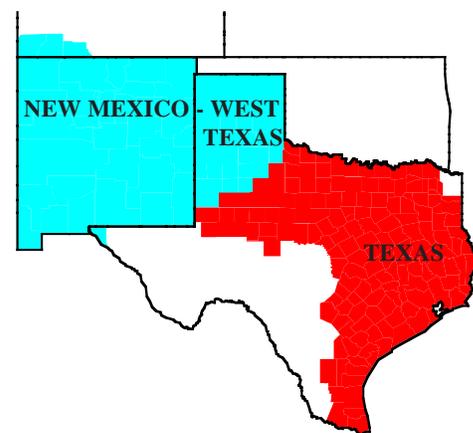


THE MARKET ADMINISTRATOR'S

REPORT



TEXAS MARKETING AREA

NEW MEXICO - WEST TEXAS MARKETING AREA

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VOLUME XXIII, NO. 3

MARCH 1997

PRELIMINARY REPORT ON FEDERAL ORDER REFORM

The 1996 Farm Bill mandates that the current 32 Federal milk marketing orders be consolidated into 10 to 14 orders. As part of this consolidation process, the Department is actively reviewing all aspects of Federal orders and is considering possible options for improving the current system. Although not mandated, the Department is considering various changes to the Class I price structure, classification of milk provisions, and as part of Vice President Gore's National Performance Review - Regulatory Reform Initiative, simplifying, modifying, and eliminating unnecessary differences in order provisions. Three reports are available that discuss these issues in detail. A summary of each report has been enclosed for your reference.

Copies of the *price structure* report, consisting of a summary report and a technical report, *classification* report, and *identical provisions* report can be obtained from the Dairy Division, AMS/USDA, Room 2968, South Building, P.O. Box 96456, Washington, DC 20090-6456, (202) 720-4392. These reports can also be obtained from any Market Administrator office or via the Internet at <http://www.usda.gov/ams/dairy.htm> under the "Federal Milk Order Reform" heading.

These reports were drafted by the Agricultural Marketing Service's Dairy Division. The reports contain suggestions, ideas, and initial findings to provide a focal point for developing proposed rules to implement the order consolidation required by the 1996 Farm Bill. Industry and public input on the reports and the submission of ideas or suggestions on any aspect of the regulatory program are requested. We request that all ideas or suggestions be mailed to the Dairy Division at the above address or E-mailed to Milk_Order_Reform@usda.gov by June 1, 1997, although they will be accepted throughout the entire process.

Summary of Pricing Options

Several options for modifying Class I pricing under the Federal milk market order program, representing a spectrum of views, are discussed in this summary report. The accompanying technical report summarizes all of the comments and proposals received by the Department related to Class I pricing under Federal orders.

Most Class I pricing concepts that were suggested would continue to employ a market driven basic formula price (BFP), with an added differential. Differentials are a composite of one or more of the following elements: (1) a fixed component, (2) a location adjustment, (3) an adjuster relating to utilization, or (4) the cost of balancing the market. Based on the pricing concepts received, the following options were developed.

Option 1A Location-Specific Differential- \$1.60 per hundredweight fixed differential for three surplus regions (Upper Midwest, West, and Southwest) within a nine-zone national price surface, plus for the other six zones, and added component that reflects regional differences in the value of fluid and manufacturing milk.

Option 1B Modified Location-Specific Differential Option- \$1.00 per hundredweight fixed differential plus an added component that reflects the cost of moving bulk milk to deficit markets.

Option 2 Relative Use Differential- \$1.60 per hundredweight fixed differential plus a formula-based differential driven by the ratio of Class I milk to all other uses of milk.

Option 3A Flat Differential Option- \$1.60 per hundredweight flat differential, uniformly applied across all orders to generate an identical minimum Class I price.

Option 3B Flat Differential Modified by Class I Use- \$2.00 per hundredweight differential in markets

where Class I utilization is less than 70 percent on an annual basis and a differential equal to \$2.00 + \$0.075 (Class I use % - 70%) in markets where the Class I utilization is equal to or exceeds 70 percent.

Option 4 Demand-Based Differential - \$1.00 per hundredweight fixed differential plus a transportation credit based on location of reserve milk supplies.

Estimated Class I differentials are presented for each option to provide a preliminary basis for determining impacts that may occur. The report provides estimated differentials for the suggested 10 consolidated orders and for the current 32 Federal milk marketing orders.

The report concludes by soliciting comments on the options presented and poses a series of questions for the public to address when submitting comments back to the Department on the issues of Class I pricing.

Summary of Classification Report

The Agricultural Marketing Act of 1937 provides that all milk should be classified "in accordance with the form in which or the purpose for which it is used." This has resulted in a system of uniform classification provisions that place milk used for fluid purposes in the highest use class, Class I, and other manufactured products in lower classes, Classes II, III, and III-A.

