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PRIMER
ON
MILK PRICE BARGAINING

Bargaining Opportunities For Price Enhancements:
The Regional Pricing Agency Approach

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UNITED STATES CAPPER-VOLSTEAD ACT

An Act to Authorize Association of Producers of Agricultural Products

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers <u>may act together</u> in associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing <u>in interstate and foreign commerce</u>, such products of persons so engaged.

Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes; Provided, however, That such associations are operated for the <u>mutual benefit of the members</u> thereof, as such producers, and conform to one or both of the following requirements:

First. That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein, or,

Second. That the association does not pay dividends on stock or membership capital in excess of <u>8 per centum per annum</u>.

And in any case to the following:

Third. That the association shall not deal in the products of non-members to an amount greater <u>in value than such as are handled by it for members</u>.

Section 2. That if the Secretary of Agriculture shall have reason to believe that any such <u>association monopolizes or restrains trade in interstate</u> or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced by reason thereof, he shall serve upon such association a complaint stating his charge in that respect, to which complaint shall be attached, or contained therein, a notice of hearing, specifying a day and place not less than thirty days after the service thereof, requiring the association to show cause why an order should not be made directing it to cease and desist from monopolization or restraint of trade.

An association so complained of may at the time and place so fixed show cause why such order should not be entered. The evidence given on such a hearing shall be taken under such rules and regulations as the Secretary of Agriculture may prescribe, reduced to writing, and made a part of the record therein. If upon such hearing the <u>Secretary of Agriculture shall be of the</u> opinion that such association <u>monopolizes or restrains trade</u> in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced thereby, he shall issue <u>and cause to be served upon</u> the association an order reciting the facts found by him, directing such <u>association to cease and desist from</u> monopolization or restraint of trade.

On the request of such association or if such association fails or neglects for thirty days to obey such order, the Secretary of Agriculture shall file in the district court in the judicial district in which such association has its principal place of business a certified copy of the order and of all the records in the proceeding, together with a petition asking that the order be enforced, and shall give notice to the Attorney General and to said association of such filing. Such district court shall thereupon have jurisdiction to enter a decree affirming, modifying, or setting aside said order, or enter such other decree as the court may deem equitable, and may make rules as to pleadings and proceedings to be had in considering such order. The place of trial may, for cause or by consent of parties, be changed as in other causes.

The facts found by the Secretary of Agriculture and recited or set forth in said order shall be prima facie evidence of such facts, but either party may adduce additional evidence. The Department of Justice shall have charge of the enforcement of such order. After the order is so filed in such district court and while pending for review therein, the court may issue a temporary writ of injunction forbidding such association from violating such order or any part thereof. The court may, upon conclusion of its hearing, enforce its decree by a permanent injunction or other appropriate remedy. Service of such complaint and of all notices may be made upon such association by service upon any officer or agent thereof engaged in carrying on its business, or on any attorney authorized to appear in such proceeding for such association, and such service shall be binding upon such association, the officers, and members thereof.

Approved, February 18, 1922

Federal Order Milk Market
<u>November, 1990 Pool</u>

I. Minnesota-Wisconsin Price Series

Jan, 1990	$13.94	Jul, 1990	$13.43
Feb	12.22	Aug	13.09
Mar	12.02	Sep	12.50
Apr	12.32	Oct	10.48
May	12.78	Nov	10.25
Jun	13.28	Dec	

II. Price Formula (Federal Order)

A. Class I Diff. = $2.00; forward pricing is 2 months;

M-W = basic formula price

B. Class II/III = M-W price for current month.

III. Market: 4 handlers; 4,900 producers

November Class I price = $ ______________

November Class II/III price = $ ______________

	Allen	Beatrice	Carnation	Darigold
Pounds Milk Received	80 Mil Lbs	120 Mil Lbs	50 Mil Lbs	50 Mil Lbs
Class I Usage	60 Mil Lbs	30 Mil Lbs	45 Mil Lbs	45 Mil Lbs
Class I Utilization	______	______	______	______

Market:

Pounds Received (Producer Milk) ____________________________

Class I Usage ____________________________

Class I Utilization ______________________________

Total Value of Pool ______________________________

Blend Price Per Cwt = $\dfrac{\text{Total Value of Pool}}{\text{Total Cwt. of Milk in Pool}}$

Blend Price = ________________ = $ ______________

IV. Value of Handler Milk

Note: The marketwide pool blend price is $12.80 per cwt.

