

AFBF FEDERAL MILK MARKETING ORDER WORKING GROUP
BACKGROUND ON SOUTHEAST TRANSPORTATION CREDITS
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JUNE 2019

Issue:

All across the U.S., the dairy industry is struggling to manage the escalating costs of moving milk along the supply chain. Though higher fuel prices are a factor, the more troubling driver of the increased shipping costs dairy handlers and farmers are facing is the growing geographic distance between large population centers and major milk production areas. More of our nation’s milk is being produced in remote, rural locations like the Texas Panhandle, eastern New Mexico, western Kansas and Idaho, which are far from many large cities. These expanding distances are straining milk processing firms, handlers and dairy marketing cooperatives charged with “balancing milk supplies” within the dairy industry. This mounting problem is currently most pronounced in the Southeast.

Background:

Transportation Credit Balancing Fund

In 1996, following public hearings and then affirmative votes by dairy farmers, Federal Order provisions establishing the Transportation Credit Balancing Fund (TCBF) for the Appalachian (FO #5) and Southeast (FO #7) orders were written and executed. Since its implementation, the TCBF has undergone several modifications including:

- Increasing assessment rates;
- Adding more months in which payments are made from the fund;
- Incorporating a diesel fuel cost adjuster to calculate the reimbursement or payout rate;
- Changing the definition of supplemental milk; and
- Revising specifications to reduce the amounts of milk handlers may divert from outside markets.

TCBF Assessment Rates

Federal order provisions specify a maximum assessment of 15 cents per hundredweight for Appalachian Orders (FO #5) and 30 cents per hundredweight for Southeast orders (FO #7). The difference in the assessment rates accounts for the shorter distances that supplemental milk needed to meet Class I demand must travel for the Appalachian order. Market administrators can adjust assessment rates based on the amount of payments for the fund in the prior month(s). Currently, both the Appalachian and Southeast orders are collecting the maximum assessment rates of 15 cents and 30 cents per hundredweight, respectively.

These assessments are paid monthly by dairy processors and milk handlers who are regulated under the Appalachian and Southeast orders. The amount paid into the

TCBF is calculated on the amounts of bulk received or handled for fluid dairy products and classified as Class I milk. Table 1 indicates that for the 10-year period from 2009 to 2018, on average almost \$6 million was collected annually in the Appalachian order and more than \$12.5 million was accumulated each year for the Southeast order, for a total of more than \$18.5 million.

TCBF Payments

Milk cooperatives and dairy processors who import supplemental milk that is delivered to a fully regulated milk plant are eligible to request TCBF payments. The market administrator will conduct examinations to decide if such payments are warranted to ensure the market has an adequate supply of raw milk supplies for Class I needs/use. TCBF payments are made for both the Appalachian and Southeast orders during the months of January, February and July through December. In other words, TCBF payments are not made in the spring flush months of March, April, May and June when adequate supplies of raw milk are usually available from local (in-order) producers/sources, rendering supplemental milk imports unnecessary to satisfy fluid milk demand.

Payments from the TCBF are calculated using mileage rate factor estimates based on an average cost of a loaded mile, which also includes a monthly adjustment rate reflecting the diesel fuel price per gallon for the southeastern U.S. This diesel fuel price adjustment, or mileage rate factor, is based on published information from the U.S. Energy Information Administration. The total payment is computed by multiplying the mileage rate factor by the number of miles the load of raw milk traveled from outside an 85-mile radius of the respective order.

If there are not sufficient collections in the TCBF to pay for all eligible claims for reimbursement in any month, then the payments are allocated on a pro rata basis. Table 1 shows the annual pro rata disbursement rates for the Southeast order from 2009 – 2018 ranged from a low of 66% in 2012 to a high of 93% in 2015, with an average pro rata of 75% for the 10-year period. In summary, the TCBF was able to pay for about three-quarters of the claims for transportation credits during this time span.

Supplemental Milk Defined

For the purposes of the TCBF in the Appalachian and Southeast orders, supplemental milk is defined as milk that is not part of the regular supply of milk in the order. Order provisions designate supplemental milk as bulk milk produced on a dairy farm situated outside the geographic FO #5 and FO #7 boundaries.

