

Glossary

Bacteria count. A measure of milk quality. There are some organisms capable of surviving milk pasteurization or refrigeration processes. Keeping the level of these organisms low is a quality standard.

Balancing. A service usually provided by dairy cooperatives to tailor milk supplies to each handler in a market to that handler's needs. It involves directing milk movements between farms and handlers' plants and among plants, managing imports from outside the region and stocks, and diverting supplies in excess of handlers' needs to alternative outlets, such as manufacturing plants.

Basic Formula Price (BFP). An adjusted competitive pay price for manufacturing grade milk used as the mover of most Federal milk marketing order class prices from mid-1995 to January 1, 2000. The adjustment to the competitive pay price was a formula based on the month-to-month change in the prices of manufactured dairy products. It also established the current Class III price under the orders.

Blend price. A minimum weighted average price in Federal milk market orders based on the proportion of Grade A milk allocated to each use class. Producers receive the blend price with adjustments for butterfat content and plant location if so specified.

Class I differential. The amount added to the class price mover (see BFP) in a Federal milk marketing order to obtain the given order's minimum Class I price. The same procedure is used in State marketing programs, but the nomenclature might be different.

Classified pricing. A structure of prices that differ according to category of use. In Federal and some State orders, regulated processors are required to pay a minimum price for Grade A milk according to the class in which it is used. States, like California, have price structures analogous to the current Federal milk marketing orders (as of January 1, 2000) that have four classes (uses):

Class I. Grade A milk used in all beverage milks.

Class II. Grade A milk used in fluid cream products, yogurts, or perishable manufactured products (ice cream, cottage cheese, and others).

Class III. Grade A milk used to produce cream cheese and hard manufactured cheese.

Class IV. Grade A milk used to produce butter and any milk in dried form.

Composition (of milk). Milk components are usually defined as fat solids, solids-not-fat (SNF), and fluid carrier (water). The SNF include proteins, minerals, and sugars. Milk pricing can be based on the values of the components and their proportions in producers' milk. This is generally called component pricing.

Cooperative. A firm that is owned by its farmer-members, is operated for their benefit, and distributes earnings on the basis of patronage (volume of milk).

Dairy Export Incentive Program (DEIP). A program that provides cash bonuses (subsidies) to exporters of U.S. dairy products to sell targeted dairy products in targeted overseas markets. Under recently implemented trade policy agreements, this program is being downsized in terms of both quantities to be exported and expenditures.

Economies of size. Increasing returns as use of factors is expanded in least-cost combinations. A situation where efficiently operated larger firms (farms) are more profitable than efficiently operated smaller firms (farms). The advantage can arise from lower production costs, volume premiums for products (outputs), or volume discounts for inputs. Once an operation reaches a certain size, the marginal cost of producing additional output begins to decline.

Federal milk marketing order. A regulation issued by the Secretary of Agriculture specifying minimum prices and conditions under which regulated milk handlers must operate when selling fluid milk products within a specified geographic area.

Fluid grade (Grade A) milk. Milk produced under sanitary conditions that qualify it for fluid consumption. Only Grade A milk is regulated under Federal milk marketing orders.

Fluid milk. Packaged dairy products used as beverage milks.

Fluid products. A term traditionally used to define the products including beverage milks, fluid cream items, and yogurts.

Fluid utilization. The proportion of Grade A milk in a market used to produce fluid (Class I) milk.

Interstate compact. A formal agreement between or among States, enacted through State and Federal legislation, which allows the combined States to exert authority not granted to them by law.

Manufacturing grade (Grade B) milk. Milk not meeting the fluid grade standards. Less stringent standards generally apply.

Manufacturing milk. Grade B milk or the Grade A milk used in the production of manufactured dairy products.

Manufacturers. Generally refers to the producers of cheese, butter, nonfat dry milk, and other storable dairy products.

Minnesota-Wisconsin (M-W) price. A monthly average price per hundredweight paid by plants for manufacturing grade milk in Minnesota and Wisconsin. The price is obtained from a survey of cheese and butter-powder plants conducted in the two States by USDA's National Agricultural Statistics Service.

Over-order payment. Payment above Federal order minimum prices negotiated between buyers and sellers to cover the cost of providing market services or attracting adequate milk supplies for both fluid and manufacturing uses. Over-order payments also could result from market power or regulation (see Compacts section, p. 10).

Parity price. Originally defined as the price that gives a unit of an agricultural commodity the same purchasing power today as it had in a base period, traditionally 1910-14. In 1948, parity procedures were modified to adjust for changes in relative farm prices between the base period and the most recent 10 years.

Perishable manufactured dairy products. Manufactured dairy products with limited storage life, including ice cream, cottage cheese, and bulk condensed milk.

Pooling. With a classified pricing system such as that used in Federal and State orders, processors pay different prices for milk in each category of use. Producers are paid a weighted average, or "blend," price for all uses of milk in a particular order or market. Processors pay into or draw out of the pool on the basis of their

utilization of milk relative to market average utilization. Producers participating in the pool receive identical uniform blend prices, with adjustments for butterfat content and location of the plant to which the milk is delivered. In markets with multiple component pricing, adjustments also are made for protein and other solids.

Price system (mechanism). An expression referring to the role of prices in a market economy in conveying information and providing incentives.

Processors. Generally refers to firms that process raw Grade A milk into fluid products.

Somatic cell count. A measure of milk quality based on the number of somatic cells that appear in the milk. Somatic means "of or related to the body" so that almost any body cell is included. The number of the white blood cells (infection-fighting cells) is relevant here. High levels of these cells appear in response to inflammations that can be a sign of mastitis. The composition of milk can be influenced by somatic cell counts.

Storable manufactured dairy products. Manufactured dairy products, including butter, nonfat dry milk, and hard cheeses, that can be stored for relatively long periods of time.

Support price for milk. When a support purchase program is in operation, the price of manufacturing grade milk that the Government must ensure is received, on average, by farmers.

Support purchase prices. Announced prices at which the Government will purchase any offered manufactured dairy products meeting its specifications. They are set at levels where plants will pay the support price for milk.

Surplus. The difference between commercial milk supplies and the amount demanded by the market at a given price. CCC net removals (price-support purchases plus DEIP shipments minus domestic sales for unrestricted use) approximate the surplus during a particular period.

Test. Commonly in the phrases "at test" or "test weight," the measure of fat in milk. The predominant method used in the United States is the Babcock test, developed in 1890.