

Class Butterfat Prices Utilizing Announced NASS Product Prices

	Final Rule	Current	Final Rule	Current
	Class III Butter	Class III Butter	Class III/IV	Class III
1998	NASS	CME	Fat/LB	Fat/LB
September	\$ 2.6726	\$ 2.7566	\$ 3.1202	\$ 3.2873
October	\$ 2.5081	\$ 2.4089	\$ 2.9196	\$ 2.7949
November	\$ 1.9260	\$ 1.7447	\$ 2.2098	\$ 1.8861
December	\$ 1.3563	\$ 1.4131	\$ 1.5150	\$ 1.4472
1999				
January	\$ 1.4154	\$ 1.4222	\$ 1.5871	\$ 1.4848
February	\$ 1.2984	\$ 1.3153	\$ 1.4444	\$ 1.4441
March	\$ 1.3019	\$ 1.2927	\$ 1.4486	\$ 1.3900
April	\$ 1.0160	\$ 1.0298	\$ 1.1000	\$ 1.0349
May	\$ 1.0781	\$ 1.1289	\$ 1.1757	\$ 1.1838
June	\$ 1.4609	\$ 1.4931	\$ 1.6426	\$ 1.6679
July	\$ 1.3793	\$ 1.3440	\$ 1.5430	\$ 1.4290
August	\$ 1.3683	\$ 1.3963	\$ 1.5296	\$ 1.4703
September	\$ 1.3252	\$ 1.3393	\$ 1.4771	\$ 1.3785
October	\$ 1.1273	\$ 1.1248	\$ 1.2357	\$ 1.1764
November	\$ 1.0637	\$ 1.0725	\$ 1.1582	\$ 1.1305
December	\$ 0.9179	\$ 0.9163	\$ 0.9804	\$ 0.9262
1999 Ave	\$ 1.2294	\$ 1.2396	\$ 1.3602	\$ 1.3097
16 Mo Ave	\$ 1.4510	\$ 1.4499	\$ 1.6304	\$ 1.5707

Determination of Equivalent Grade A Butter Pr...**DEPARTMENT OF AGRICULTURE****Agricultural Marketing Service****[Docket No. DA-98-06]****Milk in the New England and Other Marketing Areas; Determination of Equivalent Grade A Butter Price Series****AGENCY:** Agricultural Marketing Service, USDA.**ACTION:** Determination of equivalent price series.

SUMMARY: This document announces that the Chicago Mercantile Exchange (CME) Grade AA Butter Spot Call for the month minus 9 cents is an equivalent butter price alternative for use in computing the butterfat differential and the Basic Formula Price (BFP) which are used to establish minimum class prices in all Federal milk marketing orders. The CME announced that trading of Grade A and Grade B butter in the Butter Spot Call contract will be suspended effective June 26, 1998. The CME Grade A butter price currently is used to establish milk prices under Federal orders. The establishment of an equivalent Grade A butter price series is essential to the continuing operation of the Federal order program.

EFFECTIVE DATE: June 26, 1998.

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SUPPLEMENTARY INFORMATION: This document provides an equivalent butter price series for calculation of the butterfat differential and the BFP which are used to derive milk prices in all Federal milk marketing orders (7 CFR Parts 1001, 1002, 1004, 1005, 1006, 1007, 1012, 1013, 1030, 1032, 1033, 1036, 1040, 1044, 1046, 1049, 1050, 1064, 1065, 1068, 1076, 1079, 1106, 1124, 1126, 1131, 1134, 1135, 1137, 1138, and 1139). Currently, the CME Grade A butter price series is used to establish values for the butterfat differential and the BFP which are used to compute minimum class prices in all Federal milk marketing orders. The new butter price series is essential to the continuing operation of the Federal order program.

The final CME Grade A butter price will be announced on June 19, 1998, and this price will be used until June 25. However, a new equivalent price series needs to be effective June 26, 1998, to compute the butterfat differential and the BFP for the month of June and subsequent months. For the month of June, the butterfat differential and the BFP will be computed by using a simple average of the CME Grade A butter prices for the first 25 days (June 1 through June 25) and the CME Grade AA butter prices minus 9 cents for the last 5 days (June 26 to June 30). The June butterfat differential and BFP will be announced on July 2, 1998. Thereafter, on or before the 5th day of each month, a simple

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average of the CME Grade AA butter prices less 9 cents will be used to compute the butterfat differential and the BFP for the preceding month.

Pursuant to the provisions of the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601-674), and the applicable provisions of the orders, as amended, regulating the handling of milk in the aforesaid marketing areas, it is hereby found and determined that:

(1) The CME announced that trading on Grade A and Grade B butter in the Butter Spot Call contract will be suspended effective June 26, 1998.

