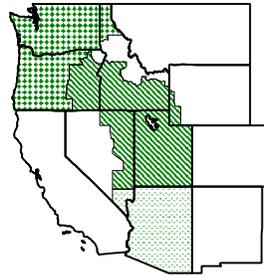


Pacific Northwest, Arizona-Las Vegas, & Western Marketing Areas



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James R. Daugherty
Market Administrator

MARCH 2000

MARKET SUMMARIES FOR FEBRUARY

Pacific Northwest

Producers delivered a total of 549.5 million pounds of milk to the market during February. Daily deliveries averaged 18.9 million pounds, up 1.1 percent from January. An estimated 1,080 producers delivered milk to the market during the month. Daily deliveries per producer averaged 17,544 pounds.

Class I producer milk during February totaled 169.4 million pounds, 30.8% of total producer receipts. Daily usage averaged 5.8 million pounds, up 4.3 percent from January.

Producers will receive \$1.9849 per pound of protein, \$0.9588 per pound of butterfat, and \$0.0432 per pound of other solids. Producers will also receive the market's producer price differential of \$1.52 per hundredweight, subject to applicable location adjustments. The market average component tests for the month were: 3.70% butterfat, 3.01% protein, 5.72% other solids, and 8.73% nonfat solids.

Western

Producers delivered a total of 302.6 million pounds of milk to the market during February. Daily deliveries averaged 10.4 million pounds, up 0.3 percent from January. An estimated 701 producers delivered milk to the market during the month. Daily deliveries per producer

averaged 14,883 pounds, down 0.2 percent from January.

Class I producer milk during February totaled 83.6 million pounds, 27.6% of total producer receipts. Daily usage averaged 2.9 million pounds, up 6.4 percent from January.

Producers will receive \$1.9849 per pound of protein, \$0.9588 per pound of butterfat, and \$0.0432 per pound of other solids. Producers will also receive the market's producer price differential of \$1.39 per hundredweight, subject to applicable location adjustments. The market average component tests for the month were: 3.68% butterfat, 3.05% protein, 5.70% other solids, and 8.74% nonfat solids.

Arizona Las Vegas

Producers delivered a total of 271.9 million pounds of milk to the market during February. Daily deliveries averaged 9.4 million pounds, up 8.0 percent from January. An estimated 117 producers delivered milk to the market during the

(Continued On Page 2)

Estimated Uniform Price (@ 3.5% BF) February 2000

Federal Order	Per Cwt.
Pacific Northwest	\$11.06
Western	\$10.93
Arizona-Las Vegas	\$11.09

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(Continued From Page 1)

month. Daily deliveries per producer averaged 80,141 pounds.

Class I producer milk during February totaled 81.3 million pounds, 29.9% of total producer receipts. Daily usage averaged 2.8 million pounds, up 10.0 percent from January.

Producers will receive \$0.9586 per pound of butterfat and \$8.02 per hundredweight of skim, subject to applicable location adjustments. The market average butterfat test for the month was 3.65%. ♦

FEBRUARY'S CLASS PRICES

February's non-advanced Class Prices were calculated using NASS commodity price surveys from February 5, 12, 19, and 26. Component prices for the month are \$1.9849 per pound of protein, \$0.9588 per pound of butterfat, \$0.0432 per pound of other solids, and \$0.8565 per pound of nonfat solids.

February's Class III and IV prices at 3.5% butterfat are \$9.54 and \$10.80 per hundredweight, respectively. Class II butterfat was also announced at \$0.9658 per pound. Class I and Class II skim prices for February were announced on January 21, 2000. The Class II price at 3.5% butterfat is \$11.51 for February.

The February Class III price compared to January is down \$0.51. The Class III price is \$0.73 lower than February 1999 and \$0.26 cent below the support price.

Commodity Prices -- The NASS survey of cheddar cheese prices showed a net decrease in prices received for 40-pound blocks and an increase in prices received for 500-pound barrels. The survey of 40-pound blocks showed a net decrease of 0.32 cents between the February 19 and the March 18 surveys, to \$1.1004 per pound. The survey of 500-pound barrels (adjusted to 39% moisture) showed an increase of 1.34 cents to \$1.0892 per pound.