Southeast Runs a Milk Supply Deficit

The Appalachian and Southeast orders span large areas of the U.S. that do not produce enough milk to meet demand. To demonstrate the size and significance of these deficit raw milk supplies, the market administrators for FO #5 and FO #7 produced charts illustrated in Figure 1 and Figure 2. These figures reveal the substantial milk supply deficits in these two federal orders.

The blue line in Figure 1 shows the Appalachian order's daily average producer receipts received at pool distributing plants by month from 2011-2013. The red bars represent the daily average for milk produced and pooled in the FO #5 marketing area. The difference between the two represents the volume of milk that needs to be delivered from outside the Federal Order 5 marketing area to meet pool distributing plant demand, referenced as "deficit" in the graph. The average daily "deficit" during the time period was 5.2 million pounds. The month with the lowest deficit was April at 4.1 million pounds per day, while the month with the highest deficit was October at 5.8 million pounds. Pool distributing plant demand increases in August due to higher demand for fluid milk at the beginning of the school year, which coincides with declining in-area production. Obviously, the need for additional milk from outside the marketing area is significantly greater from August through October, as demonstrated in Figure 1.

In Figure 2, the blue line represents the Southeast order's daily average producer receipts received at pool distributing plants by month from 2011-2013. The red bars represent the daily average for milk produced and pooled in the Federal Order 7 marketing area. The difference between the two represents the volume of milk that needs to be delivered from outside the Federal Order 7 marketing area to meet pool distributing plant demand, referenced as "deficit" in the graph. The average daily "deficit" during the time period was 5 million pounds. The month with the lowest deficit was May at 2.9 million pounds per day, while the month with the highest deficit was October at 6.2 million pounds. Pool distributing plant demand increases in August due to higher demand for fluid milk at the beginning of the school year, which coincides with declining in-area production. Figure 2 clearly shows the need for additional milk from outside the marketing area is significantly greater from August through October.

Current Farm Bureau Policy:

Farm Bureau supports a reform of transportation credit regulations to eliminate producers in a deficit area bearing costs of transporting milk into the area.

Table 1. Transportation Credit Balancing Fund Activity for Appalachian (FO #5) and Southeast (FO #7) Orders

Assessment Rate	FO #5 \$0.15 per cwt.	FO #7 \$0.30 per cwt.	TOTAL Assessments for FO #5 & FO #7	FO #7 Proration Rate
2009	\$ 6,224,713.00	\$ 14,240,419.71	\$ 20,465,132.71	67.64%
2010	\$ 6,200,610.00	\$ 14,052,204.44	\$ 20,252,814.44	71.37%
2011	\$ 6,310,954.00	\$ 13,716,905.92	\$ 20,027,859.92	72.78%
2012	\$ 5,977,852.00	\$ 13,449,390.01	\$ 19,427,242.01	65.96%
2013	\$ 5,767,174.00	\$ 12,488,889.04	\$ 18,256,063.04	69.29%
2014	\$ 5,674,108.00	\$ 11,714,911.94	\$ 17,389,019.94	78.34%
2015	\$ 5,805,961.00	\$ 11,718,752.07	\$ 17,524,713.07	93.32%
2016	\$ 5,837,688.00	\$ 11,515,768.28	\$ 17,353,456.28	78.47%
2017	\$ 6,017,751.00	\$ 11,301,157.38	\$ 17,318,908.38	77.94%
2018	\$ 5,976,167.00	\$ 11,113,450.75	\$ 17,089,617.75	73.39%
AVERAGE	\$ 5,979,297.80	\$ 12,531,184.95	\$ 18,510,482.75	74.85%

