



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

GIANNINI FOUNDATION OF
AGRICULTURAL ECONOMICS
LIBRARY

WITHDRAWN
APR 11 1963

Staff Contribution 2-15

**Miscellaneous Staff Contribution
of the
Department of Agricultural Economics**

**Purdue University
Lafayette, Indiana**

**For information concerning additional available publica-
tions write: Librarian, Department of Agricultural Economics**

2, -15-

TERMS AND PROVISIONS OF THE INDIANAPOLIS MILK MARKETING
ORDER NO. 125

E. M. Babb, Jr.
Agricultural Economics Department
Purdue University

A. Objectives or purposes of milk marketing orders

- (1) Stabilize market conditions and encourage orderly marketing.
- (2) Assure farmers prices which are reasonable in relation to economic conditions.
- (3) Assure consumers of an adequate supply of pure and wholesome milk.

B. Definitions

- (1) Marketing order - a set of rules promulgated for fluid markets to provide for establishment of prices handlers must pay for various uses of milk and a method of distributing such payments to producers. It is a legal instrument administered by the U.S.D.A. and establishes the ground rules of regulation.
- (2) Market administrator - appointed by the Secretary of Agriculture to administer the terms and provisions of the order. His duties and powers are specified in the order.
- (3) Pool plant - a dairy plant where milk is received from producers and which qualifies under the marketing order and is regulated by it.
- (4) Handler - any person who engages in the handling of milk or milk products regulated by the order.
- (5) Producer - any approved dairy farmer whose milk is received at a pool plant.
- (6) Producer - handler - any person who operates a dairy farm and a distributing plant and who receives no fluid milk products from producers or from other than pool plants, subject to certain other requirements.

C. Marketing area

- (1) Difference between production area and marketing area -
 - (a) Marketing area - is the area in which handlers making fluid milk sales to consumers are subject to regulation. It approximates the sales area for a market.
 - (b) Production area or milkshed - is the area where milk priced under the order is produced. Part, none, or all of this area may be in the marketing area.
- (2) Indianapolis milk marketing area - includes the counties of Boone, Clinton, Delaware, Fayette, Grant, Hamilton, Hancock, Hendricks, Henry, Howard, Johnson, Madison, Marion, Montgomery, Morgan, Putnam, Rush, Shelby, Tippecanoe, Tipton and Wayne. This area is shown on the attached map.

Pool plant requirements

- (1) Purpose - to specify what plants are authorized to handle a marketing area and should therefore be regulated.
- (2) Distributing type plant - must deliver at least 10 percent of its Grade A milk received from producers and other plants as Class I and at least 10 percent of its milk as a whole milk as a pool of as Class I within the marketing area. It may qualify as a pool plant in a particular month if it has delivered for majority of his fluid milk product to the marketing area of another order and is regulated by that order, he is exempt from regulation under Order 325.
- (3) Supply type plant - must ship at least 10 percent of the milk received from producers to a regulated distributing plant in order to qualify as a pool plant. Any supply plant which was a pool plant in each of the preceding months of August through January shall be a pool plant automatically unless the handler elects to be a nonpool plant.

Classification

- (1) Purpose - milk is paid for by the handler on the basis of the use made of such milk. Hence, classification, or uses and shrinkage is in the order, so that every use the handler has made of milk is placed in some classification and paid for at the appropriate class price.
- (2) Class I milk - includes all skim milk and butterfat separated in fluid milk products such as milk, whole milk, creaming milk, drinks, cream, many cream mixtures, and the like. This classification also includes shrinkage above the allowance of up to 2 percent in Class II.
- (3) Class II milk - includes all milk not in Class I which is used to make such products as cheese, butter, nonfat dry milk, evaporated and condensed milk, ice cream and frozen desserts, and allowable shrinkage.
- (4) Classification procedure - a relatively complex set of rules is established to allocate milk from different sources to the various classes.

