

## A

### Agricultural Marketing Service

The agency of the U.S. Department of Agriculture that administers federal milk marketing orders.

### All Milk Price

A weighted average of the prices dairy processors pay for all grade A and grade B milk, calculated by the NASS and usually reported for milk of average fat test.

### Allocation Procedures

Provisions that establish how milk from different sources should be assigned to different use classes for the purpose of pricing. The priorities of allocation can influence the economic incentive for different types of milk supplies to enter the market and generally favor nearby producer milk over other sources.

### AMS

see Agricultural Marketing Service

### Aseptic

Free from bacterial contamination, sterile; used to describe a type of food processing and packaging characterized by non-refrigerated storage and long shelf-life products (see UHT and ultrapasteurized).

### ASCS

Agricultural Stabilization and Conservation Service. The agency of the U.S. Department of Agriculture that administers the dairy price support program.

### Assembly

In general usage, this may refer to the procurement of raw materials or inputs by a business. In dairy markets, it refers specifically to the transportation of milk to processing plants. Sometimes a distinction is made between farm milk pickup (truck moves from ranch to ranch) and over-the-road or long-haul assembly (truck moves from last ranch on route to plant for delivery).

### ASCS

see Agricultural Stabilization and Conservation Service

### Assessment

A charge levied for the purpose of generating revenues. Various assessments are or have been used as part of both federal and state dairy programs.

1.

Assessments are charged by Dairy Marketing and Milk Pooling Branches to cover the cost of operating the California state programs. The Branches also assess and collect fees for other agencies, such as the Dairy Council of California. A per hundredweight charge is specified for both handlers and producers. A typical charge for producers range from 0.5¢ to 1.7¢ per hundredweight of milk received by the handler. Handler assessment rates range from 0.4¢ to 1.7¢ per hundredweight of milk processed.

2.

Off and on since 1983, marketing assessments have been levied on dairy farmers operating in federal milk marketing orders by the U.S. Department of Agriculture. These per hundredweight assessments on milk marketings have been used to defray the cost of the Dairy Price Support Program or associated supply management programs (see Dairy Collection Plan).

3.

Promotion assessments are per hundredweight charges on milk marketings of dairy farmers by the National Dairy Board or another generic dairy promotion agency (see Promotional Check-off). The current assessment is 15¢ per hundredweight.

## **B**

### **Bargaining Agency**

Generally, this refers to any bargaining cooperative; however, the term was specifically codified in New York's Rogers-Allen Law of 1937. This law enables producer cooperatives to form producer bargaining agencies and milk dealers to form distributor bargaining agencies. The agencies formed are given certain specified powers relative to the establishment and operation of the business.

### **Bargaining Cooperative**

Association of producers whose major function is to negotiate prices and provide buyers for the milk produced by members. Some associations may operate manufacturing or processing facilities, but these activities are not generally the focus of the business. In contrast, some of California's processing cooperatives have significant roles as dairy product manufacturers.

### **Barn, Freestall**

An on-farm structure that houses dairy cows. It consists of multiple individual stalls arranged

in rows with the rows separated by alleys. Freestall barns are open-sided structures with only a roof supported by poles. Cows are free to wander and occupy any open stall when in the barn, as opposed to a stanchion barn, in which cows occupy designated stalls.

#### Barn, Milking (Milking Parlor)

An on-farm structure which contains the milking machine. Cows are brought to the milking barn in large groups for milking, usually twice and sometimes three times a day. The barn may be referred to by the arrangement of the milking machine. For example, a herringbone barn is a milking barn that contains a milking machine with parallel stalls at angles, resembling the bones of a fish. A rotary barn describes a milking machine built in a circle that rotates as cows are milked.

#### Barn, Stanchion

An older style, on-farm structure that houses dairy cows. Stanchion barns are typically enclosed on all sides. Cows occupy designated stalls, as opposed to a freestall barn, in which cows are free to wander and occupy any open stall.

#### Barrel Cheese

A form of packaging rather than a type of cheese. The barrel is a plastic-lined cardboard container that holds approximately 500 pounds of cheese. Barrel packaging is typically used for bulk cheese that will be further processed.

#### Base-Excess Plan

A pricing plan to encourage producers to adjust their production to a desirable seasonal pattern. It involves the annual (re-) assignment of a production base that reflects that producer's deliveries during a specified period of time of year when demand for milk is strong. The producer then receives a higher price for milk produced up to the amount of the production base and the "excess" or surplus price for additional supplies. A base-excess plan typically is authorized and administered under a federal order, but it may be established by a cooperative for its members.

#### Blend Price

The official federal order term is uniform price, sometimes also called the pool price. It is the average of class prices weighted by marketwide utilization. Blend prices pertain to a specified butterfat content and location within an order area.

#### Bloc Vote

A voting procedure wherein a bona fide, approved cooperative may cast votes representing its entire membership, if its board of directors so requests. In federal milk marketing orders, bloc voting may be prohibited under some circumstances in referendums, depending on the issue put to vote. In some orders, cooperative members who wish to vote differently from their cooperative may be able to request an individual ballot.

#### Block Cheese

A form of packaging rather than a type of cheese. The block is approximately 40 pounds of cheese. Block packaging, like barrel packaging, is typically used for bulk cheese that will be further processed.

#### Bulk Milk

Raw milk from a dairy farm, as stored in a bulk tank; in contrast with packaged milk. Other bulk products, such as condensed skim and cream, may also be transported in bulk form.

#### Bulk Tank Unit

An administrative entity used as a means of identifying pool bulk delivered by groups of producers in some marketing orders. The bulk tank unit is an accounting device that should not be confused with a bulk tank, which is the on-farm equipment that holds milk until it is picked up by a milk hauler.

#### Butterfat Differential

In federal milk marketing orders, the amount added to or subtracted from a farmer's milk price to reflect the value of milkfat above or below a standard reference mark, usually set at 3.5 percent milkfat. The butterfat differential is expressed as cents per one-tenth of a percent of milkfat and is based off of the bulk butter market. As of January, 2000, the butterfat differential is no longer used in the calculation of federal order milk prices.

