

# ISSUES AND CHALLENGES FACING FEDERAL ORDERS

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# GOOD MORNING?

- New Assignment --- New Perspectives.
- **Respite?** or the **“Eye of the Storm”?**

# QUESTIONS TO BE ASKED

- What are the key food system political- economic forces impacting the future of Milk Orders?
- What are the incentives, vested interests, and attitudes of those affected by Milk Orders?
- Given the above, what does my “crystal ball” suggest for the future of the FMMO system?

# KEY POLITICAL-ECONOMIC FORCES

- “What kind of People?”
- They are **ORDERS not** Agreements!
- The “Adversaries” of Milk Orders Help Provide a Framework for Analysis
- Issues and Causes Are All Interactive

# NATURAL ADVERSARIES OF FMMO's

- Consumers' Rights Advocates
- Handlers/Processors/Manufacturers
- Free Market Economists
- Disenfranchised Producers
- The “Volatility Industry”

# ANALYSIS TEMPLATE

- **Core Premise/Belief**
  - What is the underlying justification/incentive/attitude /etc. that motivates this particular “adversary”?

# ANALYSIS TEMPLATE

- Core Premise/Belief?
- **When?**
  - When and under what conditions does this particular “adversary” gain the public/political agenda?

# ANALYSIS TEMPLATE

- Core Premise/Belief?
- When?
- **Current Trend/Situation?**
  - What are the economic forces focusing the attention and strategic planning of the “adversaries”?

# ANALYSIS TEMPLATE

- Core Premise/Belief?
- When?
- Current Trend/Situation?

## REMEMBER

**When one “adversary” gains the political/economic agenda, several or all usually enter the debate!**

# CONSUMER ADVOCATES

- **Core Premise ---**

Without the Orders consumers will have the same milk system but at a lower cost!

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Without the Orders consumers will have the same milk system but at a lower cost!

- **Logic ---**

No Limit to the supply on Grade A milk, so no need for Classified Pricing.

# CONSUMER ADVOCATES

- **WHEN do they gain the public agenda?**
  - Primarily when there is a perceivably large jump in fluid milk prices
  - Secondly when a dairy policy proposal would increase the general level of milk prices and impact public feeding programs

# CONSUMER ADVOCATES

- **Current Situation ---**

- Decline in relative importance of food expenditures (prescription drugs, cable TV, gas, etc.)
- Higher price perception level has been stretched
- Debate has shifted to marketing margins and price transmission
- Obesity and nutrition issues have consumerists' agenda

# HANDLERS/MARKETERS

- **Core Premise ---**

Illegitimate public policy to use gov't to take power from us and give it to them

- **Logic ---**

Un-American; Inefficient; Destructive to industry growth and product innovation; etc.

# HANDLERS/MARKETERS

- **WHEN** do they raise the policy rhetoric?
  - “New Entrant” into the dairy system from outside the fluid milk industry’s culture
    - MBA Marketer Move to Dairy Unit
    - Class III Processor to Class I/II Handler
    - Non-American Companies

# HANDLERS/MARKETERS

- **Current Situation/Trends ---**
  - “Beaten” into Acceptance? Compact Debate!
  - End of Handlers?
    - Consolidation/Branding/Diversification
  - “New Entrants”
    - Globalization/Beverage Companies
  - “Wal-Mart the Terrible”
    - Impacts Suppliers/Competitors

# FREE MARKET ECONOMISTS

- **Core Premise ---**

- Prevents Efficient Allocation of Resources\*
- Reduces Consumer Welfare
- Generates “Excess Profits” for Producers
- Etc. etc.

\* Especially between the Upper Midwest and the rest of the US

# FREE MARKET ECONOMISTS

- **WHEN** do they raise their issues?

**CONSTANTLY !**

# FREE MARKET ECONOMISTS

- **Current Situation/Trends ---**
  - No One Listens To Them??
  - Always a new “crop” to join the debate
  - Emerging “ Schools of Economic Thought”
    - Institutional Economists
    - Behavioral Economists
  - Transaction Cost Theory and Orderly Marketing

# DISENFRACTHISED PRODUCERS

- **Core Premise** --- I Am Better Off Without Being “Ordered”?
  - Unwilling Riders Differ From Free Riders
  - Tend to be at the “Ends” of Farm Size Distribution

# DISENFRACTHISED PRODUCERS

- **When ---**
  - Always a Few New Enter the Debate
  - More Extensive During Extended Low Price Periods
  - More Extensive in Periods of Structural Change
    - Producer Level
    - Processor Entrant With Different Culture

# DISENFRACTHISED PRODUCERS

- **Current Situation/Trends ---**

- Large Scale Producers' Attitudes Depend on:
  - Market Utilization
  - Buying Plant's and Volatility Industry Pressures
- Small Scale Producers' Attitudes Depend on:
  - Belief in the "Value-Added Savior" Strategy
  - Degree of Encouragement from the "Public Value-Added" Complex
  - Impacting Promotion and Public Health Now
  - Impacts Orders via Producer Handler Rules

