

January, 2000

Glossary of Dairy Marketing Terms

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Preface

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This glossary builds upon several previous publications as well as contributions by a number of other Cornell faculty. It has been updated to include many of the new provisions included under USDA's Final Decision for Federal Order Reform. The foundation for this glossary is the Glossary of Milk Marketing Terms originally assembled by William Johnstone in the 1970s and later revised by Jack Kirkland in 1980s, when they were on the faculty of The Pennsylvania State University. Additional resource materials include various U.S. Department of Agriculture publications and Glossary of Agricultural Terms, by Geoffrey Becker of the Congressional Research Service (89-321 ENR). Finally, my colleagues Bruce Anderson and Olan Forker contributed definitions and helped review earlier drafts. Also assisting with earlier versions were Maura Keniston, and Thomas Cosgrove. Wendy Barrett assisted with layout, cover and finalization of the publication.

Glossary of Dairy Marketing Terms

Assessment - Various assessments are or have been used as part of various dairy programs.

1. Administrative assessments are charged by federal milk marketing order administrators to cover basic local administrative costs. A per hundred weight charge is specified in each order and is assessed on milk handlers on an order-by-order basis. A typical charge may range from 2.5¢ to 5¢ per cwt. on each hundredweight of producer milk received by the handler.
2. Off and on since 1983, marketing assessments have been levied on dairy farmers by the U.S. Department of Agriculture. These per hundredweight assessments on milk marketings are 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 by the milk marketings of dairy farmers by the National Dairy Board or another generic dairy promotion agency (see Promotional Check-off).

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

Allocation Procedures - Provisions of federal orders which 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 - Agricultural Marketing Service. The agency of the U.S. Department of Agriculture that administers the Federal Milk Marketing Order Program. The specific office within AMS responsible for federal orders is Dairy Programs.

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 Ultra pasteurized).

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 and over-the-road or long-haul assembly.

Balancing – Refers to the act of “balancing” the day to day and/or seasonal fluctuation in the supply and demand for milk. Typically refers to supplying the bottling needs of processors that may be heavy during mid-week and when schools are in session but lighter during weekends and holidays. At the same time farms produce milk every day that tends to vary seasonally in nature in contrast to demand. Thus marketing cooperatives often serve the function of balancing the market by moving milk in and out of manufacturing uses as demands of fluid bottlers dictate and as milk supply varies.

Bargaining Agency - Generally, this could refer to any bargaining cooperative; however, the term is 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 thus formed are given certain specified powers relative to the establishment and operation of a New York state marketing order.

Bargaining Cooperative - Association of producers whose major function is to negotiate prices and provide buyers for the milk produced by members. If the association operates manufacturing or processing facilities at all, this activity is usually a minor part of the business.

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 “base” or quota which reflects that producer’s deliveries during a specified period of time of year when markets are tight. The producer then receives a higher price for production up to the amount of the quota and the “excess” or surplus price for additional supplies. A base-excess plan typically is authorized and administered under a federal order (none are now in effect), or 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 in the order area.

Bloc Vote - Federal order voting procedure wherein a bona fide, approved cooperative may cast votes representing its entire membership, if its board of directors so requests. The bloc vote is prohibited in referendums considering class I base plans.

Bulk Milk - Milk from a dairy farm, as stored in a bulk tank; in contrast with packaged milk.

Butterfat Price – In federal milk orders this is the minimum price per pound paid for the butterfat content of farm milk. The butterfat price is calculated from wholesale butter prices minus a make allowance and divided by a moisture factor. An additional amount (class price differential) may be added depending the class of use.

Butterfat Differential – Historically it was the amount added to or subtracted from a farmer's milk price to reflect the value of milkfat above or below a standard reference price, usually set at 3.5 percent milkfat. The butterfat differential was expressed as cents per one-tenth of a percent of milkfat. With federal order reform, butterfat is now priced on a per pound basis. (See Butterfat Price)

CCC - (Commodity Credit Corporation) - 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 CCC.

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.

Certified Milk - Milk produced and distributed under conditions which conform with high standards for cleanliness and quality set forth by the American Association of Medical Milk Commissions.