The NASS butter price showed an increase of 7.10 cents between the weeks ending February 19 and March 18 from \$0.8810 per pound to \$0.9520 per pound.

The NASS nonfat dry milk showed a net decrease of 0.46 cent in mid-February to \$1.0072 per pound. The average price for NASS whey

showed a net decrease of 0.16 cents since mid-February to \$0.1767 per pound. ♦

APRIL'S CLASS I PRICE ANNOUNCEMENT

On March 17, the April 2000 Class I price was announced at \$12.83 for the consolidated Pacific Northwest and Western Orders, and \$13.28 for the consolidated Arizona-Las Vegas Order. The Class I price was calculated using NASS commodity price surveys from the weeks of March 4 and 11.

The skim portion of the Class I mover is the higher of the Class III and IV advance skim prices. For March's Class I price, the Class III and IV advance skim prices were \$6.24 and \$7.70 per hundredweight, respectively. The butterfat portion of the Class I mover was calculated at \$0.9989 per pound.

The April 2000 Class II skim and nonfat solids were also announced on March 17. The skim price is \$8.40 per hundredweight, and the nonfat solids price is \$0.9333 per pound for all Federal Orders. ♦

USDA PROPOSES RULE TO IMPLEMENT FEDERAL MILK ORDER FORWARD CONTRACT PILOT PROGRAM

Under a new pilot program mandated by Congress, dairy farmers who market their milk under Federal milk marketing orders (FMMO) will be able to enter into forward pricing contracts with proprietary handlers who purchase their milk. Forward contracting is voluntary for both dairy farmers and milk handlers. All other Federal milk order regulations are unchanged. The pilot program expires after Dec. 31, 2004.

As provided in the legislation, the pilot program will only apply to federally regulated milk used for manufactured dairy products. Fluid milk (Class I) is not eligible for forward contracting under the pilot program.

Under the proposed rule for the pilot program, a handler will be able to enter into forward contracts with dairy farmers and cooperative associations for any milk receipts that do not exceed the handler's manufacturing uses of milk for the month. Manufacturing uses include milk

used for cream products, yogurt, dry milk, butter, and all types of cheeses. For the volume of milk covered by forward contracts, a handler is exempt from paying minimum Federal order price(s) to producers and cooperative associations. Instead, prices as agreed to in the forward contract will be paid.

Handlers participating in the pilot program are still subject to all other provisions of an order and must still keep records and submit reports now required under the FMMO program. Handlers must make available to the market administrator such records as are determined necessary to verify and establish the handler's obligations under the order. Handlers also will be required to submit to the market administrator a copy of the forward contract with each producer or cooperative, as well as a disclosure statement signed by the producer or cooperative association.

A signed disclosure statement verifies that a producer received a USDA Fact Sheet that describes the nature of the pilot program and risks involved. The Fact Sheet also provides useful guidelines and tips that producers should consider in deciding whether to enter into a forward contract. The Fact Sheet is available from any market administrator, or can be downloaded from AMS' web site, at: www.ams.usda.gov/dairy. Questions and answers related to the pilot program also are available on the web site, or from market administrator offices (listed below).

The proposed rule also will require that every forward contract under the pilot program contain a clause that gives the producer the opportunity to change his or her mind within three days of signing the contract. Forward contracts that do not contain this 3-day right to rescind clause will not be considered valid contracts for purposes of this pilot program. The proposed rule also will require that first-time contracts not be written for more than six months, and that no contract may extend beyond Dec. 31, 2004. These provisions are intended to help producers become familiar with a new method for pricing their milk and managing risk.

The proposed rule for the pilot program will be published in the March 1, 2000 Federal Register. Comments were to be submitted no later than March 16. Comments were to be submitted to Nicholas Memoli, Order Formulation Branch, Dairy Programs, USDA/AMS, Rm 2971 South Building, P.O. Box 96456, Washington DC 20090-6456. Comments may also be sent by fax to (202) 690-0552 or by e-mail to nicholas.memoli@usda.gov.