## C

#### California Department of Food and Agriculture\*

A state department that serves the citizens of the California by promoting California agriculture and fostering public confidence in the market place through the development, implementation, and communication of sound public policies. Among its 1,700 employees statewide are scientists, economists, marketing specialists, laboratory technicians, administrators and communicators.

#### California Manufacturing Milk Advisory Board\*

A board that initiates promotions, funded by assessments on grade B milk production. The program is administered by the California Milk Advisory Board staff.

#### California Milk Advisory Board\*

A board involved in advertising, promotion and research for the California dairy producers, funded by assessments on grade A milk production.

#### Call Handler / Supply Handler

In California, any handler whose total direct and derived milk solids–not–fat Class 1 usage equals or exceeds 80% of total market milk solids–not–fat received or diverted, and whose direct and derived milk solids–not–fat Class 4a and 4b usage does not exceed 5% of total market milk solids–not–fat received or diverted. A supply handler is any handler that does not qualify as a call handler. Call handler and supply handler designations pertain to the administration of call provisions.

### Casein

The major protein contained in milk and the primary protein in cheese. Also a protein curd or dried product made from milk casein curd.

### Cash Forward Contracting

A solution to the problem of price volatility that allows processors and producers alike to "lock in" the price paid and price received). This voluntary agreement occurs as a contract between a producer and a processor and establishes a fixed price for milk to be delivered to the processor over a known period of time. By its nature, cash forward contracting does not interface well with minimum pricing laws and is only approved for use in federal milk marketing orders under specific circumstances.

### CCC

see Commodity Credit Corporation

### CDFA\*

see California Department of Food and Agriculture

### Chicago Mercantile Exchange

The CME is an international marketplace enabling institutions and businesses to manage their financial risk. Futures and options contracts traded at the CME include currencies, interest rates, stock indexes and agricultural commodities. CDFA uses dairy commodity cash market data to establish minimum milk prices.

### Classification

Under marketing orders, milk is classified according to how the milk is used (See Classified Pricing, Class 1, Class 2, Class 3, Class 4a and Class 4b.)

### Classified Pricing

Each class of milk usage is priced differently. In theory, fluid milk has the highest price while manufacturing milk has the lowest price.

### Class 1 Milk\*

The (theoretically) highest priced category in a classified pricing plan. Includes milk used in fluid whole milk and generally includes related fluid products. Milk products in this category are milk, skim milk, lowfat milks, milk drinks, half–and–half, and filled milk. A very similar

classification is made under the federal milk marketing order system, where it is termed "class I".

#### Class 1 Price\*

The minimum price that handlers must pay for milk going into Class 1 uses (see Class 1 Milk). It is announced every month in California (class I is announced every month in federally regulated milk markets as well). The level of the Class 1 price depends on national commodity markets; it uses the higher of the national cheese price or the butter/powder prices.

#### Class I Differential

In federal milk marketing orders, it is the constant factor added to the Class I price mover to determine the class I price in any given month. The differential varies by location, generally being the lowest in areas with abundant milk supplies and small populations (such as Wisconsin and New Mexico ) and highest in areas with moderate milk supplies and large populations (Florida and other Southeastern states).

#### Class 2 Milk\*

An intermediate product category in the classified pricing plan. This pricing category includes cottage cheese (all types), fluid cream products, yogurt, buttermilk and eggnog. Under federal milk marketing orders, it is termed class II and includes most of the above products as well as ice cream and other frozen dairy desserts.

#### Class 2 Price\*

Minimum price handlers must pay for milk used in Class 2 category. In general, the Class 2 price is tied directly to the Class 4a price by a differential. The Class 4a price is based on prices of bulk butter and bulk nonfat dry milk.

#### Class 3 Milk\*

An intermediate product category in the classified pricing plan. This pricing category includes ice cream, ice cream mixes and other frozen dairy desserts. Under federal milk marketing orders, it is termed class II and includes all of the Class 2 products as well as the dairy desserts. In federal orders, Class III refers to a manufacturing product category that includes all cheeses except cottage cheese.

#### Class II Milk

An intermediate product category in the federal order classified pricing plan. It includes all of the products categorized as Class 2 as well as the dairy desserts.

#### Class 3 Price\*

Minimum price handlers must pay for milk used in Class 3 category. In general, the Class 3 price is tied directly to the Class 4a price by a differential. The Class 4a price is based on prices of bulk butter and bulk nonfat dry milk. The Class 3 price is always slightly less than

the Class 2 price.

#### Class III Milk

In federal orders, Class III refers to a manufacturing product category that includes all cheeses except cottage cheese.

#### Class 4a Milk\*

A manufacturing product category in the classified pricing plan that includes butter and powdered milk products. In federal orders, this product category is referred to as “Class IV”.

#### Class 4a Price\*

The minimum price handlers must pay for milk used in Class 4a category. The Class 4a price is based on prices of bulk butter and bulk nonfat dry milk.

#### Class 4b Milk\*

A manufacturing product category in the classified pricing plan that includes all cheeses except cottage cheese. In federal orders, this product category is referred to as “Class III”.

#### Class 4b Price\*

The minimum price handlers must pay for milk used in Class 4b category. The Class 4b price is based on prices of block Cheddar cheese and bulk butter.

#### Class IV Price

In federal orders, Class IV refers to a manufacturing product category that includes butter and all powdered milks.

#### CMAB\*

see California Milk Advisory Board

#### CME

see Chicago Mercantile Exchange

#### Collective Bargaining

Negotiation between employer and labor representatives regarding wages, hours and working conditions. In the dairy industry, bargaining may take place between cooperative and dealer representatives, as well as between unions and plant or ranch management.

#### Commodity Credit Corporation (CCC)

A wholly owned federal corporation within the U.S. Department of Agriculture, subject to the direction of the Secretary of Agriculture. Price support purchases and many other commodity program activities involving expenditures of funds are conducted by the CCC.

## Commodity Reference Price\*

As a cornerstone of the Class 1 price calculation, the CRP computes a value for milk by relating how much product can be made from a given quantity of milk and the value of the product.

## Component Pricing

Also known as “multiple component pricing”, it is a pricing method that assigns value to individual portions of milk. In California, value is assigned to the fat and solids-not-fat portions of milk in all classes. Value is also assigned to the fluid carrier of milk for Class 1. In some federal milk marketing orders, value is assigned to protein specifically, not to solids-not-fat.