Classification - Under marketing orders, milk is classified and priced according to the use made of it. (See Class I, Class II, Class III, Class IV.)

Classified Pricing - Each class of milk usage is priced differently. Fluid milk has the highest price while manufacturing milk has the lowest price.

Class I Base Plan - Pricing plan which is tied to the class I sales in the market.

Essentially, producers are assigned a share of the class I sales based on their marketings over a previous period of 1 to 3 years. New producers earn a base over a period of years while producers historically associated with the market can share in any additional base which becomes available as a result of increased class I sales or from forfeiture of base by other producers. All the milk sold by the producer up to the established base receives the highest price; all milk sold in excess of that base receives the lower price. At one time the California state order and a few federal orders used this plan.

Class I Milk - The highest priced category in a classified pricing plan. Includes milk used in products intended for beverage usage. Generally, these are the most perishable dairy products. Milk products in this category are milk, skim milk, lowfat milk, milk drinks, cultured buttermilk, eggnog, filled milk, and milk shakes and ice milk mixes containing more than 6.5% nonfat solids and less than 9% butterfat. A similar classification is made under California's milk stabilization program, where it is denoted as class 1.

Class I Price - Minimum price that handlers must pay for milk used in class I products. Under federal orders it is calculated monthly and announced in advance from the higher of a two-week average of the higher of class III or class IV prices plus the class I differential for the county in which the plant is located.

Class I Differential - Constant factor set within federal order regulation that is added to the higher of the class III or class IV price to determine the class I price in any given month. The differential is specified for each county in the country and varies generally being the lowest in the upper midwest and far west and higher in the east and south intended to reflect the location value of class I milk. (also see plant point pricing)

Class II Milk – This category within the federal order classified system applies to “soft” spoonable manufactured products. These products are generally less perishable than Class I products but are less storable than class III and IV products. Soft manufactured products include cottage cheese (all types), fluid cream products (containing 9% or more milkfat), yogurt, frozen desserts, frozen dessert mixes containing 20 percent or more total solids, and bulk fluid milk or cream products disposed of to any commercial food processing establishment. Under the California milk stabilization program, it is denoted as class 2 and refers only to creams, buttermilk, cottage cheese, and sterilized milks.

Class II Price - Minimum price handlers must pay for milk used in class II category. The price is based on the class IV price plus a constant \$.70/cwt. differential (skim price on the prior month and butterfat based on the current month).

Class III Milk - Products included in this class under federal orders are cheeses (other than cottage), evaporated or condensed milk in consumer-type packaging, and other products not classified in classes I and II. Under the four-class plan used in California, class 3 milk is that which is used in frozen desserts, including ice cream, ice milk, sherbet, and frozen yogurt; it also includes refrigerated yogurt sold out of state.

Class III Price - The minimum price handlers must pay for milk used in the class III category. The federal order price is based on a product formula using wholesale cheese butter and whey prices, yield factors and a processing or “make allowance”. The California price is also based on slightly different product formula basis.

Class IV Milk – Products in this class include butter and milk powder products. The California state order has a similar description for their class 4 but also includes evaporated milk and some products which are exported.

Class IV Price – The minimum price handlers must pay for milk in the class IV category. The price is based on a product formula using wholesale butter and nonfat dry milk prices. The California class 4 price is also based on a similar product formula basis.

Classified Pricing Plans - Federal orders establish prices handlers must pay for milk according to how the milk is used—for bottling or for manufacturing into dairy products. All federal order markets classify milk usage into class I, class II, class III and class IV categories. Under the California milk stabilization plan, there are also four use classes (see individual class definitions for differences). It should be understood that the terms “class I milk” and “class II milk” have no reference to the quality or grade of milk, but identify only the use of the milk. All of the milk coming under an order is grade A. The class II and class III milk used for manufacturing is sometimes described as the grade A milk in excess of class I needs. Historically, such milk was often referred to as surplus and the pricing of such milk was called surplus pricing or surplus prices. The term surplus has a very different connotation today, and now relates more to net removals under the DPSP.

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 union and plant management.