Information is available from the market administrator's office.

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QUESTIONS AND ANSWERS CONCERNING DAIRY FORWARD CONTRACT PILOT PROGRAM

Q: Will all dairy farmers be guaranteed an opportunity to participate in this pilot program?

A: In order to participate in this program, two things are necessary. First, the handler to which a dairy farmer delivers milk must be willing to offer the dairy farmer a forward contract. Second, the handler must have non-fluid uses of milk--i.e., butter, powder, cheese, ice cream, yogurt, etc.--to cover the quantity of milk under forward contract.

Q: Can a handler force a producer to enter into a forward contract?

A: A handler cannot force a producer to enter into a forward contract. The Consolidated Appropriations Act 2000 (i.e., Section 3 of H.R. 3428 of the 106th Congress, as enacted by Section 1001(a)(8) of Public Law 106-113), gives the Secretary of Agriculture the authority to implement this "pilot" program. If the program is abused, the Secretary can suspend, terminate, or amend the program at any time.

Q: How do we know that a producer has "voluntarily" entered into a forward contract with a handler?

A: Before a handler can be exempt from paying a producer the Federal order's minimum price(s), the market administrator must have a signed copy of a forward contract with both the handler's and producer's signatures. The contract must be signed prior to the first day of the month for which it is to be effective and must be in the possession of the market administrator by the 15th day of the month. In addition, attached to each contract must be a disclosure statement signed by the dairy farmer or cooperative association representative entering into the forward contract.

Q: Once a producer has signed a forward contract, can he or she change their mind?

A: Each forward contract that is accepted under the pilot program must contain a provision that gives a producer 3 business days to revoke the contract. To revoke a contract, the producer must notify the handler in writing within 3 business days. This written notification, which may be faxed, mailed, or E-mailed, must be in the possession of the handler by midnight of the 3rd business day following the date that the contract was signed. The producer will be responsible for verifying the date and time of receipt of this notification.

Q: Can a producer enter into a forward contract with more than one handler?

A: Yes.

Q: Will the market administrator verify the weights and tests of milk under forward contract?

A: The market administrator will verify the weights and tests of milk of producers who are not members of a cooperative association providing such services.

Q: What happens if, after a handler has entered into forward contracts, the handler's nonfluid use drops below the amount of milk covered by forward contracts?

A: If this should happen and the contract price exceeded the order's minimum price(s) for the month, the issue would be moot and the handler would continue to pay the producer the agreed-upon contract price for the milk covered by the contract. If, on the other hand, the contract price was below the order's minimum price(s) for the month, the handler would be required to pay the higher minimum price(s) for the quantity of over-contracted milk.

Q: In the situation just described, who determines which producers get the higher minimum order price for their over-contracted milk?

A: This determination is left to the handler. If the handler fails to indicate which milk is over-contract milk, the market administrator will prorate the quantity of over-contract milk to each producer and cooperative association having a forward contract with the handler.

Q: Can a handler enter into a forward contract with a cooperative association?

A: Yes.

Q: Can a forward contract between a handler and a cooperative association cover milk transferred from the cooperative association's plant?

A: Forward contracts can apply to bulk milk or milk components transferred from a cooperative association's plant.

Q: How will a handler's Class II, III, and IV utilization be determined?

A: Each month the market administrator will combine all of the handler's reported Class II, III, and IV utilization for all of the handler's plants that are qualified as pool plants under the specific order.

Q: Will a handler's forward contracts with producers relieve the handler of responsibility for supplying the market with milk for fluid use if the market administrator increases shipping requirements for supply plants, balancing plants, and/or a system of supply plants?

A: No, any handler operating a pool plant will be responsible for meeting the order's pooling requirements regardless of the impact such requirements may have on a handler's outstanding forward contracts. This responsibility would extend to any modification of shipping requirements resulting from a market administrator's adjustment of such requirements under the order.

Q: Will market administrators enforce payment of the contract price for milk covered by forward contracts?

A: No, market administrators will only enforce payment of the minimum order prices provided under the order for milk that is not subject to a forward contract.

