



Federal Milk Marketing Orders – Helping to Shape the Evolving Dairy Industry

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Key Points:

- *The dairy industry has many unique characteristics that make it unsuitable for unrestricted free-market competition.*
- *Federal Milk Marketing Orders are a set of regulations aimed at supporting orderly marketing conditions for milk. They succeed in many regards but lead to a number of unintended consequences.*
- *Industry consolidation on both the production and processing side has helped to even out but not eliminate some of the unbalanced market power that had previously been dominant in the industry.*
- *The regulatory process to make changes to federal orders makes any adjustments a risky proposition since a failure to reach two-thirds approval from producers results in complete elimination of the order.*
- *Pricing formulas and price release timing cause distortion in market signals which may be contributing to market volatility.*
- *Working within the federal orders provides a level of stability to manufacturing margins for making a specific group of products, but innovation away from these products opens up additional risk.*

Executive Summary

The dairy industry has many qualities which make it unique from other agricultural industries and unsuitable for unrestricted free-market competition. Compared to other agricultural commodities, farm milk is highly perishable and must be converted into a manufactured product quickly. In addition, milk is made up of about 87 percent water, making transportation of milk from farm to processor not only time-sensitive, but expensive.

These factors, along with some depression-era turmoil, necessitated the development of a Federal Milk Marketing Order (FMMO) system in the 1930s, to be administered by the USDA. Through this system, dairy farmers within a designated geographic area could vote whether to implement an FMMO to help facilitate an orderly market for their milk. Marketing orders use a complex system of pricing surveys, pricing formulas and regulations through which they aim to assure a reasonable price to dairy farmers and an adequate supply of milk to consumers while avoiding volatile price