Cooperative Federation - An organization of separate cooperatives into an umbrella organization, where each cooperative is autonomous in most of its affairs. A cooperative of cooperatives. Cooperatives may federate to enhance price bargaining power, gain marketing efficiencies, or for political purposes.

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 DPSP or related programs.

Dairy Export Incentive Program (DEIP) – Authorized under the 1985 Farm Bill, this program offers subsidies to exporters in order to enable U.S. dairy products (primarily nonfat dry milk but also cheese, butter and whole milk powder) to be competitive in foreign markets. The amounts of the subsidies and quantities of products have been restricted under GATT trade agreements.

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 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. Most specifically, it refers to the program whereby the USDA attempts to support farm incomes by establishing minimum prices at which they 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 legal basis for the DPSP is the Agricultural Act of 1949, as amended.

Depooling - A handler (cooperative or proprietary) of milk that changes the regulatory status of producers from "pool" producers to "non-pool" producers for the month. Under this status, the handler is no longer responsible to the market order pool for minimum class price obligations. It happens most often when prices for manufacturing milk are rapidly increasing such that the manufacturing class price may be higher than the market order blend price, making it advantageous for the handler to “depool” producers rather than pay equalization into the market pool.

Distribution - In general usage, this may refer to the shipping of finished products or outputs 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.

Diversion – Market order term referring to the direct delivery of milk from a farm to a plant as compared to a transfer which is a plant-to-plant shipment (see transfer). Often refers to milk which is shipped to a non-pool manufacturing plant or plant in another order by a handler but can still remain pooled (within the limits set by the order) without going to the expense of shipment to a pool plant for pooling purposes and subsequent transfer back to the manufacturing plant.

Economic Formula - At one time used in federal orders and California as a basis for automatically making changes in prices to be paid by handlers. The word “economic” denotes the use of one or more prices, costs, or indexes to measure the movement of economic activity, and may include indexes of cost factors such as feed prices and farm wages. It occasionally has been proposed as a way to set the support price under the DPSP or to establish the prices under FMMOs.

ERS - 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 Payment - Refers to the equalizing or blending procedure in 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).

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.

Farm Services Agency – formerly the Agricultural Stabilization and Conservation Service. The agency of the U.S. Department of Agriculture that administers the Dairy Price Support Program.

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: $FCM=(0.4 \times \text{milk production})+(15 \times \text{pounds of fat produced})$.

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 a new order or changes in an existing order. All interested parties have opportunity to present testimony relative to the issues involved. Based on a record of this hearing a recommended decision is developed.

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

Final Decision - A recommended federal order may be modified in light of the exceptions. This stands as the final decision. The final decision is the order voted upon in a referendum of 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.

Fluid Milk Products - Generic term, similar but not necessarily identical to class I products. 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. Buttermilk, eggnog, and cream products, such as half and half, light cream, and heavy cream are often grouped with more typical fluid beverages. In some cases, (refrigerated) yogurt and sour cream are grouped with other fluid products.

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

Grade A Milk (a.k.a. fluid grade milk or milk eligible for fluid consumption) - 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 (a.k.a. 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 II, class III, or class IV which are federal order classes on the use of (only) grade A milk by regulated handlers.

Handlers - Federal order term for processors or dealers of milk who commonly purchase raw milk and sell pasteurized milk and milk products.

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 - Federal law allows any interested party to petition the Dairy Division of the U.S. Department of Agriculture for a hearing on proposed changes in a milk marketing order. If the agency considers the proposal justified, a hearing is called. At the hearing, an examiner presides and proponents and opponents of the change support their case as in a court of law. On the basis of the hearing record, a representative of the Secretary of Agriculture makes a recommended decision. Those concerned are given an opportunity to file exceptions to the decision before a final decision is issued. The final order is then voted on in a referendum.

Homogenized Milk - Milk that has been treated to ensure breakup of fat globules to such an extent that, after 48 hours of quiescent storage at 7 \pm C., no visible cream separation occurs on the milk, and the fat percentage of the top 100 milliliters of milk in a quart, or of proportionate volumes in containers of other sizes, does not differ by more than 10 percent from the fat percentage of the remaining milk as determined after thorough mixing. The reduced size of fat particles results in formation of a softer curd in the stomach.