Q: For that portion of their milk covered by forward contracts, will handlers still be subject to the order's classified pricing system?

A: Yes, even though a handler has forward contracted for a portion of its milk supply at a price that is higher or lower than the minimum order price, the handler will still be required to account for all of its milk receipts at the classified prices provided by the order and will still be required to make a payment into the producer-settlement fund if its classified use value exceeds the marketwide average. On the other hand, if a handler's classified use value is below the marketwide average, the handler will draw a payment out of the producer-settlement fund at the difference between its classified use value and the value of the milk at the marketwide average use value.

Q: For milk under forward contract, will a handler have to make partial and final payments by the dates required under the order?

A: Milk under forward contract will not be subject to the amount of payment specified under the order but, for efficient administration on the part of both handlers and the market administrator, contract payments will be required to be made on the same day as minimum order payments are required to be made.

Q: Can the components of milk under forward contract be priced on a different basis than the components of milk that is subject to minimum Federal order pricing?

A: The proposed rule requires contract milk to be priced and paid for on the same basis--but not at the same level or rate--as milk that is priced under the order in which the contract milk is pooled. Thus, under orders providing for skim milk and butterfat pricing, forward contracts must provide for skim milk and butterfat pricing, and under orders with component pricing forward contracts must be written to price the same components.

Q: Why restrict forward contracting to milk that is not used for fluid use?

A: This restriction was specified by the legislative amendment.

(Continued On Page 8)

**MARKETING SERVICE PROGRAMS
FINANCIAL STATEMENT**

The combined financial statement for the marketing service programs of the Pacific Northwest and Southwestern Idaho-Eastern Oregon Federal milk market orders for 1999 can be found in the right column. Both of the orders require that the market administrator conduct a marketing service program for producers who are not members of a qualified cooperative association which performs comparable services. The primary functions of the marketing service programs involve the verification of weights, sampling, and testing of milk, and providing marketing information to producers. The principal source of income for these programs is the marketing service deduction which is applicable to all producers for whom the services are provided. ♦

INCOME AND EXPENSE STATEMENT	
Combined Marketing Service Funds For the Year Ended December 31, 1999	
<u>Income:</u>	
Assessments or Deductions.....	\$ 410,245.30
Interest Earned and Late Payment Charges ..	11,584.44
Total Income	<u>\$ 421,829.74</u>
<u>Expenses:</u>	
Salaries and Services	\$ 218,140.78
Travel and Communications	33,208.21
Employer Contributions	44,004.41
Conferences and Meetings.....	812.43
Rent and Repairs - Building and Equipment..	26,547.07
Testing and Weighing	38,988.72
Supplies and Insurance.....	26,188.02
Depreciation of Fixed Assets.....	16,715.53
Research and Training.....	2,104.82
Miscellaneous.....	2,215.65
Total Expenses.....	<u>\$ 408,925.64</u>
Net Income	<u>\$ 12,904.10</u>
BALANCE SHEET	
Combined Marketing Service Funds As of December 31, 1999	
ASSETS	
<u>Current Assets</u>	
Cash and Investments	\$ 192,970.52
Accounts Receivable	
Handlers and Other	50,688.20
Allowance for Uncollectible Accounts ..	(0.00)
Accrued Interest Receivable.....	2,313.08
<u>Other Assets</u>	
Prepaid Expenses and Deposits.....	852.04
<u>Fixed Assets</u>	
Furniture and Equipment	96,237.16
Accumulated Depreciation	(69,228.92)
Laboratory Equipment	70,610.50
Accumulated Depreciation	(54,161.66)
Leasehold Improvements.....	1,972.07
Accumulated Depreciation	(1,248.32)
Total Assets	<u>\$ 290,945.39</u>
LIABILITIES AND OPERATING BALANCE	
<u>Current Liabilities</u>	
Accounts Payable	
Trade Creditors and Others.....	\$ 4,867.62
Accrued Employee Annual Leave.....	14,286.92
<u>Other Liabilities</u>	
Miscellaneous.....	192.71
<u>Operating Balance</u>	<u>271,598.14</u>
Total Liabilities and Operating Balance....	<u>\$ 290,945.39</u>