## Consumer Milk Price Survey

Created by SB 419 and authored by Senator Jackie Spier, the CMPS records retail prices charged for milk throughout the State. The survey records retail prices for a one-week period each month with the results posted CDFA’s website and available by phone. The survey is administered by CFDA’s Division of Marketing.

## Cooperative Federation

An organization of separate cooperatives that are joined in an umbrella organization in which each cooperative remains autonomous in most of its operations. It is a cooperative of cooperatives. Cooperatives may federate to enhance price bargaining power, gain marketing or processing efficiencies, or for political purposes.

## Cooperative Payments

In federal orders, they are payments made from the order pool to cooperatives and federations which qualify by meeting certain performance requirements. This provision pays cooperatives for services they provide rather than charging non-cooperative producers for services provided by the market administrator (market service deductions).

## CRP\*

see Commodity Reference Price

## Cwt.

abbreviation for hundredweight, which is one hundred pounds. By convention, milk prices are often discussed in terms of dollars per hundredweight.

## D

### Dairy Collection Plan

Name given by ASCS to programs for collecting assessments from dairy farmers. Authorized under various federal dairy policies, these assessments are used to defray the costs of the dairy price support program (DPSP) or related programs.

### Dairy Council of California

Provides nutritional education programs and information that stimulate demand for milk and dairy products.

### Dairy Herd Improvement Association (DHIA)

Cooperative organization with programs and objectives intended to improve production of dairy cattle and profitability of dairy farming and especially to aid dairy farmers in keeping milk production and management records.

### Dairy Marketing Branch\*

The Dairy Marketing Branch promotes, fosters and encourages sound production and marketing of milk that reflect market conditions by resolving critical policy issues. The Branch is a substructure of the California Department of Food and Agriculture and is organized into several smaller units, each of which concentrates on a specific area of work but contributes to the overall mission of the Branch. The Branch holds public hearings periodically to allow for public input on the milk pricing system.

### Dairy Management, Inc. (DMI)

DMI is a non-profit planning and management organization formed in 1995 by the National Dairy Board and United Dairy Industry Association. It conducts integrated programs in marketing communication, promotion and research on behalf of U.S. dairy farmers.

### Dairy Price Support Program (DPSP)

Layman's term used to refer generally to federal policies to support farm milk prices, but distinct from federal milk marketing orders and dairy import quotas. More specifically, it refers to the program whereby the USDA attempts to support farm incomes by establishing minimum prices at which the federal government will purchase certain manufactured dairy products. These purchase prices are calculated so as to enable manufacturers to cover their costs and pay farmers a price equivalent to the support price. The support is a "soft floor", so termed because producers may receive less than the established support price. The legal basis for the DPSP is the Agricultural Act of 1949, as amended. The program is administered by the CCC under the direction of ASCS.

### DHIA

see Dairy Herd Improvement Association

## Distribution

In general usage, this may refer to the shipping of products from a business. In dairy markets, it refers specifically to the transportation of dairy products from a processor to a retailer or other such vendor.

## DMB\*

see Dairy Marketing Branch

## DMI

see Dairy Management, Inc.

# E

## Economic Research Service

an agency of USDA which conducts economic research and provides information and analysis of economic programs and agricultural and food industries.

## Equalization Fund

see Producer Settlement Fund

## Equalization Payment

Refers to the equalizing or blending procedure in federal milk marketing orders whereby processors pay for milk according to use but farmers are guaranteed a minimum price equal to the average marketwide value of all uses. Handlers whose obligations exceed the marketwide average per cwt. make a payment to the market administrator. Handlers whose obligations are less than the marketwide average per cwt. receive a payment from the market administrator. These payments (to and from the market pool) allow each processor to equalize the payment to farmers even though the processor pays for milk on the basis of use (i.e., class prices). Equalization payments to a processor are sometimes called the pool draw (see Producer Settlement Fund).

## ERS

see Economic Research Service

## Exception

Formal written complaint that can be made against any USDA recommended federal order decision. These are considered by the USDA before a final decision is made on an amended

or new order.

## **F**

### Farmstead Cheese

A somewhat loosely used term to indicate cheese made by dairy farmer, at or near place of milk production. Typically, cheese production volumes are small and target niche markets.

### Fat-corrected Milk

Estimated quantity of milk calculated on a 4.0 percent butterfat energy basis. It is a means of evaluating milk production records of different dairy animals and breeds on a common energy basis. The following formula is used:  $FCM=(0.4 * \text{milk production})+(15 * \text{pounds of fat produced})$ .

### Fat Free

A product containing less than 0.5 g of fat per reference amount and per labeled serving. The product must contain no added ingredient that is fat or understood to contain fat.

### Federal Milk Marketing Order (FMMO)

A legal document which spells out the terms under which federal regulated handlers purchase milk from dairy farmers. The legal basis for federal orders is the Agricultural Marketing Agreement Act of 1937, as amended.

### Federal Order Hearing

A meeting officially called by the U.S. Secretary of Agriculture to consider creation and implementation of a new order or changes to an existing order. All interested parties have opportunity to present testimony relative to the issues involved. A recommended decision is developed based on the hearing record, upon which comments or exceptions can be made.

### Filled Milk

Milk from which natural milkfat has been removed and replaced with other fats or oils from plant sources.

### Final Decision

The final decision is the order issued by USDA and voted upon in a referendum of all affected producers. If approved by at least two-thirds of the producers voting, the final order becomes effective. As such it has the status of any federal law. If not approved, the entire marketing area becomes unregulated. In effect, the producers vote to either keep the

marketing order with the amendments or do away with any form of regulation. Producers do not get to vote only on the contents of the final decision.

#### Flavored Milk

A subclass of fluid (packaged milks) to which flavoring has been added, such as chocolate, strawberry and vanilla.

#### Fluid Milk Products

In both California and federally regulated markets, it is a generic term for Class 1 products, although the two terms are not necessarily identical. Usually refers to all drinkable milk products, such as whole milk, flavored whole milk, concentrated whole milk, filled milk, skim milk, fortified skim milk, lowfat milk, milk drinks and half-and-half. Buttermilk, eggnog, light cream, and whipping cream are actually Class 2 products, despite their similarities to Class 1 products.

