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Federal Order No. 126**

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March 11, 2019

TO: Handlers, Cooperative Associations and Interested Parties

FROM: Cary Hunter, Market Administrator, Southwest Federal Order

SUBJECT: Amendment to Class I Skim Milk Price Formula

On March 9, 2019, the U.S. Department of Agriculture (USDA) announced an amendment to the Class I skim milk price formula under the Federal Milk Marketing Order (FMMO) program, in accordance with the Agriculture Improvement Act of 2018 (2018 Farm Bill). The change is effective May 1, 2019.

Currently, the Class I skim milk price is calculated using the higher of the monthly advanced pricing factors for Class III or Class IV skim milk, which reflect dairy product survey prices for the two weeks prior to the price announcement, plus the applicable adjusted Class I differential. Because market prices for these surveyed products fluctuate, the "higher of" factor used to determine the Class I skim milk price can change, increasing risk and uncertainty associated with hedging.

To address this issue, Congress determined that the formula for the FMMO Class I skim milk price should be the average of the monthly Class III and Class IV advanced pricing factors plus \$0.74 per hundredweight plus the applicable adjusted Class I differential.

In accordance with the 2018 Farm Bill, the amendment is effective indefinitely, until further modified, and may not be modified sooner than two years after the effective date of this rule.

The Federal Register notice is available at:

<https://www.federalregister.gov/documents/2019/03/11/2019-04347/federal-milk-marketing-orders-amending-the-class-i-skim-milk-price-formula>

/s/ Cary Hunter
Market Administrator