MONTHLY SELECTED STATISTICS

NASS Commodity Prices (\$/pound)	Feb_2000	Jan_2000
Butter	\$0.9002	\$0.8820
Weighted Cheese Average	1.1067	1.1517
Nonfat Dry Milk	1.0106	1.0115
Whey	0.1788	0.1857

Minimum Class Prices (3.5% B.F.)	PACIFIC NORTHWEST		WESTERN		ARIZONA-LAS VEGAS	
	Feb_2000	Jan_2000	Feb_2000	Jan_2000	Feb_2000	Jan_2000
Class I Milk (\$/cwt.)	\$12.61	\$12.80	\$12.61	\$12.80	\$13.06	\$13.25
Class II Milk (\$/cwt.)	11.51	11.43	11.51	11.43	11.51	11.43
Class III Milk (\$/cwt.)	9.54	10.05	9.54	10.05	9.54	10.05
Class III-A Milk (\$/cwt.)	10.80	10.73	10.80	10.73	10.80	10.73
Producer Prices						
Producer Price Differential (\$/cwt.)	\$ 1.52	\$ 1.06	\$ 1.39	\$ 1.06	+	+
Butterfat (\$/pound)	0.9588	0.9366	0.9588	0.9366	+	+
Protein (\$/pound)	1.9849	2.1677	1.9849	2.1677	+	+
Other Solids (\$/pound)	0.0432	0.0503	0.0432	0.0503	+	+
Uniform Skim Price (\$/cwt.)	+	+	+	+	8.02	8.22
Uniform Butterfat Price (\$/pound)	+	+	+	+	0.9586	0.9483
Statistical Uniform Price (\$/cwt.)	\$11.06	\$11.11	10.93	11.11	11.09	11.25
Producer Data						
Number of Producers	1,080 *	1,073	701 *	701	117 *	117
Avg. Daily Production (lbs.)	17,544 *	17,473	14,883 *	14,843	80,141 *	74,189
Number of Handlers						
Pool Handlers	27	27	19	19	4	4
Producer-Handlers	12	12	7	7	1	1
Other Plants w/ Class I Use	5	5	10	10	3	3
Producer Milk Ratios						
Class I	30.84%	29.88%	27.63%	26.02%	29.90%	29.37%
Class II	7.03%	6.38%	9.92%	9.96%	3.60%	2.97%
Class III	31.82%	32.41%	43.14%	43.02%	34.28%	67.66%
Class IV	30.31%	31.33%	19.31%	21.00%	32.22%	R

+ Not Applicable. * Preliminary.

MONTHLY SUPPLEMENTAL STATISTICS

Producer-Handler Data (Thousand lbs.)	Jan_2000	Jan_2000	Jan_2000
Production	23,785,502	2,544,409	R
Class I Use	18,109,351	1,691,675	R
% Class I Use	76.14%	66.49%	R
Class I Route Disposition In Area (Thousand lbs.)			
By Pool Plants	163,842,170	72,310,142	78,665,892
By Producer-Handlers	18,104,179	1,734,000	R
By Other Plants	<u>545,129</u>	<u>1,025,513</u>	<u>1,073,715</u>
Total **	182,491,478	75,069,655	R

** May not add due to rounding.

R = Restricted.

MONTHLY STATISTICAL SUMMARY

(Product pounds based upon reports of handlers)