#### Flush Season

Time of the year, usually spring and early summer, of maximum milk production. During this period, fluid milk utilization is normally the lowest. Manufacturing facilities are usually operating at full capacity because there is a considerable daily surplus above the market fluid needs.

#### F.O.B factory price

“F.O.B.” is an abbreviation for “free on board”. It is a geographic pricing strategy whereby the buyer pays all freight from the F.O.B. location to the destination

#### Futures Contract

A futures contract is a sales contract that specifies a description of the commodity to be traded, the quantity of the commodity to be traded, the delivery point, the delivery period and the terms of delivery. In short, everything except the price is fixed and known in advance. The commodity to be traded must also be undifferentiated (not branded) and homogeneous. The terms of the contract make it "tradable", whereas cash forward contracts are not easily exchanged between parties because they are very specific in their terms.

## G

#### Grade A Milk

(also called fluid grade milk or market milk) Milk produced and processed under the strictest sanitary regulations prescribed, inspected, and approved by public health authorities. In most

markets, milk used in any products intended for consumption in fluid form must meet this inspection standard.

#### Grade B Milk

(also called manufacturing grade milk) Milk produced and processed with sanitary regulations prescribed, inspected, and approved by public health authorities for milk to be used for manufactured products only. The USDA Recommended Requirements for Milk for Manufacturing Purposes and its Production and Processing are guidelines for state milk control agencies. Not to be confused with "milk used in manufacturing," which can include grade A milk or with "Class 2", " Class 3", "Class 4a" or "Class 4b", which are classification categories for milk in California.

## H

#### Handlers

"Handler" has a variety of uses and may refer to:

- A person (other than a cooperative association) who operates one or more pool plants or operates any other plant from which Class 1 milk is disposed of directly or indirectly during the month in the marketing area.
- A cooperative association that has authority from its individual producer members to market their milk and receive payment and which operates one or more pool plants.
- A cooperative association acting as a marketing agent for producer milk which it markets and receives payment therefor under authority of contracts or agreements with its individual members.
- A person who operates a milk plant located in the marketing area and receives market milk from one or more dairy ranches.

#### Hard Products

Generally used in referring to the more storable manufactured dairy products, such as butter, nonfat dry milk, cheeses other than cottage cheese, and evaporated or condensed milk.

#### Hearing\*

California's dairy regulations allow any interested party to petition the Department of Food and Agriculture for a hearing on proposed changes in the Stabilization Plans. If the proposal is justified, a hearing is called by the Secretary of Food and Agriculture. At the hearing, a

hearing officer presides. Proponents and opponents of the change submit evidence (oral and written) to the hearing panel to support their case. On the basis of the hearing record, a hearing panel makes a recommended decision to the Secretary. The decision issued by the Secretary is final and does not usually require a referendum.

#### Hearing Panel\*

The panel is typically made up of the Secretary of Food and Agriculture. At the hearing, proponents and opponents of the petition submit evidence (oral and written) to the hearing panel to support their case. On the basis of the hearing record, the panel makes a recommended decision to the Secretary of Food and Agriculture.

#### Homogenized Milk

Milk that has been treated to ensure breakup of fat globules. Homogenization prevents the cream portion of milk from separating from the skim portion. A test of adequate homogenization is such that after 48 hours of quiescent storage at room temperature, no visible cream separation occurs on the milk.

#### HTST

High-temperature, short-time pasteurization. It is the most commonly used process for pasteurizing milk. See pasteurization.

## I

#### Ice Milk

Ice milk is a general category of frozen dairy desserts that includes lowfat, reduced fat, light and nonfat ice cream. Ice milks resemble ice cream, except that they contain less fat than ice cream. Ice milks and ice cream contain stabilizers, emulsifiers and about 15 percent sugar.

#### Imitation Milks or Imitation Dairy Products

Mixtures of nondairy ingredients (other than milk, milkfat, and nonfat milk solids) which are combined forming a product similar to milk, lowfat milk, or skim milk, or comparable analogs of other dairy products. Sodium caseinate, though derived from milk, is commonly termed a non-dairy ingredient and is often used as a source of protein in imitation milks. Vegetable oils are commonly used as the source of fat.

#### Individual Handler Pool

A pooling system which bases the farmers' price on the utilization of an individual handler. Prices to farmers in the same area will vary, but all farmers shipping to the same handler get

the same blend price.

#### Industrial Milk

Terminology used in Canada and elsewhere outside the U.S. to refer to grade B milk.

#### Ineligible List\*

Identifies handlers that are not covered by the Milk Producers Security Trust Fund as a result of failure to:

- file a proper bond with CDFR,
- pay producers upon demand,
- pay the equalization fund.

#### Interstate Milk Shippers List

An government publication (U.S. Department of Health and Human Services) that indicates interstate milk shippers that have been certified by State Milk sanitation authorities as having attained the necessary milk sanitation compliance ratings.

## **J**

#### Jugger

The term lacks precision and is understood in various ways. A jugger often refers to any handler selling milk in gallon jugs from his own dairy store outlets. Another use of "jugger" is in identifying a producer who operates as a producer-handler and sells milk from a dairy store direct from the farm premises.

## **L**

#### Lactose Reduced

A dairy product in which the milk sugar, lactose, has been broken down into two separate sugars, glucose and galactose. The process aids digestibility of dairy products, especially to consumers who may be lactose intolerant.

## Light

A food that derives 50% or more of its calories from fat may use the term “light” if the food is reduced in fat content by 50% or more per reference amount when compared with an appropriate reference food. A food that derives less than 50% of its calories from fat must either reduce the caloric value by at least one-third or reduce the fat content by a minimum of 50% per reference amount when compared with an appropriate reference food.

## Location Differentials

System of zoning pool plants in a federal milk marketing orders according to distance from the metropolitan center of the market and designed to equalize the cost of class I milk to handlers, FOB the market. Specific rates are designed to represent the cost of transporting milk from that zone to the market. With the class I price being the highest for plants in the city zone, the location differential represents a deduction from the city zone price based on where the plant is located. Distances are usually divided into zones to facilitate price adjustments. The practice of using location differentials has been abandoned and replaced with county-specific differentials.

