

Federal Order C3/C4 Make Allowance Values			
	Old Make Allowance Values	New Make Allowance Values	Change in Make Allowance Value
Butter	0.115	0.1202	0.0052
NDM	0.14	0.157	0.017
Cheese	0.165	0.1682	0.0032
Whey	0.159	0.1956	0.0366

On November 20, 2006, the United States Department of Agriculture, Agricultural Marketing Service, Federal Order Branch, announced changes to the Class 4 and Class 3 pricing rules. These changes are to the make allowance values, i.e., those values, expressed on a product pound basis, which processors are allowed to deduct, before arriving at the fat, protein, other solids and skim solids values. The old and new values are shown in the table to the left. For each product the make allowance value was increased, thereby decreasing the final value back to dairy producers. You can access the complete information at: [http://www.ams.usda.gov/dairy/proposals/classIII\\_IV\\_make\\_all.htm](http://www.ams.usda.gov/dairy/proposals/classIII_IV_make_all.htm)

Federal Order Component Impacts		
	Decline in Producer Values \$/pound or cwt	Federal Order 33 Average Class Utilization (%)
<b>Butterfat</b>	0.0062	
<b>Protein</b>	0.0037	
<b>Other Solids</b>	0.0377	
<b>Nonfat Sols.</b>	0.0168	
<b>Federal Order 33 Price Impacts</b>		
<b>Cl. IV Skim</b>	0.1508	
<b>Cl. IV Price</b>	<b>0.1658</b>	6.43
<b>Cl. III Skim</b>	0.2350	
<b>Cl. III Price</b>	<b>0.2475</b>	40.83
<b>Cl. II Skim</b>	0.1508	
<b>Cl. II Bfat.</b>	0.0062	
<b>Cl. II Price</b>	<b>0.1692</b>	16.43
<b>Cl. II NFS</b>	0.0168	
<b>Cl. I Skim</b>	0.2333	
<b>Cl. I Bfat.</b>	0.0063	
<b>Cl. I Price</b>	<b>0.2442</b>	36.31
<b>Uniform Price</b>	<b>0.2282</b>	
<b>MILC Payment</b>	-0.0847	

The table directly to the left shows the impact that these increased make allowance values will have on milk component prices and class milk prices. As the make allowance values are constants, these impacts are also constants and do not change by month. As you can see from the data in the table, the impact is to reduce the calculated butterfat value by 0.0062 cents per pound. The largest impact is from the Whey make allowance change and will decrease the value of Other Solids by 0.0377 cents per pound

The impact on the Federal Order announced minimum Class prices is shown in the lower part of the table. The Class 4 price will decline by 16.58 cents per hundredweight, the Class 3 price by 24.75 cents per cwt.; the Class 2 price by 16.92 cents per cwt; and the Class 1 price by 24.42 cents per cwt. Using the Federal Order 33 class utilization average values, the impact on the Uniform Price will be a decline of 22.82 cents per cwt. As the Class 1 mover also declines, the average MILC payment will increase by 8.47 cents per cwt.

**IMPLICATIONS:**  
 This changes are issued as an interim final and emergency basis. This means that these changes will go into effect as early as March 2007. As always, these changes are subject to the approval of the producers (not the processors) by a 2/3 majority. As this is a national hearing, all producers pooled on Federal Orders during a representative month will be voting, and if a 2/3 majority is not reached, the federal order system will be terminated. So there you have it, dairy producers will have to weigh the benefits of the Federal Order system against the knowledge that these changes will reduce their mailbox price.