fluid milk to satisfy consumer demand for dairy beverages. These Class I prices, however, vary widely among the ten orders.**