In California, location differentials were used prior to 1983 as a means of getting milk to move from production areas to fluid milk plants. Location differentials were added to or deducted from quota payments to producers and were determined by the location of the plant that first received the milk. The differentials were meant to offset some of the added cost of transporting milk to the more distant fluid milk plants.

## Louisville Plan

Seasonal incentive plan that retains a specified amount of money during the spring months from the blend price. This money is placed into a fund and is then used to supplement payments to producers during the fall months when milk production is lower. This plan increases the price paid farmers for milk sold in the fall and lowers the price of milk sold during flush spring months, without affecting prices charged to handlers.

## Lowfat

A food that contains 3 g or less of total fat per reference amount.

## Lowfat Milk

The term has a general meaning and a specific meaning. As a general term, it is milk from which sufficient milkfat has been removed to produce a milkfat content equal to or less than 2 percent. In California, processors are required to produce a lowfat milk milk that also contains a minimum percent nonfat milk solids. When used to refer to a specific product, lowfat milk refers to milk that contains 1 percent fat and 11 percent solids-not-fat. Reduced fat milk, another lowfat milk product, contains 2 percent fat and 10 percent solids-not-fat. Handlers operating in federal milk markets are not required to add extra nonfat solids to lowfat fluid milks.

## M

### Mandatory Class 2 (product)\*

Any Class 2 product which must be made from market (grade A) milk. All Class 1 products must be made from market milk.

### Manufacturing Cost Allowance

(also called make allowance) Used to describe factors used in establishing California Class 4a and 4b prices and federal Class III and IV prices. In the pricing formulas, a manufacturing cost allowance is subtracted from the wholesale value of butter and nonfat dry milk or the value of Cheddar cheese to determine the Class 4a or 4b price. As of April, 2000 the manufacturing cost allowances in California are:

- 9.7¢ per pound of butter
- 14.0¢ per pound of nonfat dry milk
- 16.9¢ per pound of cheese As of April, 2000 the manufacturing cost allowances in federal orders are:
  - 11.4¢ per pound of butter
  - 13.7¢ per pound of nonfat dry milk
  - 17.2¢ per pound of cheese

### Manufactured Products

Includes basically all dairy products except fluid milks: all cheeses, butter, evaporated whole milk, condensed whole milk, condensed skim milk, whole milk powder, nonfat dry milk, ice cream, ice cream mix, frozen desserts, creams, and whey products.

### Manufacturing Cooperative

Association of milk producers who own and operate milk manufacturing and processing facilities and market the dairy products for its members. A manufacturing cooperative typically also sell portions of its milk supply to other handlers.

### Manufacturing Grade Milk\*

See Grade B Milk.

### Manufacturing Margins

The difference resulting after subtracting the price plants pay for milk from the calculated wholesale value of dairy products produced by milk manufacturing plants. This margin is influenced by competitive marketing conditions at both the wholesale and farm level markets.

#### Market Administrator

Official designated by the federal and/or state agriculture department to make sure the terms of a marketing order are carried out.

#### Market Milk\*

Same as grade A milk; this terminology is only used in California.

#### Market Service Deductions

In federal orders, these are charges against non-cooperative producers for services provided by the market administrator (market service deductions). Cooperative payments are another method used for a similar purpose; they are payments made from the order pool to cooperatives and federations which qualify by meeting certain performance requirements.

#### Marketing Agency-In-Common (MAC)

A grouping or combination of marketing cooperatives that market products under a common agreement. Member cooperatives maintain their operational independence while capitalizing on the inherent economies of size and market power of a larger organization.

#### Marketing Area

Area specified in a marketing order and intended to include all of a geographic area where the same milk handlers compete with each other for sales. Because markets have become less localized, marketing areas have become increasingly larger. The Stabilization Plans for Market Milk clearly specify the marketing area under which handlers are regulated.

#### Marketing Order

Set of regulations governing the pricing of the milk for a specific marketing area. The regulations are created under the authority of the federal or state law, or both jointly but are issued only at the request of dairy farmers. A marketing order regulates milk handlers; it does not regulate farmers. A marketing order sets minimum prices to be paid for milk and establishes rules to determine which handlers are regulated and whose milk is priced and in what way. It does not set resale prices for dairy products.

#### Milk

The lacteal secretion from one or more cows (or goats), including the milk fat, milk solids-not-fat, and fluid carrier portions, each to be computed and accounted for separately.

#### Milk Equivalent, milkfat basis

Pounds of milk containing a specified percentage of milkfat (usually 3.67 percent) needed to

provide the milkfat contained in a given amount of a dairy product. It is the traditional and most commonly used m.e. measure.

#### Milk Equivalent, total solids basis (m.e., t.s.)

Like the milk equivalent milkfat basis except a formula is used to determine the total solids (milkfat and nonfat solids) contained in a given dairy product and the amount of standard test milk necessary to provide that amount of total solids.

#### Milk Pooling Branch

Created in 1969 by the passage of the Gonsalves Milk Pooling Act, the main tasks of the Milk Pooling Branch are regular plant audits and redistributing revenues from milk sales to California dairy producers. Plant audits ensure that plants are paying according to the minimum prices announced by the Dairy Marketing Branch. Pool prices are calculated using announced minimum prices and milk utilization data.

#### Milk Pooling Plan

The document that describes the administrative details of the workings of the Milk Pooling Branch, including transfer of quota, allocation of new quota, producer–handler options, regional quota adjusters, transportation allowances, payments to producers and duties of a pool manager.

#### Milk Producer Security Trust Fund

The Milk Producers Security Trust Fund (Fund) was created by California state law in 1987 to protect producers from handler payment defaults. It is administered by a seven–member board of industry representatives appointed by the Secretary. The Fund contains a sufficient amount of money to cover 110% of one month’s milk purchases by the milk handler with the largest monthly producer payment obligation. As of April 2000, the Fund contains approximately \$24 million.

#### Milkshed

Area wherein the producers are located who supply the plants regulated under a given marketing order. May also refer to the area in which competing plants draw their milk supply. The term can also apply to the milk supply of a single plant.