	Allen	Beatrice	Carnation	Darigold
Class I	600,000 cwt. x $14.50 $	300,000 cwt. x $14.50 $	450,000 cwt. x $14.50 $	450,000 cwt. x $14.50 $
Class II/III	200,000 cwt. x $10.25	900,000 cwt. $ $10.25	50,000 cwt. x $10.25	50,000 cwt. x $10.25
Total Value of Milk at Plant:	$______	$______	$______	$______
Plant Utilization:	75%	25%	90%	90%
Total Value of Milk at Plant ÷ Cwt. of Milk at Plant = Value of Handler Milk Per Cwt.	$______	$______	$______	$______

V. Plant Obligation To Producer Settlement Fund

Allen	Beatrice	Carnation	Darigold
____¢ per cwt. on 800,000 cwt. = $_______	____¢ per cwt. on 1,200,000 cwt. = $_______	____¢ per cwt. on 500,000 cwt. = $_______	____¢ per cwt. on 500,000 cwt. = $_______

VI. Federal Milk Market Order has now accomplished its <u>four key functions</u>:

A. Established minimum class prices.

B. Verified receipts and usage of milk at each plant.

C. Determined a minimum blend price for the month.

D. Operated the Producer-Settlement (Equalization) Fund.

Milk Price Bargaining

Note: Federal milk orders establish <u>minimum</u> class and blend prices each month. What is required in order to gain premiums over minimum prices?

1. Bargaining Power - the ability to influence the terms of trade, especially price, in your favor.

2. Source of Bargaining Power - Control of Supply

   a. Public - limiting the total amount of output through supply management/quota mechanisms.

   b. Private/Cooperative - having control over most or all of the supply for a market, regardless of the amount of that supply.

3. Limits on Bargaining Power

   A. Economic

      1. Law of Demand - substitution; consumer response

      2. Law of Supply - entry, expansion, delayed exit, inter-market shipments.

   B. Institutional

      1. Judicial interpretations of the Capper-Volstead Act (e.g., no predatory and coercive actions).

      2. Lack of access to milk processing facilities by some bargaining groups, i.e., no real ability to withhold.

3. Lack of cooperation among different producer bargaining groups in the market and among markets.

4. The number of independent producers whose supply is not controlled by the bargaining agency.

SUPERPOOL

I. Assume:

1. Same market

2. Allen, Beatrice, and Carnation buy milk from the co-op and therefore are in the superpool.

3. Darigold has independent producers and is not in the superpool.

4. The premium prices over Federal order minimum prices charged by the superpool cooperative(s) are as follows:

Class I	=	$1.00 per cwt.	
Class II	=	40 cents per cwt.	20 cents
Class III	=	10 cents per cwt.	

(These over-order premiums do not include a 15 cent per cwt. service charge to handlers on <u>all</u> milk).

5. One million dollars of the money in the super-pool is paid out to producers. The other money in the super-pool is paid out in competitive credits, uniform receiving credits, and other cooperative marketing costs.

Lbs of milk in super-pool ______________________

Lbs of Class I in super-pool ______________________

Lbs of Class II/III in super-pool ______________________

Value of super-pool:

_____ pounds of Class I in superpool at $1.00 per cwt. = $ ________

_____ pounds of Class II/III in superpool at 20 cents per cwt. = $ ________

Total value of super-pool = $ ________

Allocation of super-pool:

- One million dollars to producers
- $580,000 to cover marketing costs

Over-order blend premium per cwt. = amount of money in super-pool to be paid out to producers ÷ total pounds of milk in super-pool:

$$\frac{\$1{,}000{,}000}{2{,}500{,}000 \text{ cwt.}} = 40 \text{ cents per cwt.}$$

Producer pay price	=	Federal order blend	$ ________________
	+	blend premium	$ ________________
		Total	$ ________________

II. Situation of a Plant in the Superpool (Carnation) Versus a Plant Buying Independent Milk (Darigold)

Note: 1. Both plants run the same volume and the same utilization.

2. Both plants have kicked in the same amount ($640,000) to the Federal order producer-settlement fund.

Cost of Handler Milk:

(1) Carnation (in superpool)

450,000 cwt. Class I x ($14.50 + $1.00)	= $ 6,975,000
50,000 cwt. Class II/III ($10.25 + .20)	= $ 522,500
Total	$ 7,497,500

Average cost for all milk at Carnation = $\frac{\$7,497,500}{500,000 \text{ cwt.}} = \boxed{\$\ 15.00/\text{cwt.}}$

(2) Darigold (not in superpool)

450,000 cwt. Class I x $14.50	= $ 6,525,000
50,000 cwt. Class II/III x $10.25	= $ 512,500
Now add 40¢ per cwt. on all 500,000 cwt. Why?	= $ 200,000
Total cost of Darigold milk	= $ 7,237,500

Average cost for all milk at Darigold = $\frac{\$7,237,500}{500,000 \text{ cwt.}} = \boxed{\$\ 14.48}$

QUESTIONS:

1. How much cheaper is Darigold getting its milk than Carnation?

   Total Dollars ____________; Dollars per cwt. ____________.