Minimum class prices

- (1) Purpose - there is a specific formula used for arriving at the price per hundredweight for each class of milk, and such prices are computed each month by the Market Administrator. Class prices are established on the basis of the value of the milk in each use and other economic considerations and must be uniform among handlers. With class prices uniform among all handlers handlers have equal raw product costs and one handler does not have an unfair price advantage over others. Class and plant prices are quoted for 3.5% milk F.O.B. Marion County.
- (2) Class I price - the class I price is the key price which is changed to reflect supply and demand conditions in the market and consequently alter the level of blend or producer uniform price. It is higher than the other class price, reflecting the higher value of milk in this use to consumers and the "skim milk" or "protein" milk in this class. The class II price is the

basic formula price for the preceding month plus 0.15. The basic formula price is the higher of the average of 24 consecutive daily spray price or a butter powder formula price. The butter powder formula price is computed as the sum of:

- (a) 92 active Chicago butter price x 1.12
 - (b) average of spray and roller process market dry milk prices at Chicago less 5.5 cents x 8.2.
- (3) Class II price - the Class II price must bear a competitive relationship to manufacturing milk prices if the market's surplus milk is to be properly handled. The Class II milk price is the basic formula price.

3. Differentials applicable to class prices

- (1) Purpose - differentials have the purpose of reflecting values associated with different units of milk. Differentials associated with class prices have the purpose of equalizing product costs among handlers.
- (2) Butterfat differentials - the Class I price is adjusted up or down for each point above or below 3.5% butterfat at the rate of 0.12 times the Chicago butter price. The Class II butterfat differential is obtained by multiplying the Chicago butter price by 0.113.
- (3) Location differentials - equalize costs among handlers regardless of the location of the source of milk supply. For milk received at a plant outside Marion County but less than 70 miles from Monument Circle in Indianapolis, the Class I price is reduced 5 cents. At plants more than 70 miles but less than 80 miles from Indianapolis, the price is reduced 10 cents. The price is reduced 1.5 cents for each additional 10 miles the plant is located beyond the 80-mile zone.

4. Uniform or blend price

- (1) Purpose - the uniform price is the price payable to producers or the average of the prices paid by handlers subject to adjustments. The uniform price must be at such a level as to maintain an adequate supply of fluid milk to meet the needs of the market.
- (2) How computed - in a marketwide pool, as found under Order 125, equalization of returns to producers is accomplished by means of a producer settlement fund. Handlers whose average of prices is above the market average pay into the fund and those below the average receive payments from it. In this way, all handlers can pay producers the same basic uniform price.

5. Differentials applicable to the uniform price

- (1) Purpose - to provide for producer equity and recognition of the values of various units of milk.
- (2) Butterfat differential - the weighted average of the handlers "pay in" or class butterfat differentials.
- (3) Location differential - the uniform price payable for milk delivered to plants at different locations is subject to the same adjustments for location as listed above under class price location differentials.
- (4) Seasonal pricing plan - a Louisville plan or fall premium plan is used to encourage milk production patterns which more nearly fit

the market's fluid needs. During the months of April, May, June and July, an amount equal to 8 per cent of the Class I price is deducted from the uniform price. This amount deducted is paid back to producers by adding it to the uniform price in essentially four equal parts during the months of September, October, November and December.

3. Payments on surplus milk

- (1) Purpose - to prevent other markets or plants not associated with the order from dumping their excess milk into the order.
- (2) Rate of payment - handlers selling unpriced other source milk which is allocated to Class I must pay into the pool the difference between the Class I price and the Class II price, subject to adjustments during the months of April through July. The rate is the difference between the Class I price and the uniform price during other months.

4. Marketing services

- (1) Purpose - to provide the Market Administrator funds to see that producer weights and tests are correct and to insure adequate marketing conditions.
- (2) Rate of payment - for producers who are required to receive time performing such services, up to 1 cent per pound of milk from the uniform price in order that these services can be performed. No charge is made to a handler of a cooperative who performs the services.

5. Recovery of liquidation

Handlers pay the costs of administering the order which are added up to 6 cents per hundredweight on milk handled to cover paid expenses.

6. Reports of handlers

Handlers are required to make numerous reports to the Market Administrator to show amounts of milk received, butterfat tests, use of all milk and many other things in order that all milk be properly priced and paid for. The Market Administrator has a staff of auditors who thoroughly check all reports of handlers for accuracy.

7. Payments to producers

Handlers will be required to pay producers at least the Class II price for the previous month for milk received during the first 15 days of the month, by the end of that month. By the 15th of the month, handlers ordinarily must pay producers the full uniform price for all milk delivered the previous month less the part payment. Order prices are minimum prices, and handlers can pay premiums over the order price.