#### Minimum Prices

Milk price regulation in California applies to the farm level, that is, the transaction between dairy producers and dairy processors. The Department of Food and Agriculture announces minimum prices for five different classes of market milk. By law, dairy processors are required to pay producers the announced minimum prices for market milk components sold or used.

#### Minnesota–Wisconsin Price

Average price for manufacturing grade milk, F.O.B., paid by a sample of plants in Minnesota

and Wisconsin. The price was published by NASS each month, until the price series was replaced in January 2000. Previously in federal orders, the class prices were based on the Minnesota–Wisconsin price, which was called the basic formula price.

## N

### NASS

see National Agricultural Statistics Service

### National Agricultural Statistics Service

An agency within the U.S. Department of Agriculture. NASS is responsible for generating statistical estimates of agricultural prices, crop production, etc.

### National Dairy Board

A shortened term that refers to the National Dairy Promotion and Research Board. The organization which was authorized by the Dairy Production Stabilization and Tobacco Act of 1983 and implemented by the Dairy Promotion and Research Order issued in March of 1984. This organization undertakes generic advertising, nutrition education and research, product research and development, evaluation, and other supporting activities pertaining to milk and manufactured dairy products at the national level. The Board consists of 36 dairy farmers from throughout the U.S. who are appointed by the U.S. Secretary of Agriculture to three–year terms. The board's activities are funded by the promotional check–off that is assessed, with few exceptions, on all milk marketed for commercial use in the U.S.

### NDB

see National Dairy Board

### NDM or NFDM

see nonfat dry milk

### Net Removals

It is equal to purchases of dairy products by the CCC under the DPSP less unrestricted sales from the CCC. "Net removals" may apply to quantities of specific individual products on the milk equivalent of all products. Traditionally, milk equivalents have been expressed on a milkfat basis; however, in the Food, Agriculture, Conservation and Trade Act of 1990, Congress instructed USDA to begin calculating and reporting net removals on a total solids basis as well.

### Non-Pool Milk

Milk received at non-pool plants. In California, if the milk is grade A, then it is still subject to price regulation even though it is not pooled. Under federal regulation, non-pool milk is not price regulated.

### Non-Pool Plants

Plants receiving, processing or manufacturing dairy products but which do not participate in the milk pooling program.

### Nonfat Dry Milk (NDM or NFDM)

Product obtained by removing water from pasteurized skim milk. It usually contains 3 to 4 percent moisture and 1 percent milkfat. NFDM is called skimmed milk powder in international markets and is often called, simply, "powder" in the U.S.

## O

### Other source milk\*

Bulk market milk deriving from sources outside of California, including market milk from other countries.

### Overbase\*

One price of a two-tiered pricing system in California; quota is the other price. Essentially, overbase is the basic pool price and is calculated using milk sales and usage data. Originated with the inception of the milk pooling program in 1969.

### Over Order Premium

a charge for milk sold over and above the regulated minimum price. Typically, over order premiums are associated with services provided, especially if the provider is a milk marketing cooperative.

## P

## Packaged Milk

Class 1 or beverage fluid milk products as packaged in final form and distinct from bulk milk.

## Pasteurization

Under HTST (high temperature, short time) pasteurization, milk is heated to 160° – 175° F for 15 to 25 seconds to destroy pathogenic and other undesirable microorganisms that may be found in milk. Ultra high temperature (UHT) pasteurization occurs at 275° to 280° F for about 2 seconds.

## Pool Milk

Milk which is received at pool plants. In California, market milk, both pooled and non-pooled, is subject to the pricing provisions of the Stabilization and Pooling Plans.

## Pool Plant

Plants receiving, processing or manufacturing dairy products located in California from which Class 1 or mandatory Class 2 products are disposed of directly or indirectly in the pool area.

## Pooling

Method used in determining how funds in a market will be distributed among producers supplying the milk. While there are three methods of pooling returns to producers (individual handler pool, market-wide (statewide) pool and cooperative pool), only the statewide pool operates in California.

## Pooling, Cooperative

Method of calculating prices received by members of a specific cooperative. If permitted by the bylaws, a cooperative may base the price it pays to members on the revenue obtained from sales less adjustments for operating expenses and reserves. As a result, the pooled price received by members of a cooperative may not necessarily correspond to federal or state marketing order announced pool prices. Government agencies do not interfere with the right of cooperatives to distribute returns to producers in accordance to membership contracts. In all other regards, cooperatives operating pool plants have the same obligations as proprietary handlers.

## Pooling, Individual Handler

Method of pooling in which the price paid to producers is calculated for each handler based on how milk is used by the handler. In this type of pool, producers shipping to different handlers in the same market can receive different prices, depending upon the utilization of the milk by the individual buyers. This was widely used in California until the Mil Pooling Program was instituted in 1969.

## Pooling, Marketwide

Method of calculating the blend price paid to producers on the basis of the usage of all the milk received by all handlers in the market. The announced California pool prices (quota and overbase) apply to all producers, independent of how the milk was used by the handler who received it.

#### Pooling Plan for Market Milk

The document that describes the administration of the milk pooling program in California, including the procedure for calculating pool prices (quota and overbase), allocation of quota, transfer of quota, producer-handlers, computation of handler obligations, and transportation adjustment.

#### Powder

Product obtained by removing water from pasteurized skim milk. It usually contains 3 to 4 percent moisture and 1 percent milkfat. Powder is also called skimmed milk powder in international markets. Powder is often abbreviated "NDM" or "NFDM", which stands for nonfat dry milk.

#### Pricing Formula

Mathematical equations that use economic data to establish a minimum regulated price. In California, pricing formulas are changed periodically through a public hearing.

#### Producer

Any person that produces milk from five or more cows in conformity with the applicable health regulations of the place in which it is sold, and whose bulk market milk is received, acquired, or handled by any handler or any nonprofit association of producers. In California, a cooperative is considered a single producer.

#### Producer-Handler

(also Producer – Distributor) A dairy farmer who processes and sells milk from his or her own production. A P-H may also purchase milk from other dairy farmers for processing. A producer-handler is usually exempt from minimum pricing provisions on some of his or her milk but is required to make reports, maintain records and prove this status as a producer.