(2) The absolute level of the CME Grade A butter price is needed to determine the value of the butterfat differential and the month-to-month change in the price level is used in the product price formula update component of the BFP.

(3) Each order provides that if for any reason a price or pricing constituent required by the order for computing class prices or for other purposes is not available as prescribed in the order, the market administrator shall use a price or pricing constituent determined by the Secretary to be equivalent to the price or pricing constituent that is required.

(4) The International Dairy Foods Association (IDFA) requested that the CME Grade AA Butter Spot Call for the month less 9 cents be used as an equivalent Grade A butter price. IDFA suggested that the equivalent butter price series become effective June 5, 1998, or as soon as possible. Agri-Mark Dairy Cooperative submitted a comment letter supporting IDFA's request and the recommended effective date. In addition, Michigan Milk Producers Association suggested that the CME Grade AA butter price less 9 cents or the formula (i.e., Grade AA butter price - .1342/.82) proposed by National Milk Producers Federation for Federal Order Reform be used as the equivalent butter price replacement.

(5) The CME Grade AA butter price for the month less 9 cents should be used as an equivalent price for the purposes of establishing minimum prices under all Federal orders. The new butter price series is expected to yield a price generally equal to the suspended price series. However, in regards to IDFA's suggested effective date, the proper exercise of the Department's authority would require that the Secretary issue an equivalent price determination with an effective date only after the June 26 suspension of Grade A butter trading on the CME.

(6) The final CME Grade A butter price will be announced on June 19, 1998, and that price will be applicable until June 25. Therefore, for the month of June, the butterfat differential and the BFP will be computed by using a simple average of the CME Grade A butter prices for the first 25 days (June 1 through June 25) and the CME Grade AA butter prices minus 9 cents for the last 5 days (June 26 to June 30). These prices will be announced on July 2, 1998. Thereafter, on or before the 5th of each month, the new equivalent price series will be used to compute the butterfat

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differential and the BFP for the preceding month.

(7) In conclusion, the Department has determined that the CME Grade AA Butter Spot Call for the month less 9 cents is an equivalent Grade A butter price for the purposes of computing the butterfat differential and the BFP which are used to establish milk prices under all Federal milk orders. The new equivalent butter price series will be effective June 26, 1998.

The authority citation for 7 CFR Parts 1001 through 1139 continues to read as follows:

Authority: 7 U.S.C. 601-674.

Dated: June 26, 1998

/s/ Isi A. Siddiqui
Acting Assistant Secretary
Marketing and Regulatory Programs

**Importance of Cream From Standardizing
Fluid Milk Products as a Source of Butterfat for Producing Butter**

Butter is made both from cream separated from producer milk at the butter plant and from cream separated from fluid milk at other locations. Cream originating from fluid milk plants is the most important source of butterfat for butter in the U.S.

Table 1 shows a calculation of how much U.S. butter originates from fluid cream obtained by standardizing fluid milk products. It uses Federal Milk Order data and other USDA data. It estimates that 65.81 percent of butter originates from this source.

We also checked that the butterfat from Federal Order sources used to produce butter did not come from cream obtained from other uses, such as low fat cheese. Table 2 shows that the butterfat content of all major uses of producer milk, other than fluid use, was higher than that for producer milk. That means that all the major uses, other than fluid milk, used more butterfat than was represented by the producer milk used in those products. Thus, part of the cream obtained from standardizing fluid milk products was used to produce fluid cream products and manufactured products other than butter. The residual was used to produce butter.

**Calculation of the Percentage of U.S. Butter Production Originating from
Cream Standardized from Fluid Milk Products**

	Thousand Pounds
1. Pounds of butterfat from Federal Order regulated sources used to produce butter ¹	500,872
2. Percentage of Federal Order fluid milk sales to total U.S. fluid milk sales ²	81.51%
3. Estimate of total butterfat in cream from standardization used to produce butter (1 ÷ 2)	614,491
4. Pounds of butter produced at 81.11% butterfat	757,602
5. Total U.S. butter production ³	1,151,250
6. Percent of U.S. butter production originating from cream standardized from fluid products (4 ÷ 5)	65.81%

¹ Table 46, FMOS-98

² Producer deliveries used in Class I (Table 16, FMOS-98) divided by commercial disappearance of fluid milk products - 1998 (Dairy Market News, Volume 66, Report 14)

³ Dairy Products Annual Summary, 1998

Table 2

**Butterfat Test of Major Uses of Producer Milk
Under Federal Milk Orders¹**

	<u>Butterfat Test</u>
Producer deliveries	3.65
Fluid milk items	1.91
Fluid cream items	11.25
Manufactured uses other than butter	3.85
Butter	36.97

¹ Source: FMOS-98