# DISENFRACTHISED PRODUCERS

- **Current Situation/Trends (cont'd) ---**
  - Current Structural Trends Will Accelerate These Pressures on FMMO's
    - On Farm Processing Technology Issues
    - Organic/Pharming Issues
  - Threats Will Likely Come From Legal Challenges Using “Innovative Arguments”

# THE VOLATILITY INDUSTRY

- **Core Premise --- Volatility Is GOOD!**
  - Any Public Action that dampens price movement is **BAD!**
  - Any Public Action that affects incentives to use Volatility Industry products is **REALLY BAD!**

# THE VOLATILITY INDUSTRY

- **When** does the volatility industry affect the agenda?

**NOW!**

–Sold as an alternative to public involvement in markets

–In tune with “Minimal Government Is Best Government” philosophy

# THE VOLATILITY INDUSTRY

- **Current Situation/Trends --- Pressure to use volatility products will continue to pressure the Order system because ...**
  - Dilution of Pool benefits as proportion of Class III/IV utilization increases
  - Market requirements with increased product differentiation and resulting guaranteed forward pricing
  - Producer pressure from lenders to manage income variation

# KEY FORCES DIRECTING THE AGENDA FOR FMMO'S

- **What Isn't Impacting ---**
  - Consumer Unrest
  - Handler Unrest
- **What Is ---**
  - The Most Profound Structural Change in the U.S. Food System since the AMAA of 1937

# KEY STRUCTURAL FORCES

- **The Disappearing Food Distribution Industry**

- What A&P did to the corner grocery store, Wal-Mart is doing to suburban grocery stores!
- Convenience stores, gas stations, and fast food industries are becoming one industry
- Restaurant chains are growing rapidly and are becoming part of the entertainment industry

# KEY STRUCTURAL FORCES (cont'd)

- Disappearing Food Distribution Industry
- **Incorporation of Milk into National and Global Food Conglomerates**
  - Recasting the understanding of *What Is Milk?*
  - Fluid milk as part of the Beverage Industry
  - Globalization of Class II and III industries

**IMPLICATIONS?**

# IMPLICATIONS?

- Milk/Dairy loses its relative importance in both the “food” system and individual marketing firms.
- Milk’s “Uniqueness” comes from its institutional support structure (Orders, Coops, PMO’s, etc)
- In the Global world, unique institutions are NOT given but are subjects for strategic analysis and investment.

# KEY STRUCTURAL FORCES (cont'd)

- Disappearing Food Distribution System
- Milk As Just Another Part of the Portfolio
- **Incentives Faced by Restructured Producers**
  - Small's search for “niches”
  - “Industrialized” needs for certainty

# RESTRUCTURED PRODUCERS (cont'd)

- Small Producers
  - Increased Push Toward Producer Handler/Opting Out Questions and Issues
- Industrialized Producers
  - Lender Demands for Income Guarantees
  - “Forced” Forward Contracting
  - Continued Volatility Industry Snipping
  - Pressure on Coops for Forward Price Contracting

# WHAT DOES IT MEAN FOR FMMO's?

- Public Dialog and Agenda Likely Driven By “Disenfranchised Producers” spurred on by their advisors in the Volatility Industry and Public Sector
- While many of the issues involving the reconciliation of the U.S. dairy manufacturing sectors with the FMMO's have taken place, the wave of issues imbedded in globalization and the loss of milk identity and uniqueness have not been addressed.

# WHAT DOES IT MEAN ...?

- “Rationalization” of the FMMO’s and California Order Will Continue
- Challenges From “Internal Order Opportunists” Are Ongoing

# “THE *CRYSTAL BALL*”

- FMMO’s can be eliminated or rendered ineffective by:
  - Congress
  - Producer Referendum
  - Courts
  - Other? (International Trade, etc.)

# “THE *CRYSTAL BALL*”

- Congress not likely to act because ---
  - Had enough and no term limits
  - Way to support producers and producer marketing efforts without appropriation vote

## **HOWEVER**

- Will likely continue to see Volatility Industry initiatives to break minimum pricing
- Attempts to eliminate block voting

# “THE *CRYSTAL BALL*”

- Producers not likely to vote out Orders because ---
  - Money Matters
  - Recognize implications of Wal-Mart
  - Recognize implications of global food firms
  - Recognize implications of “beverage firms”
  - Understand that entire dairy promotion program is dependent on FMMO and State Orders

# “THE *CRYSTAL BALL*”

Court actions have been ---

- Generally positive because of adherence to due process and most cases involved “internal opportunists” issues
- Potentially negative if global firms:
  - Adopt the change “your rules strategy”
- Potentially positive if global firms:
  - Adopt the U.S. Sweetener Industry Strategy

# CONCLUSIONS

- Is the Current Relative Calm in the Federal Milk Order System:

**“A RESPITE”?**

or

**“THE EYE OF THE STORM”?**