#### Producer Settlement Fund\*

Sometimes called the "equalization fund" or "pool fund." A fund maintained by the Milk Pooling Branch to adjust the differences between the amounts owed for milk by various handlers under a marketwide pool. Handlers with higher than the market average utilization in Class 1 milk during any month will pay into the pool. Generally, handlers with a Class 1 utilization less than the market average will receive payments from the pool to adjust for producer payments which are in excess of the value of the milk computed on the minimum class price.

#### Promotional Check-off

Since 1984, a mandatory assessment on producers' milkchecks for all milk produced in the U.S. and marketed for commercial use. The monies generated by this assessment are used by the National Dairy Promotion and Research Board and by various state and regional dairy promotion organizations to fund generic dairy product advertising and promotion, nutrition education and research, product research and development, program evaluations, and other supporting activities. Producers are currently assessed at the rate of 15 cents per hundredweight, with a maximum credit of 10 cents per hundredweight for payments to qualified state or regional promotion programs (for example, the California Milk Advisory Board) and the remainder going to the NDPRB.

### Protein Pricing

One variation of a component (or multiple component) pricing system that involves establishing a price for the protein portion of milk. A protein pricing formula will often assign a portion of the total value to the fat portion and to the other non-protein solids as well.

### Purchase (Support) Prices

Prices at which the CCC will buy butter, nonfat dry milk, or cheese under the DPSP. Purchase prices are basically calculated as the support price plus a make allowance (in \$/cwt. of milk) divided by the pounds of product obtained from one hundred pounds of average composition milk (4.48 for butter, 8.13 for nonfat dry milk and 10.1 for Cheddar cheese). As of January, 2000 the prices are \$0.65 per pound of butter, \$1.10 per pound of cheese and \$1.01 per pound of NFDM.

## Q

### Quota\*

Part of a two-tiered pricing system in California. Essentially, quota is an entitlement that allows a producer to receive a price for milk that is \$1.70 per hundredweight higher than the overbase price. Originated with the inception of the milk pooling program in 1969.

## R

## Raw Milk

Farm milk that has not been treated in any way. Raw milk is not pasteurized, separated, standardized or homogenized.

## Receiving Station

Facility at which milk is collected from farm bulk milk trucks, stored, then shipped, usually in tractor-trailer units, to another destination (see Assembly and Direct Delivery).

## Recommended Decision

In California, it is the tentative proposal made by the hearing panel to the Secretary of Agriculture relating to a proposed change to the Stabilization Plans or Pooling Plan. In federal orders, it is the tentative proposal made by USDA to the industry relating to a proposed change in the administration of a marketing order.

## Reconstituted Milk

Product resulting from the mixing together and rehydration of a dried product of milk with water. For example, nonfat dry milk and water yields reconstituted skim milk. Adding cream or butter oil yield reconstituted whole or lowfat milk. Adding vegetable oil yields filled milk.

## Reduced Fat

A product that contains at least a 25% reduction in total fat per reference amount when compared to an appropriate reference food.

## Referendum

The submission of a change in how the marketing order or marketing area to the producers for approval. In California, referendums are only required by major amendments to the Plans. In federal milk market orders, producers are given the opportunity to vote for or against an amended order after issuance of a formal decision. A two-thirds majority is necessary for approval. Rejection applies to the amended order in its entirety, not just the amendments.

## Regional Quota Adjusters\*

Represent deductions that apply to quota payments to producers. They are determined by the location of the producer's dairy and apply to the hundredweight equivalent of quota milk produced.

## Restricted Use Market Milk\*

(degraded milk) Any milk produced at a market milk dairy which does not conform to or was not produced under the standards established for market milk.

## Retail

Final link in the marketing chain; refers to the interface between consumers and vendors of products packaged in their final form.

## Riding the Pool

Techniques by which a handler whose major concern is the production of manufactured products can arrange his business so as to legally participate in the pool. A handler (or a cooperative) "rides the pool" by disposing of just enough of his milk supply to Class 1 plants to qualify as a pool plant. In this way, the handler is able to return the generally higher pool price to producers than if the handler simply engaged in a routine manufacturing business. It has advantages because the handler can use the pool to pay more for the milk than what the manufacturing class prices would indicate.

## RO (Reverse Osmosis )

A process whereby a liquid such as milk or whey is pumped through a semi-permeable membrane under high pressure. The size of the pores in the membrane allow separation to occur at the molecular level. The liquid that passes through the membrane is called permeate, and the remainder is called retentate. With RO, the permeate is primarily pure water. Commonly used to reduce the volume of milk or whey prior to drying or further processing (see also UF).

## RQAs\*

see Regional Quota Adjusters

# S

## Sales Below Cost\*

In California, it is illegal to sell at wholesale or retail any dairy product below the cost of product. In the context of manufacturers and distributors, cost includes the cost of the raw product (ingredients) plus all costs of manufacturing, processing, handling, sale and delivery. Overhead costs are also to be included. As applied to wholesale customers, cost means the lower of the invoice or replacement cost plus the cost of doing business.

## Sales for Restricted Use

Sales of CCC commodities for a specific use such as animal feed.

## Sales for Unrestricted Use

Sales of CCC commodities which may be used for any purpose.

## Seasonality

Refers to the phenomenon of changes in monthly milk production or dairy product

consumption patterns depending on the season. Typically, milk production is lowest in the fall when dairy product consumption is at its highest.

#### Sell Back Price

Price at which CCC will make a sale from its dairy product inventories for unrestricted use. The sell back price is the higher of the prevailing market price or a percentage of the purchase price (typically 110%).

#### Short Months

Those months of the year when milk production is lightest and fluid use is the greatest, usually, late summer and fall.

#### Skim Milk

Milk from which sufficient cream has been removed to reduce its milkfat content to not more than 0.2 percent. Skim milk contains protein, lactose, minerals and water-soluble vitamins and only half as many calories as whole milk. In the final beverage form, it has been pasteurized or ultrapasteurized and contains added vitamins A and D.

#### Snubber

Pricing mechanism used to establish upper or lower limits to movements of a price series, but it is seldom used today. The most common form was a butter-powder snubber calculated from wholesale market values less a make allowance.

#### Soft Products

A category of manufactured products with relatively short shelf life; i.e., cottage cheese, sour cream, ice cream, yogurt, buttermilk, etc. May contain ice cream, frozen yogurt and ice milks in some cases.