HTST - High-temperature, short-time pasteurization (see pasteurization).

Hundredweight - This is a unit of measurement equaling 100 pounds often used in connection with prices of farm milk.

Ice Milk - A frozen product resembling ice cream, except that it contains less fat (2 to 5 percent versus 10 percent) and more nonfat milk solids (12 percent versus 10 percent) than ice cream. Both ice milk and ice cream contains stabilizers and 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 - Pooling system which bases the farmers' blend price on the utilization of the individual handler. Prices to farmers in the same milkshed will vary; but all farmers shipping to the same handler get the same blend price. Some state orders but no federal orders have individual handler pooling.

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

Jugger - Term is in common use in Pennsylvania but it 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 is in identifying a producer who is a producer-handler and sells milk from a dairy store direct from the farm premises.

Location Differentials – see Class I Differential and Plant Point Pricing

Louisville Plan (a.k.a. Takeout-Payback Plan) - Seasonal incentive plan that retains a specified amount of money during the spring months from the blend price due all producers. This is placed into a special fund and is then used to increase payments to producers during the fall months. This 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 handlers (see Base Excess Plan). It is not now used under any existing federal orders.

Lowfat Milk - Milk containing a minimum 8.25 percent nonfat milk solids and from which sufficient milkfat has been removed to produce, within limits of good manufacturing practice, a milkfat content of 0.5, 1.0, 1.5, or 2.0 percent.

Mailbox Price - Calculated by USDA-AMS to represent the milk price farmers actually receive as compared to announced market order blend prices. USDA calculates and publishes these prices from handler payroll records as the gross price received for milk including all premiums and component adjustments, less hauling costs, mandatory fees (e.g. promotion, CCC, market services etc.), cooperative dues and equity deductions if any.

Make Allowance - There are two make allowances in official usage. One is used by USDA in its calculation of CCC purchase prices. It is intended to reflect manufacturing cost for the products purchased. If it works as intended, manufacturers who receive the purchase price for their outputs should be able to pay dairy farmers the equivalent of the support price. The USDA make allowance is not a guaranteed margin to manufacturers. The term “make allowance” is also used to describe factors used by federal orders and California in establishing manufacturing class prices. Under milk orders, a make allowance is subtracted from the wholesale commodity price such as butter, to determine the butterfat price and when combined with other milk components calculated in a similar fashion, the minimum per hundredweight class price is announced at a standard milk composition.

Manufactured Products - Includes cheeses, butter, evaporated whole milk, condensed whole milk, condensed skim milk, whole milk powder, nonfat dry milk, ice cream, ice cream mix, frozen desserts, aerated cream, frozen and plastic cream, milk used in candy, soup, bakery products, and animal feeds.

Manufacturing Grade Milk - See Grade B Milk.

Manufacturing Margins - The difference in (1) the calculated wholesale value of dairy products produced by milk manufacturing plants, and (2) the farm price such plants pay to their producers for milk. This margin is influenced by competitive marketing conditions in 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 used in California and Canada.

Market Service Deduction - Payments charged to pool producers who are not members of cooperatives which provide market services. The payment is remitted to the market administrator to cover costs associated with services that the administrator's office provides to non-members.

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 and where, essentially, the same sanitary inspection standards exist. Because markets have become less localized and sanitary regulations more uniform, marketing areas have become increasingly larger and somewhat difficult to define. Nevertheless, marketing orders clearly specify the marketing area within which handlers who sell a majority of their class I products become regulated under that order.

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 agriculture departments, 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.

Marketing Year - October 1 through September 30 (coincides with federal government fiscal year).

MCP - multiple component pricing, a method of pricing farm milk in which producers are paid for more than one milk component (e.g. butterfat, protein, and other solids in some federal orders) in their milk. The payment for milk solids in addition to the traditional pricing of butterfat recognizes the value and variability of the other solids, particularly protein, in farm milk and is being used in most (but not all) federal milk orders. California's state order prices butterfat and total solids-not-fat.