FO 5 Daily Average Production and Pool Distributing Plant Demand 2011–2013

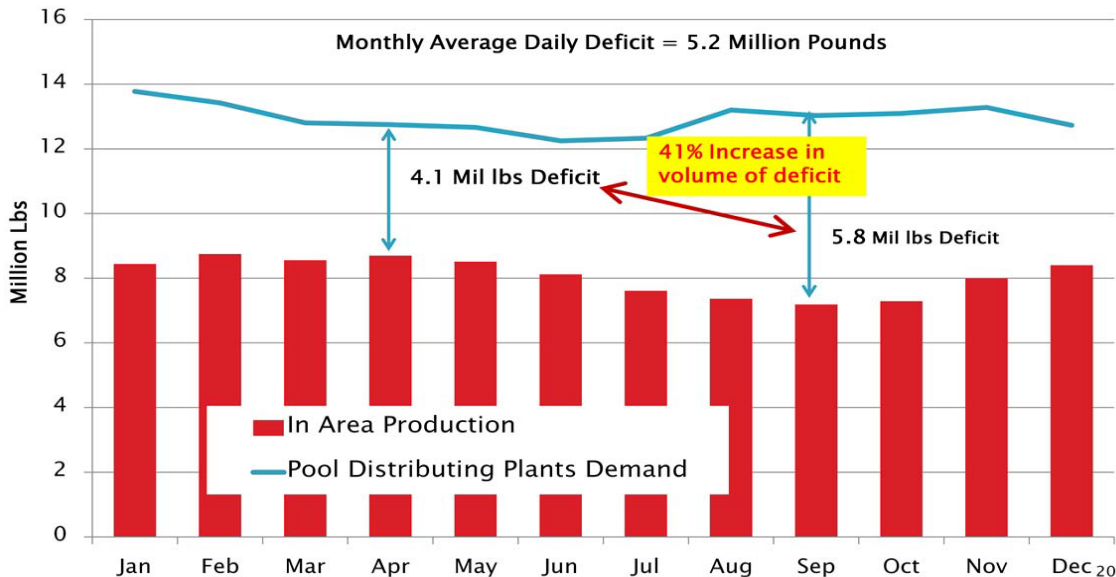


Figure 1. Source: Appalachian Federal Order Market Administrator

FO 7 Daily Average Production and Pool Distributing Plant Demand 2011–2013

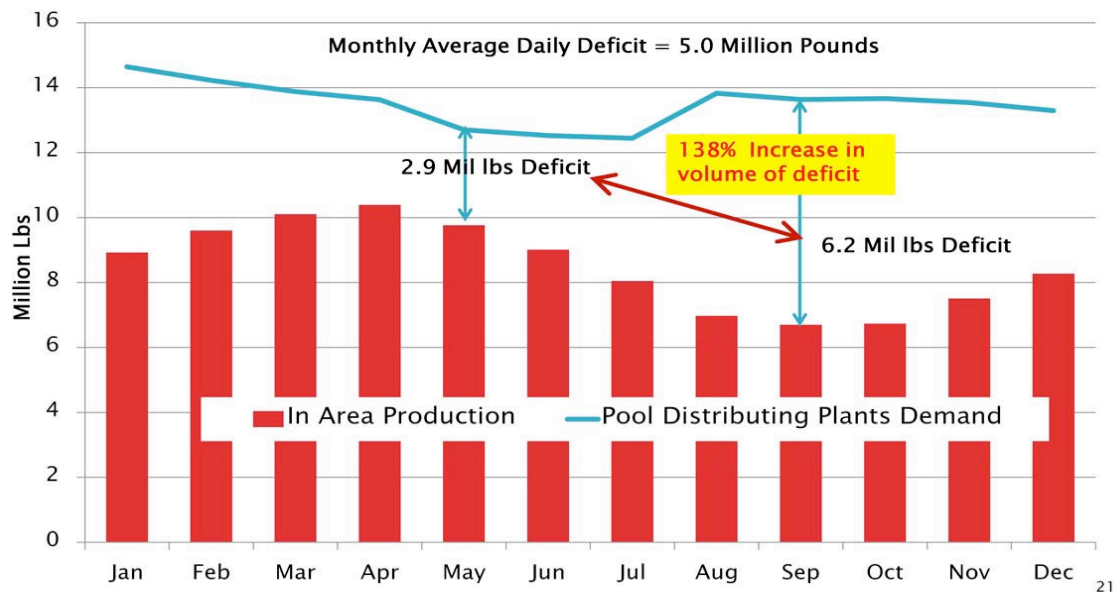


Figure 2. Source: Southeast Federal Order Market Administrator