NOTE: THE $260,000 THAT DARIGOLD HAS AS A COST ADVANTAGE IS $260,000 THAT MILK PRODUCERS ARE NOT RECEIVING. THAT IS $53.00 IN THE AVERAGE MILK CHECK (4,900 PRODUCERS) THAT IS NOT BEING PAID.

2. How do the producer pay prices at Carnation and Darigold compare?

3. How can Darigold pay the same producer price and yet get its milk at $260,000 per month or 52 cents per cwt. cheaper?

NOTE:

1. Carnation is in the superpool and must pay the $1.00 per cwt. premium on its 90 percent Class I utilization and 20 cent premium on its 10 percent Class II/III utilization. The Carnation producers (as well as the Allen and Beatrice producers) get only the 54 percent Class I utilization that describes the superpool, plus the small amount of premium money on Class II/III milk, minus marketing costs.

2. Darigold is not in the superpool and does not have to pay any over-order premium money. However, it does match the superpool pay price. Since the superpool is only 54 percent Class I, Darigold is able to pay an over-order blend price that matches the 54 percent superpool utilization, but that ignores its own 90 percent Class I utilization.

    At the same time, Carnation is paying the full Class I price on its 90 percent Class I usage (plus the small premium on Class II/III milk), BUT since it is super-pooled in a 54 percent Class I superpool (along with Allen and Beatrice), Carnation's producers only get the 54 percent, similar to traditional marketwide pooling in the Federal order.

NOTE: It only rewards a plant such as Darigold to stay outside of the superpool (i.e., not buy its milk from the co-op if its plant utilization is higher than that of the superpool. Also, this price situation can only occur when (1) there are over-order prices, and (2) a plant or plants in the market are not buying from the cooperative but are procuring milk independently.

III. Higher Premium With Higher Co-operative Memberships

With a substantial amount of milk being marketed independently, as reflected in the Darigold situation, the bargaining power of the cooperative is diminished because it does not have effective control of the supply in the market. As a result, the co-operative's over-order premium structure is limited to the modest premiums used in the example -- $1.00 on Class I; 40 cents on Class II; and 10 cents on Class III. If the co-operative attempted to extract higher premiums, it would (a) put its own customers at a dis-advantage relative to their competitors, and (b) trigger other handlers to initiate independent procurement.

If the Darigold producers chose to become affiliated with the co-operative bargaining apparatus, then the co-operative could become more ambitious/aggressive in establishing its premium schedule. The primary immediate limit on how high the cooperative could go in establishing premiums would be that point where handlers would find an incentive to import milk from other regions. Other factors -- customer relations, effects on demand -- would also be modifying considerations.

However, if most of the producers in the market were in the bargaining apparatus, it is reasonable to conclude that the premium structure could be doubled. This would mean premiums as follows:

Class I	=	$2.00	
Class II	=	.80	.40
Class III	=	.20	

Since these premiums would be marketwide, including Darigold, they would generate monthly over-order pools as follows:

180,000,000 lbs. Class I x $2.00 per cwt.	=	$3,600,000
120,000,000 lbs. Class II/III x .40 per cwt.	=	480,000
Total		$4,080,000

The monthly super-pool would be valued at $4,080,000. Assume that marketing costs of $580,000 would be subtracted from the super-pool. This would leave $3,500,000 to be paid out to producers.

1. The $3,500,000 pay-out compares favorably with the $1,000,000 pay-out in the "old" market situation (or the $1,200,000 when also counting the Darigold match).

2. The $3,500,000 payout spread across the 300 million pounds of milk in the market would mean a blend premium of $1.17 per cwt. This compares favorably with the blend premium in the "old" market situation of 40 cents per cwt.

3. The $260,000 that Darigold is not having to pay milk producers in the "old" market situation would be fully recovered (and more), and all processors would be placed on an equal milk price/milk cost basis.

CONCLUSION

1. Organization is the key. Only milk producers themselves can make the organization decision.

2. Supply and demand forces will continue to be the key determinants of the milk price. But organization can help tilt milk prices positively for producers.