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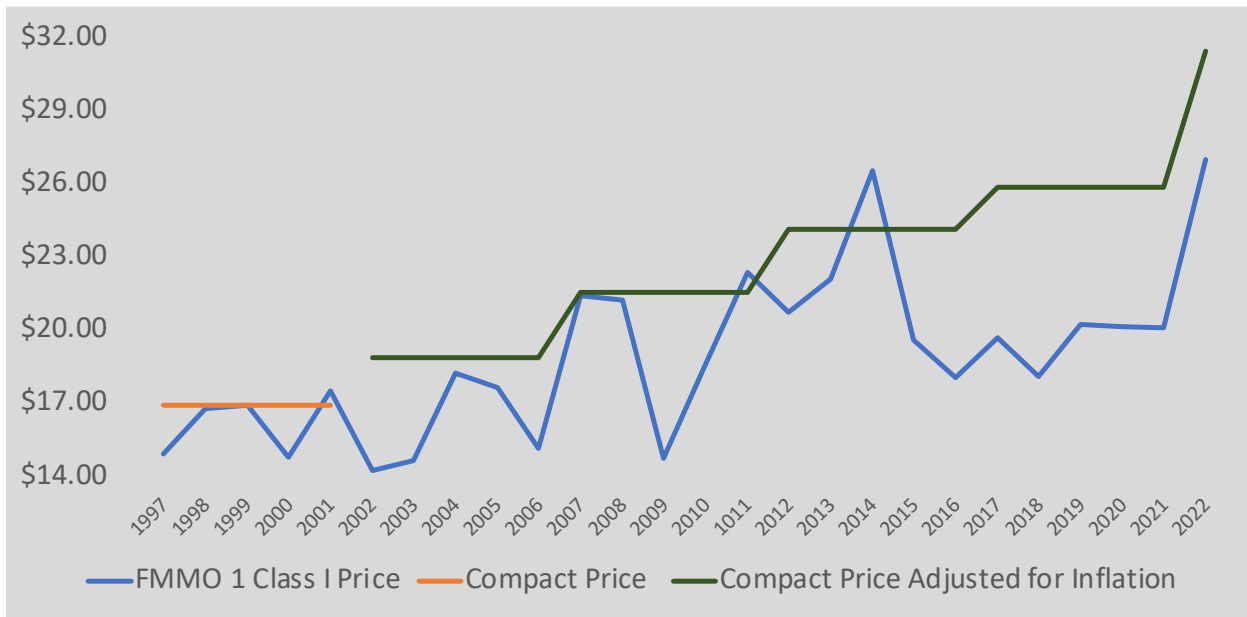
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Dairy Compact Price Regulation, Were It Still In Effect Today

The question has been raised as to what the Compact price regulation amount of \$16.94 might be today, had the Compact continued in operation rather than terminated in 2001. Adjusted simply for inflation, without further alteration, the Compact price regulation would be \$31.40, today.

Here is a graph that shows the Compact price regulation and FMMO 1 Class I prices, 1997 – 2001, and also shows how the Compact price regulation might have continued to operate against actual FMMO 1 Class I pricing, if the price regulation had been adjusted for inflation every five years, tracking the calculation of the original Compact price regulation amount of \$16.94.

Actual Compact and FMMO Class I Prices, 1997 - 2001
Projected Compact Pricing and FMMO 1 Class I Pricing, 2002 - 2022



Here is a brief description of how the Compact price regulation was calculated.

Compact Price Regulation

The Compact price regulation applied to the supply and procurement of raw milk by beverage milk processors that served the New England market, July 1997 – September, 2001. The market was then comprehensively regulated by the Boston, or Federal Milk Market Order 1. The Compact authorized imposition of an “over-order”, or surcharge, price above the FMMO 1 “Class I” minimum procurement price. The proceeds of the Compact price regulation were collected from regulated processors and paid out to all supplying producers, including New York farmers who provided 40% of the overall regulated supply.

Price Regulation Procedure

The Dairy Compact over-order price regulation was imposed effective July, 1997 following a series of procedural steps, that included both administrative rulemaking and a producer referendum. The Compact Commission first held rulemaking hearings across New England in 1996, at which the Commission received oral and written testimony. The Commission's then issued a "proposed" price regulation rule based on that testimony that was subject to further written comment. The Commission then issued a "final" regulation, which was subject to and approved by the producer referendum. The price regulation remained in place until September, 2001, when it terminated upon expiration of the Compact's Congressional authority.

Configuration and Amount of the Compact Price Regulation

The Compact Commission adopted the pricing methodology presented in testimony by the dairy economists for the Massachusetts and Vermont Agriculture Departments, and similar testimony presented by a UVM dairy economist.

Tracking their proposal, the Compact price regulation established a new, fixed floor price for the New England beverage milk marketplace. As a fixed floor amount, the price regulation was designed in part to reduce price volatility for both processors and producers. The regulation amount was also an amount "over-order" or above the federal minimum price, designed also to provide price enhancement for producers. As may be seen from the graph above, combined, the regulation provided counter-cyclical charges to processors and payments to producers – charges were assessed and payments made when the FMMO price dropped below the Compact pricing amount; no charges were assessed or payments made when the FMMO price regulation was above the new Compact minimum floor price.

The regulated price amount reflected a formula that provided for a five-year inflation adjustment of the FMMO 1 Class I price that was in effect when the Commission first acted to impose the over-order price regulation, in December, 1996. The formula identified the Class I price in effect five years before - or in December, 1991 - and then adjusted that amount for inflation, going forward, to December, 1996.

This formula resulted in the \$16.94/cwt Compact over-order price regulation.