Currently, products packaged for fluid consumption such as whole milk, skim milk, buttermilk, and flavored milk drinks are classified as Class I products. Class II products include ice cream, yogurt, cottage cheese, and cream. Class III and Class III-A products include cheese, butter, and nonfat dry milk.

Among the changes in classification recommended in the technical report are the following:

- Eggnog would be reclassified from Class II to Class I.
- Any fluid beverage having less than 6.5 percent nonfat milk solids would be reclassified from Class II to Class I.
- Cream cheese would be reclassified from Class III to Class II.

The technical report recommends changing the classification of milk used in nonfat dry milk from Class III-A to Class III. The report recommends that if Class III-A pricing is not eliminated, the following four alternatives be considered:

- Place a floor beneath the Class III-A price;
- Restrict III-A pricing to certain months or to certain markets;
- Provide an up-charge for nonfat dry milk used in higher-valued products; or
- Provide for a combination of these options.

Maintaining the classification of milk used to make nonfat dry milk in Class III-A is also an option, although not discussed in the technical report.

The technical report addresses Class III-A pricing because of industry concerns about the substitution of nonfat dry milk for fluid milk in Class II and III uses when the Class III-A price is substantially below the Class III price.

Summary of Identical Provisions Report

Federal milk marketing orders contain numerous provisions that establish the regulations for the operation of the orders. Over the years, the orders have been individualized to account for specific situations associated with a given marketing area. However, there are several provisions within the orders that are similar or that could be similar and still provide for efficient and orderly marketing of milk.

The technical report does the following:

- Suggests a model for establishing the consolidated orders and provides suggestions on the order language that can be adopted uniformly throughout all orders.
- Reviewed, simplified, modified, and eliminated differences in order provisions that:
 - Define various terms used in the orders
 - Establish regulatory standards for plants and handlers
 - Provide for uniform reporting dates of milk receipts and utilization
 - Provide for uniform dates for payment of milk
 - Provide for computation of a uniform price
- Reduces performance standards to make it easier for producers to associate with a market.

At this time it is impossible to determine if there would be any financial impact on producers, handlers, or consumers as a result of any of these suggested provision revisions. It is projected that there will be little impact on selected individual producers, handlers, or consumers, but this can not be determined until more specific information is developed regarding the orders (i.e., marketing area and pricing). The suggested identical provisions will be applied to each of suggested consolidated orders and determinations will be based on the marketing conditions of the given region.

One suggested change in the report that may stimulate some debate is the definition of a producer-handler. The technical report suggests applying the most liberal standard to the producer-handler definition to prevent any producer-handler from becoming regulated as a result of milk order reform. Producer-handlers have been exempt from full regulation because they assume the full risks associated with being a producer and a distributor of milk produced with only occasional and small volumes of milk being purchased from other dairy farmers.

TOP TEN TEXAS COUNTIES a/ – FEBRUARY 1997

County	Number of Producers	Pounds	% Change From 1996*	County	Number of Producers	Pounds	% Change From 1996*
1. Erath	173	117,810,841	-1.17	7. Wood	78	16,421,581	-4.62
2. Hopkins	333	63,403,117	-6.06	8. Hamilton	35	15,633,480	-1.66
3. Comanche	61	35,966,367	+6.41	9. Cherokee	43	14,262,435	-5.02
4. El Paso	9	19,253,477	+4.08	10. Van Zandt	33	11,042,715	-1.24
5. Archer	64	19,006,961	+3.93	Ten County Total	883	331,004,986	-1.68 b/
6. Johnson	54	18,204,012	-8.14	Other Counties Total	708	172,172,580	-4.96
				Texas Total	1,591	503,177,566	-2.83

a/ Includes all known Grade "A" milk produced on farms located in Texas.

b/ Compared to top ten counties for the month in the previous year.

* February figures are based upon average daily production.

Minimum Prices at 3.5%, for Federal Orders 126 and 138 (Zone 1) Formula Prices (3.5%) and Price Quotations