Membrane Filtration - process by which milk is passed along the surface of a porous membrane under pressure such that some components are retained (known as retentate) while water and other components filter through the membrane (known as permeate). The size of the pores determines which of the solids components besides water will pass into the permeate. The smallest pore membranes are used to concentrate milk solids by allowing some of the water through to the permeate and known as reverse osmosis (see RO). Nanofiltration, ultrafiltration (see UF), and microfiltration each with progressively larger pore sizes allow more of the solid milk components (depending on molecule size) to pass into the permeate depending on the type of separation and component profile desired by the user.

Milk Equivalent, milkfat basis (m.e.) - 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. 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.

Milkshed - Area wherein the producers are located who supply the plants regulated under a given marketing order. The term can also apply to the milk supply of a single plant.

Minnesota-Wisconsin Price (M-W) - Average price for manufacturing grade (Grade B) milk, F.O.B., paid by a sample of plants in Minnesota and Wisconsin. The price is published by NASS each month. Previously used under federal orders as a price mover for setting most minimum class prices.

NASS - 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, and the like.

NDB - National Dairy Board, shortened version of National Dairy Promotion and Research Board. The organization which was authorized by the Dairy Production Stabilization 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 which is assessed, with few exceptions, on all milk marketed for commercial use in the U.S.

Net Removals - Purchases of dairy products by the CCC under the DPSP less unrestricted sales from the CCC. The term 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 (Unregulated Milk) - Milk received at non-pool plants. Milk not subject to price regulation by an order.

Non-Pool Plants - Plants marketing dairy products in a marketing order area but which are not regulated by the order. They may be regulated by another federal order.

Nonfat Dry Milk (NDM) - Product obtained by removing water from pasteurized skim milk. NDM is called skimmed milk powder in international markets and is often called, simply, "powder" in the U.S.

Operating Cooperative - Association of milk producers who own and operate milk manufacturing and processing facilities and market the dairy products for its members. An operating cooperative might also sell portions of its milk supply to other handlers.

Other Order Market - Milk sold in the marketing area but originating from a non-pool plant which is subject to the pricing and pooling provisions of another federal order.

Other Solids Price – In the federal orders with MCP this refers to the price paid for the solids content of farm milk other than butterfat and true protein. The price is based on the wholesale price of dry whey after subtracting for a make allowance and adjusted by a moisture factor. The bulk of “other solids” in milk is lactose.

Other Source Milk – a federal order pool accounting term for milk or dairy products received by a plant that are not derived from milk that is pooled. (see Pool Milk)

Overage - A pool accounting term used under marketing orders to describe pool milk classified usage in excess of pool milk receipts. This typically occurs in cases of error in measurement or record-keeping. The federal order provisions subtract this overage from classified usage in a series starting with class IV milk until the discrepancy is eliminated.

Over-Order Price - An additional amount added to the minimum regulated class price charged by a milk supplier to a buyer. This typically refers to milk sold by a cooperative to a class I bottler although this is not always the case. It may reflect services provided by the supplier and/or reflect the supply/demand conditions and negotiating position of the supplier and buyer. The revenue generated by over-order prices may be pooled and paid back to producers as over-order “premiums.”

Packaged Milk - Class I or beverage fluid milk products as packaged in final form; as distinct from bulk milk.

Pasteurization - Under HTST (high temperature, short time) pasteurization, milk is heated to 161_i F for 15 seconds to destroy pathogenic and other undesirable microorganisms likely to be found in milk.

Permeate – See membrane filtration. This is the liquid and solids which passes through the porous wall of the membrane filtration unit.

Plant Point Pricing -The method of pricing farm milk under federal market orders F.O.B. the plant of first receipt. Class I prices paid by plants and announced producer minimum blend prices will vary by the location of the plant. The class I price and blend price is adjusted from the base zone or reference point in the marketing area, e.g. Suffolk county (Boston) in the Northeast order. This compares to farm point pricing system (formerly used in the New York-New Jersey order) which sets prices for milk F.O.B. the farm location.