#### Solids-Non-Fat (SNF)

The solids in milk other than milk fat; e.g., protein, lactose and minerals. Sometimes referred to as nonfat solids.

#### Stabilization and Marketing Plans for Market Milk

The documents that describe the boundaries of each marketing area in California, the formulas for pricing milk, the procedure for implementing call provisions and unlawful dairy trade practices. Currently, California contains two marketing areas — Northern California and Southern California.

#### Standardized Milk

Milk which has been brought to a uniform milk fat and/or milk solids-not-fat content different from that of such milk at the ranch. Standardization of milk may be accomplished by the addition of skim milk, cream, or whole milk. Cream may also be removed to produce a standardized milk.

## Standby Pool

An arrangement worked out among cooperatives in markets that have periods of milk shortage and cooperatives in the surplus milk production areas. The cooperatives in the deficit market make year-round payments to certain cooperatives in the surplus regions to assure that they have sources of milk at reasonable prices when local milk does not supply all the fluid milk requirements.

## Super-Pool Payment

Premium, over the announced federal order class price, negotiated by cooperatives or a cooperative federation with proprietary handlers in a market.

## Supply Handler / Call Handler\*

A supply handler is any handler that does not qualify as a call handler. A call handler is any handler whose total direct and derived milk solids-not-fat Class 1 usage equals or exceeds 80% of total market milk solids-not-fat received or diverted, and whose direct and derived milk solids-not-fat Class 4a and 4b usage does not exceed 5% of total market milk solids-not-fat received or diverted. Supply handler and call handler designations pertain to the administration of call provisions.

## Supply Management

Variety of plans that attempt to keep milk production either nationally or in a specific market from exceeding commercial market needs. Can be used as an alternative to low prices as a way to control production in periods of surplus or as a long-term approach to pricing.

## Support Price

Set by the Congress through various farm bills, the support price is a target level at which the federal government will support the dairy industry in conjunction with the Dairy Price Support Program. The support price applies to manufacturing grade milk at average fat test (typically 3.67%). As of January 1999, the support price has been fixed at \$9.90.

# T

## Tailored Milk

see Standardized Milk

## Trade Association

Organizations that represent groups with a common interest or objective; the representation is

most prominent in legislative and regulatory arenas. In the dairy industry, the most notable trade associations represent producers or processors. In California, the leading producer trade organizations are Western United Dairymen, the Alliance of Western Milk Producers, Milk Producers Council and California Dairy Campaign. The leading processor trade organization is the Dairy Institute of California.

#### Transportation Allowances\*

Compensation given to producers to partially compensate for the cost of hauling milk from a producer's ranch to qualified plants (process more than 50 percent of SNF received into Class 1, 2 or 3 products). Cooperative associations can receive allowances on shipments received into their plants if the plant is located in a milk deficit area and if the plant supplies 40 percent of the milk received for Class 1 usage.

#### Transportation Credits\*

Compensation given to handlers to offset some of the cost of hauling milk assigned to Class 1 usage from plants in designated supply counties to plants in designated deficit counties.

#### Transportation Differentials

A term sometimes used to describe Class I differentials or the portion of Class I differentials which are intended to cover the cost of hauling bulk milk from areas of excess grade A milk to deficit areas.

## U

#### UF (Ultrafiltration)

One of several types of membrane filtration technology. When applied to skim milk, the albumin proteins may pass into the permeate but the casein proteins are captured in the retentate. Can be applied as a pretreatment before cheese making (see RO).

#### UHT

Ultra high temperature pasteurization process where milk is heated to 280° F for at least 2 seconds. Typically, UHT milk is packaged in aseptic containers so as not to require refrigeration.

#### Ultrapasteurized

UHT milk or milk pasteurized nearly at that level but not aseptically packaged. Often used in single serving coffee creamers and some beverage milk for food service.

## Uncommitted Inventories

Stocks owned by the CCC at a given time which have not been sold, donated or in any way committed for use.

## Uniform Price

See Blend Price.

## United States Dairy Export Council (USDEC)

An independent member organization staffed by DMI employees to help dairy exporters and suppliers increase U.S. dairy product exports around the world. USDEC coordinates industry export initiatives through integrated planning and programming aimed at opening and expanding foreign markets.

## United States Department of Food and Agriculture (USDA)

The federal agency responsible for administering federal milk marketing orders through the Dairy Division's Agricultural Marketing Service.

## USDEC

see United States Dairy Export Council

## USDA

see United States Department of Food and Agriculture

## V

## Verification

Refers to verifying the classification and allocation of milk as reported by handlers. This is a major function of the auditors who work for the California Milk Pooling Branch or any one of the eleven federal milk market administrator offices; most of the staff is involved in the auditing of handler reports for purposes of verification.

## W

### Wet Solids

Condensed milk, skim milk, or whey may be referred to as wet solids, to distinguish from dry solids in the form of nonfat dry milk or dried whey powder.

### Whey

The water and solids of milk that remain after cheese making and after the curd is removed. It contains about 93.3 percent water and 6.5 percent lactose, protein, minerals, enzymes; water-soluble vitamins and 0.2% fat.

### Wholesale

The middle link in the food distribution chain. Wholesalers assemble relatively large quantities of product and resell in smaller lots to various users such as the food service trade, small retail food stores, jobbers, etc. Major functions may include assembling, grading, warehousing, and order taking and delivery. Customer service such as merchandising aids, credit, etc., also may be provided.

## Y

### Yield

The amount of product obtained from a fixed quantity of input material. Specific to pricing formulas used in the dairy industry, yield refers to how much butter, powder or cheese can be obtained from 100 pounds of milk. In California, the yields are 4.2 pounds of butter, 8.613 pounds of powder from milk testing 3.5% fat and 8.7% SNF. For milk testing 3.65% fat and 8.78% SNF, the cheese yield is 10.0.

### Yogurt

Fermented milk, lowfat milk, or skim milk, sometimes protein-fortified. Fruit, flavors and sugars may be added. Milk solids content is commonly 15 percent. Most yogurt is high in protein and low in calories. Sometimes referred to as refrigerated yogurt to distinguish from frozen yogurt, an ice cream-like product.