Month	Class I a/		Class II	Class III	Class III-A	Uniform a/		B F Diff.	Grade A Butter	Block Cheese	Spray Powder	
	126	138				126	138					
	----- Dollars Per Hundred Wt. -----								¢/Point	-----Cents Per Pound-----		
January 1996	16.03	15.22	13.17	12.73	11.16	14.32	13.33	6.6	74.40	137.88	114.85	
February	16.07	15.26	13.21	12.59	10.39	14.15	13.21	5.4	65.21	137.75	110.84	
March	15.89	15.08	13.03	12.70	10.32	13.75	12.80	5.4	65.00	138.74	110.08	
April	15.75	14.94	12.89	13.09	10.52	14.06	12.99	5.9	69.57	143.25	110.32	
May	15.86	15.05	13.00	13.77	11.90	14.43	13.82	8.4	89.16	149.25	116.00	
June	16.25	15.44	13.39	13.92	15.12	15.03	14.56	14.1	130.63	149.33	129.75	
July	16.93	16.12	14.07	14.49	16.01	15.78	15.07	15.9	144.87	156.23	132.57	
August	17.08	16.27	14.22	14.94	15.82	16.12	15.37	15.8	145.00	163.58	130.91	
September	17.65	16.84	14.79	15.37	15.85	16.65	15.84	15.6	145.00	169.42	131.90	
October	18.10	17.29	15.24	14.13	14.94	16.79	15.14	13.1	124.45	157.93	131.55	
November	18.53	17.72	15.67	11.61	12.18	16.37	13.43	6.5	71.47	132.45	126.59	
December	17.29	16.48	14.43	11.34	11.75	14.89	12.80	6.8	73.02	123.73	120.55	
Averages 1996 b/	16.79	15.98	13.93	13.39	13.00	15.20	14.03	10.0	99.82	146.63	122.16	
January 1997	14.77	13.96	11.91	11.94	11.50	13.50	12.55	7.8	81.74	127.05	113.94	
February	14.50	13.69	11.64	12.46	12.36	13.42	12.79	10.0	98.46	131.24	114.91	
March	15.10	14.29	12.24									
April	15.62	14.81	12.76									

a/ Subject to zone and location adjustments. b/ Simple averages

TOP NEW MEXICO COUNTIES a/ – FEBRUARY 1997

County	Number of Producers	Pounds	% Change From 1996*	County	Number of Producers	Pounds	% Change From 1996*
1. Chaves	42	112,548,441	+7.96	7. Valencia	12	10,393,514	+6.71
2. Dona Ana	24	61,851,397	+11.09	8. Bernalillo	8	8,499,871	+8.46
3. Roosevelt	30	38,754,941	+10.90	9. Socorro	8	6,511,550	+11.33
4. Curry	8	24,565,094	-.86				
5. Lea	13	17,960,762	+16.67	Nine County Total	150	296,419,685	+8.26
6. Eddy	5	15,334,115	-.06	Other Counties Total	6	7,552,580	-4.06
				New Mexico Total	156	303,972,265	+7.91

a/ All known Grade "A" milk produced on farms located in New Mexico.

b/ Compared to top counties for the month in the previous year.

* February figures are based upon average daily production.

TEXAS AND NEW MEXICO MARKET COMPONENT TEST

Month	Butterfat		Protein		Lactose		S-N-F		SCC*	
	TX	NM	TX	NM	TX	NM	TX	NM	TX	NM
February 1996	3.67	3.65	3.18	3.14	4.80	4.81	8.71	8.66	312	238
March	3.61	3.62	3.18	3.14	4.80	4.81	8.70	8.66	296	216
April	3.57	3.57	3.17	3.11	4.82	4.83	8.68	8.65	287	205
May	3.47	3.46	3.11	3.06	4.81	4.82	8.63	8.58	288	203
June	3.41	3.40	3.07	3.03	4.79	4.81	8.57	8.55	343	224
July	3.43	3.40	3.12	3.04	4.75	4.78	8.58	8.52	429	259
August	3.50	3.44	3.20	3.10	4.71	4.75	8.59	8.55	446	272
September	3.60	3.54	3.24	3.17	4.70	4.76	8.64	8.65	455	271
October	3.65	3.58	3.29	3.23	4.72	4.77	8.72	8.70	377	238
November	3.67	3.60	3.29	3.28	4.75	4.78	8.75	8.78	378	224
December	3.67	3.58	3.27	3.25	4.75	4.80	8.75	8.77	378	223
Average 1996	3.58	3.55	3.19	3.14	4.77	4.80	8.67	8.65	358	234
January 1997	3.67	3.62	3.25	3.23	4.79	4.80	8.75	8.74	373	257
February	3.64	3.59	3.24	3.21	4.79	4.81	8.73	8.73	397	280

* In thousands.