Pool Milk - Milk which is received at pool plants and subject to the pricing provisions of a federal order.

Pool Plant - Fully regulated plant subject to all the provisions of an order. The plant may be required to be a pool (“distributing”) plant on the basis of its distribution of class I packaged milk sales in the marketing area. Alternatively a plant may qualify as a pool “supply” plant on the basis of its shipments of milk to other pool distributing plants for class I use.

Pooling - Method used in determining how funds in a market will be distributed among producers supplying the milk (see Blend Price and Equalization Payment). There are three methods of pooling returns to producers: 1) individual handler pool; 2) market-wide pool; 3) cooperative pool.

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. All producers in the market receive the same minimum blend price regardless of the utilization made by the handler who receives the producers’ milk.

Pooling, Individual Handler - Method of pooling in which the blend price paid to producers is calculated for each handler based on the usage that the respective handler makes of the milk. 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.

Pooling, Cooperative - Method of calculating prices received by members of a specific cooperative. If its bylaws so permit, 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 the blend price announced under any given marketing order. Marketing orders 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 Standards – This is a term used in connection with the provisions of a milk marketing order that define the rules for regulation of pool milk and pool plants. They help determine the producers and plants that are associated with a particular order and provide that that the class I market is adequately supplied. For example these rules include specific percentage requirements to determine if a bottling plant is a pool plant and under which order. In the case of (usually lower priced) manufacturing milk, the rules may describe shipments (see shipping provisions) for class I use that handlers must make to allow their other manufacturing milk (and their producers) to share in the pooled class I proceeds of the order.

Premium - In milk marketing this typically refers amount paid for milk in addition to the minimum regulated price. Premiums may be paid to the producer or cooperative supplier of milk by a buyer depending on a variety of criteria such as milk quality, composition, quantity supplied or services provided. They may also represent market supply/demand conditions not adequately accounted for in the regulated price. See also over-order price.

Price Mover – Under market orders this is a base or benchmark price used for setting certain class prices that is calculated and may “move” each month and to which an additional amount or “differential” may be added. For example under federal orders the Class IV skim price (see class IV price) is the mover for class II skim prices with an additional differential of \$.70/cwt. For class I milk the mover is the higher of class III or class IV prices with an additional differential that varies by location.

Producer-Handler - Dairy farmer who processes and sells milk from his own production and receives very limited amounts of milk from other dairy farmers. A producer-handler is usually exempt from federal order pricing provisions but is required to make reports, maintain records and prove this status as a bonafide producer.

Producer Price Differential - Under Federal Order markets with multiple component pricing it is the residual value, per hundredweight, of the pool after deducting component payments (protein, butterfat and other solids) to producers (see multiple component pricing). This residual value will vary between market orders and from month-to-month based on the utilization of in the various classes and class price. It is possible that the PPD can even be negative at times if, for example, the class III price exceeds the class I price.

Producer Settlement Fund - Sometimes called the “equalization fund” or “pool fund.” A fund maintained by the market administrator 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 I milk during any month will pay into the pool the difference between the uniform price and the value of their milk figured at the class price. Generally, handlers with a class I 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. (See Equalization Payment.)

Promotional Check-off - Since 1984, a mandatory assessment on producers’ milk checks 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 and the remainder going to the NDPRB.

Protein Price - The regulated minimum price per pound paid for the (true) protein content of farm milk under federal orders with MCP. It is calculated from a formula using cheese yields and prices and after subtracting a processing allowance and the butterfat value in cheese.

Purchase 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.

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

Recommended Decision - Tentative proposal made by the U.S. Department of Agriculture relating to an order and subsequent to an order hearing. This document is published in the Federal Register as an official government announcement. During a specified period interested parties can file written exceptions to the recommended decision.

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.

Referendum - 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.

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

Retentate – See membrane filtration. This is the liquid and solids that do not flow through the wall of a porous membrane filtration unit.

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 in class I to qualify as a pool plant. In this way he is able to return higher prices to producers than if he simply engaged in his routine manufacturing business. It is advantageous to the handler since he can compete in obtaining most desirable sources of farm supply of milk.

