

What impact will the FMMO final rule have on the Northeast?

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On January 16, 2025, the final Federal Milk Marketing Order (FMMO) rule was released after a 49-day national hearing that took place in Carmel, Indiana with 21 different proposals from the dairy industry. Most of the changes and amendments to the uniform pricing formulas went into effect on June 1, 2025. However, the update to milk composition factors will go into effect on December 1, 2025.

The final rule has seven changes:

- 1) Updates to the make allowances
- 2) Class I differential increases
- 3) Class I skim milk pricing formula update
- 4) Elimination of barrel pricing for surveyed cheese price
- 5) Milk composition factor changes
- 6) Adoption of an ESL adjustment
- 7) Updating the butterfat recovery factor

This paper considers the impact of the FMMO changes on the FO1 base milk prices using monthly data from January 2021 through December 2024, assuming no changes in quantity. For farm milk pricing impact, the make allowances are likely to have the biggest negative impact on base class prices, as well as the uniform price of each region, resulting in a \$0.24/cwt reduction in base Class I price, \$0.62/cwt reduction in base Class II price, \$0.92/cwt reduction in base Class III price, and a \$0.85/cwt reduction in base Class IV price. The increase of Class I



differentials is the largest positive change in Class I price and uniform price for most orders like the Northeast, placing particular emphasis on both the production and marketing of milk across all five eastern orders (Northeast, Mideast, Appalachia, Southeast and Florida). Averaging across all Class I processing plants in the Northeast, Class I differentials will increase by \$1.54/cwt. The other five changes will have a smaller impact on the uniform price. However, they will all add some value to the uniform price in the Northeast (FO1), as well as aid in creating more orderly marketing conditions. The specific impact on a given farm or cooperative will be affected by many other factors including premiums, hauling and other costs, as well as products manufactured and contract specifics.

Make allowance updates

The make allowance is the cost of turning milk into a given dairy commodity. Table 1 represents the old and updated make allowances for the four dairy commodities from which milk prices are calculated.

TABLE 1. Make allowances

Product	Previous Make Allowance	Updated Make Allowance
Butter	\$0.1715	\$0.2272
Dry Whey	\$0.1991	\$0.2668
Cheese	\$0.2003	\$0.2519
NFDM	\$0.1678	\$0.2393

After much debate through the hearings, the final make allowance increases were set to more accurately reflect the cost of processing, as they had not been updated in almost two decades. For cooperatives that have been blending losses, the increased make allowances may have a neutral or even a positive impact on the farmers of that cooperative, as the increased make allowances will offset some of the manufacturing costs that were deducted. For farmers in cooperatives that are not blending losses and particularly those which are primarily manufacturing Class III and IV products, the larger make allowances result in a lower farm milk reference price. Based on the cooperative and what/if they manufacture, farmers will face different deductions/premiums because of the increased make allowances.

Comparing the old make allowances to the revised values from 2021 through 2024, the make allowance increases impacts FO1 uniform reference price by -\$0.64/cwt, representing the only

change out of the seven that directly negatively impacts the uniform price in the Northeast over the time period considered.

Class I differential increases

Class I location differentials are added to the base price of Class I milk to align milk production and consumption across geographic regions. The most recent update to Class I location differentials was 2008. The final decision results in a large increase to the uniform price in FO1, \$0.45/cwt averaged across all counties with Class I processing in the Order. The Class I differential increase benefits the Northeast more than many western orders due to bigger increases along the East coast, as well as the higher Class I utilization in FO1. In New York, the Class I differentials are increasing by between \$1.40/cwt and \$1.70/cwt for counties with Class I processing, aiding in the blend price for New York producers. Other orders that saw large increases in Class I location differentials include Appalachia (FO5), Florida (6), the Southeast (FO7), and the Mideast (FO33), further incentivizing both the marketing and production of milk in the eastern U.S.

Class I skim pricing change

The Class I skim milk price calculation was changed in 2019 to use the average of Class III and Class IV advanced skim milk price plus a \$0.74/cwt differential. Before the change in 2019, the Class I skim milk price was calculated using the higher-of Class III and IV advanced skim milk prices. It is estimated that switching to the average from the higher-of method has cost dairy farmers a collective of hundreds of millions of dollars. The recent update of FMMOs returns the Class I skim milk pricing formula to use the higher-of Class III and IV advanced skim milk price.

This pricing method change back to the prior Class I Skim Pricing formula will help reinforce Class I as the highest-class price which in turn should lead to more orderly marketing and less depooling by Class III processors. This change would have resulted in a positive impact on the FO1 uniform price for farmers of \$0.10/cwt, or \$29.2 million per year (based off of an assumed 29.2 billion lbs. of milk marketed in FO1).

Addition of ESL pricing

Extended Shelf Life (ESL) fluid milk has grown to a larger share (~10%) of the fluid milk market in recent years (Munch). Because of the 60 plus day shelf life of ESL milk, a different pricing

mechanism with more predictability was implemented. The ESL price adjustment is applied to the Class I Skim Milk price to establish a new Class I ESL Skim Milk Price. It is calculated by taking the difference between the higher-of Class III and Class IV skim milk prices and the average of Class III and Class IV skim milk prices and adding a 24-month rolling adjuster. The 24-month rolling adjuster is calculated by taking the average of the previous 36 to 13 months difference of higher-of and average-of Class III and Class IV Skim Milk prices.

The more certain nature of ESL pricing may incentivize more processors to make ESL products by providing more certainty about input costs. While the rolling adjuster look-back may result in a higher or lower Class I price for ESL in any given month, the differences in prices between HTST milk and ESL milk are expected to wash out in the long run.

Overall impact

Combining all changes results in little change of the uniform price for Northeast producers holding the other prices and quantities constant over the 2021 to 2024 period. However, individual farmers will be affected differently based on the cooperative or milk processor to which they ship milk. In the long term, more orderly marketing is expected from the Milk Composition, Class I Skim pricing and Class I Differential changes driving Class I to consistently be the highest-class price. This in turn should lead to less incentive to depool and less volatility in the milk market. With the Northeast rapidly expanding processing capacity and the FMMO changes not having negative price implications overall, the outlook for Northeast dairy producers is bright.

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Sources

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