NEW MEXICO - WEST TEXAS MILK MARKET AT A GLANCE

	REPORTED FEB. 1997	REPORTED JAN. 1997	REPORTED FEB. 1996
TOTAL UTILIZATION			
CLASS I	52,850,978	59,830,620	57,452,661
CLASS II	6,808,565	8,426,535	9,124,509
CLASS III/III-A	183,958,599	191,419,281	105,632,068
CLOSING INVENTORY (CLASS I, II AND III)	7,776,521	10,639,139	9,115,274
TOTAL UTILIZATION	251,394,663	270,315,575	181,324,512
DAILY CLASS I UTILIZATION	1,887,535	1,930,020	1,981,126
FEB. -DAILY CLASS I COMPARED TO:		-2.20%	-4.73%
CLASS I YEAR TO DATE (IN THOUSANDS)	112,682	59,831	119,196
% CHANGE FROM PREVIOUS YEAR	-5.47%	-3.10%	+4.77%
TOTAL RECEIPTS			
PRODUCER RECEIPTS CLASSIFIED AS CLASS I	51,541,106	59,211,567	56,536,687
PRODUCER RECEIPTS CLASSIFIED AS CLASS II	6,593,697	7,029,012	7,461,235
PRODUCER RECEIPTS CLASSIFIED AS CLASS III/III-A	156,966,333	156,357,640	95,325,156
TOTAL PRODUCER RECEIPTS	215,101,136	222,598,219	159,323,078
OTHER SOURCE A/	25,973,658	37,360,763	12,771,905
OPENING INVENTORY	10,319,531	10,356,593	9,229,529
OVERAGE	338		
TOTAL RECEIPTS	251,394,663	270,315,575	181,324,512
DAILY PRODUCER RECEIPTS	7,682,183	7,180,588	5,493,899
FEB. -DAILY PRODUCER RECEIPTS COMPARED TO:		+6.99%	+39.83%
PRODUCER RECEIPTS YEAR TO DATE (IN THOUSANDS)	437,699	222,598	330,333
% CHANGE FROM PREVIOUS YEAR	+32.50%	+30.17%	+14.77%
AVERAGE BUTTERFAT TEST OF PRODUCER RECEIPTS	3.604%	3.631%	3.656%
% PRODUCER MILK CLASSIFIED AS CLASS I	23.96%	26.60%	35.49%
NUMBER OF PRODUCERS	175	206	309
AVERAGE DAILY DELIVERY PER PRODUCER	43,898	34,857	17,780
NUMBER OF POOL HANDLERS	17	17	15

A/ INCLUDES MILK, SKIM MILK, CREAM AND SKIM EQUIVALENT OF CONCENTRATED SKIM MILK PRODUCTS

THE MARKET ADMINISTRATOR'S *REPORT*

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NEW MEXICO - WEST TEXAS MARKETING AREA**
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TEXAS MILK MARKET AT A GLANCE

	REPORTED FEB. 1997	REPORTED JAN. 1997	REPORTED FEB. 1996
TOTAL UTILIZATION			
CLASS I	268,269,440	300,366,774	261,555,273
CLASS II	93,363,507	103,562,688	89,934,904
CLASS III/III-A	170,808,629	181,250,074	252,623,072
CLOSING INVENTORY (CLASS I, II AND III)	26,305,197	27,216,145	30,493,463
TOTAL UTILIZATION	558,746,773	612,395,681	634,606,712
DAILY CLASS I UTILIZATION	9,581,051	9,689,251	9,019,147
FEB. -DAILY CLASS I COMPARED TO:		-1.12%	+6.23%
CLASS I YEAR TO DATE (IN THOUSANDS)	568,636	300,367	541,567
% CHANGE FROM PREVIOUS YEAR	+5.00%	+7.27%	+1.02%
TOTAL RECEIPTS			
PRODUCER RECEIPTS CLASSIFIED AS CLASS I	266,573,484	298,838,668	260,547,989
PRODUCER RECEIPTS CLASSIFIED AS CLASS II	83,703,186	91,180,606	81,538,605
PRODUCER RECEIPTS CLASSIFIED AS CLASS III/III-A	163,522,128	162,211,786	241,894,887
TOTAL PRODUCER RECEIPTS	513,798,798	552,231,060	583,981,481
OTHER SOURCE A/	17,627,140	23,746,445	16,559,455
OPENING INVENTORY	27,206,145	36,418,176	33,995,392
OVERAGE	114,690		70,384
TOTAL RECEIPTS	558,746,773	612,395,681	634,606,712
DAILY PRODUCER RECEIPTS	18,349,957	17,813,905	20,137,292
FEB. -DAILY PRODUCER RECEIPTS COMPARED TO:		+3.01%	-8.88%
PRODUCER RECEIPTS YEAR TO DATE (IN THOUSANDS)	1,066,030	552,231	1,185,276
% CHANGE FROM PREVIOUS YEAR	-10.06%	-8.16%	+7.04%
AVERAGE BUTTERFAT TEST OF PRODUCER RECEIPTS	3.639%	3.660%	3.664%
% PRODUCER MILK CLASSIFIED AS CLASS I	51.88%	54.11%	44.62%
NUMBER OF PRODUCERS	1,688	1,670	1,819
AVERAGE DAILY DELIVERY PER PRODUCER	10,871	10,667	11,071
NUMBER OF POOL HANDLERS	30	30	31

A/ INCLUDES MILK, SKIM MILK, CREAM AND SKIM EQUIVALENT OF CONCENTRATED SKIM MILK PRODUCTS.