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

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 - Change in monthly production or consumption patterns from high to low seasons.

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

Shipping Provisions – These are the provisions under an order that describe the criteria by which a proprietary manufacturing plant or cooperative handler with significant amounts of manufacturing milk, can qualify the milk as pool milk. Also known as performance standards, typically a certain percentage of the handler's milk must be shipped for class I use in order to qualify the producer milk that that handler uses or sells in manufacturing to share in the pool. (also see pooling standards)

Short Months - Those months of the year when milk production is lightest and fluid use is the greatest. Usually, late summer and fall.

Shrinkage – Generally used as a term to describe the loss of product during transportation, storage and/or processing. Under federal orders it is a pool accounting term describing the difference (product lost) between farm milk receipts and the final product use classification established by the handler and which provides for a limited allocation of such shrinkage to the lowest classified use.

Skim Milk - Milk from which sufficient cream has been removed to reduce its milkfat content to less than 0.5 percent (usually less than 0.1 percent). Skim milk contains as much 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 vitamin A (2,000 IU/per quart). Because the fat is separated off into cream, skim milk is practically cholesterol free.

Skim Milk Powder (SMP) – See nonfat dry milk. This is a term often used for nonfat dry milk outside the U.S.

Snubber - Price series used to establish upper or lower limits to movements of the basic formula price in a federal order. Seldom used today, the most common form was a butter-powder snubber calculated from wholesale market values less a make-allowance.

Soft Products - Refers to those manufactured products with relatively short shelf life; i.e., cottage cheese, sour cream, ice cream, yogurt, buttermilk, etc.; similar but not necessarily identical to class II (in a three-class system).

Solids-Non-Fat (SNF) - The solids in milk other than milk fat; e.g., protein, lactose and minerals. Sometimes referred to as nonfat solids.

Somatic Cell Count (SCC) – A measure or count of leukocytes (white blood cells) that are found in milk. Somatic cells are present in higher numbers when cows are fighting infection (mastitis). The test is used in some federal orders and in voluntary premium programs to adjust milk prices higher (low SCC milk) or lower (high SCC milk) due to the negative impact that high SCC milk has on cheese yields and other finished product quality characteristics.

Standby Pool - 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 (Wisconsin-Minnesota) to assure that they have sources of milk at reasonable prices when local milk does not supply all the class I 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 (also see Over-Order Price and Premium) .

Supply Management - Variety of plans which 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 - Price, as set by the Secretary of Agriculture, which is in compliance with the requirements of the Agricultural Act of 1949, as amended, for the Dairy Price Support Program. The support price applies to manufacturing grade milk at average fat test (typically 3.67%).

Transfer – Under federal orders used for pool accounting purposes to describe shipments of milk from one plant to another as compared to direct farm-to-plant deliveries.

Transportation Credit – Under certain federal orders handlers may receive a credit (or reduction in class I price obligation) for transportation of milk from other farms or plants under certain defined rules. The credits are sometimes funded by a processor fund or by the pool itself, but in either case the objective is to ensure that the class I market is adequately supplied under equitable pricing conditions for producers and handlers.

True Protein - This is a measurement of the protein content of milk. “Total” or “crude” protein tests approximate a protein value by measuring the nitrogen content of milk. A true protein measure does not contain non-protein nitrogen (NPN) which is of no value to cheese yield. True protein is now used under federal order MCP programs as a basis for payment.

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

Ultra Filtration (UF) - Membrane filtration technology. When applied to skim milk, a portion of the soluble albumin proteins and lactose pass into the permeate but the caseins are captured in the retentate. Can be applied as a pretreatment before cheese making (see membrane filtration).

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.

Utilization – Refers to the percentage of milk used in each class in a particular market order pool. Sometimes references just the class I share of the market.

Verification - Refers to verifying the classification and allocation of milk as reported by handlers. This is a major function of the Market Administrator's office and a large proportion of his or her staff is involved in the auditing of handler reports for purposes of verification.

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 93.5 percent water and 6.5 percent lactose, protein, minerals, enzymes; water-soluble vitamins and traces of fat.

Wholesale - 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.

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.