

## Compensatory Payments

At the Producer Review Board meeting held on May 30, 2017, a board member asked for basic information on compensatory payment provisions that apply to Federal Orders. This document contains a high-level description of the purpose of compensatory payments and two examples of when they would be required.

Federal Orders are designed to regulate Class I or fluid milk markets. General provisions of any Federal Order dictate which producers, handlers, or plants are regulated with regards to minimum pricing and the sharing of pooled revenues associated with the fluid milk market. Generally speaking, producers and handlers that service the Class I market in a Federal Order area are regulated from a pricing and pooling standpoint. Additionally, producers and handlers located in one Federal Order area that service the Class I market in another Federal Order area are regulated as well.

However, there are a few circumstances where producers and handlers ship either bulk farm milk or packaged fluid milk into a Federal Order Area, but are not regulated from a minimum pricing and pooling standpoint. In these cases, a compensatory payment is made into the Federal Order pool to “compensate” pooled producers for milk used for Class I purposes in their Federal Order area.

The first scenario occurs when a producer or cooperative ships bulk farm milk from an unregulated area (Non-Federal Order area) into a Class I plant located in a Federal Order. Under this circumstance, the Class I plant is required to make a compensatory payment into the pool. A second scenario occurs when an organization ships packaged fluid milk from an unregulated area (Non-Federal Order area) to a fluid milk plant, retail store, or wholesale outlet located in a Federal Order area. In this case, the organization that shipped the packaged fluid milk into the area is required to make a compensatory payment into the Federal Order pool. In both of these cases, compensatory payments are made into the pool in order to ensure that pooled producers in the Federal Order share the higher revenues associated with milk used to service the Class I or fluid milk market.