RECEIPTS, UTILIZATION AND CLASSIFICATION OF MILK	PACIFIC NORTHWEST		WESTERN		ARIZONA-LAS VEGAS		
	Feb 2000	Jan 2000	Feb 2000	Jan 2000	Feb 2000	Jan 2000	
TOTAL PRODUCER MILK	549,471,886	581,199,990	302,553,579	322,551,577	271,919,072	269,083,082	
RECEIPTS FROM OTHER SOURCES	9,681,930	8,926,239	7,515,922	13,360,197	11,135,724	11,871,224	
OPENING INVENTORY	20,593,185	17,732,736	14,734,452	11,778,575	19,468,449	16,827,585	
TOTAL TO BE ACCOUNTED FOR	579,747,001	607,858,965	324,803,953	347,690,349	302,523,245	297,781,891	
UTILIZATION OF RECEIPTS							
Whole milk	24,454,489	25,784,074	11,262,711	11,748,434	18,884,443	19,652,552	
Flavored milk & milk drinks	7,275,370	8,633,448	5,511,132	5,320,428	4,395,142	4,315,041	
2% milk	71,273,875	66,610,675	29,939,134	26,614,587	31,597,496	31,872,108	
1% milk	24,967,999	27,646,424	14,690,718	14,418,256	9,835,994	10,201,467	
Skim milk	26,354,026	33,724,864	9,252,883	13,595,310	12,056,527	12,101,103	
Buttermilk	1,486,140	1,442,685	628,063	613,127	512,877	523,621	
CLASS I ROUTE DISP. IN AREA.	155,811,899	163,842,170	71,284,641	72,310,142	77,282,479	78,665,892	
Class I dispositions out of area	9,507,007	8,757,290	9,238,224	7,833,594	4,725,245	4,336,010	
Other Class I usage	15,525,484	15,008,169	11,029,760	11,977,150	7,240,149	6,396,579	
TOTAL CLASS I USE.	180,844,390	187,607,629	91,552,625	92,120,886	89,247,873	89,398,481	
TOTAL CLASS II USE	43,643,608	41,497,554	31,695,303	33,839,420	16,275,948	14,659,376	
TOTAL CLASS III USE	175,743,872	188,404,538	137,462,973	148,909,133	94,651,814	193,724,034	
TOTAL CLASS IV USE	179,515,131	190,349,244	64,093,052	72,820,910	102,347,610	2/	
TOTAL ACCOUNTED FOR	579,747,001	607,858,965	324,803,953	347,690,349	302,523,245	297,781,891	
CLASSIFICATION OF RECEIPTS							
Producer milk:	Class I	169,441,598	173,700,249	83,587,381	83,942,458	81,311,287	79,030,919
	Class II	38,615,695	37,059,754	30,018,737	32,110,693	9,798,027	7,982,708
	Class III	174,880,294	188,397,512	130,517,383	138,755,014	93,200,227	182,069,455
	Class IV	166,534,299	182,042,475	58,430,078	67,743,412	87,609,531	2/
Other receipts:	Class I	11,402,792	13,907,380	7,965,244	8,178,428	30,604,173	28,698,809
	Class II	5,027,913	4,444,826	1,676,566	1,728,727	3/	3/
	Class III	863,578	1/	6,945,590	10,154,119	3/	3/
	Class IV	12,980,832	8,306,769	5,662,974	5,077,498	3/	3/
Avg. daily producer receipts		18,947,306	18,748,387	10,432,882	10,404,890	9,376,520	8,680,099
Avg. daily Class I use		6,236,013	6,051,859	3,156,987	2,971,641	3,077,513	2,883,822

1/ Restricted - Included with other Class II usage.

2/ Restricted - Included with other Class III usage.

3/ Restricted - Included with Class I.

HIGHLIGHTS THIS ISSUE:

- **Market Summaries**
- **February Class Prices and Commodity Prices**
- **Class I Price for April 2000**
- **USDA Proposes Rule To Implement Federal Milk Order Forward Contract Pilot Program**
- **Questions And Answers Concerning Dairy Forward Contract Pilot Program**
- **Marketing Service Programs Financial Statement**

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Q: Will market administrators have any role in reviewing or approving forward contracts?

A: Market administrators will review a forward contract to be certain that it is in compliance with the rules governing the pilot program. They will ensure that the contract is signed by both parties, make certain that a signed disclosure statement is attached to the contract, verify that the contract contains a 3-day revocation clause, verify that the contract does not exceed 6 months for a producer or cooperative association that is participating in the pilot program for the first time, and review the pricing terms in the contract to ensure that they are congruent with the form of pricing under the respective order. Other than reviewing the contract for these items, the market administrator will not comment on or seek to change a contract that has been approved between a producer and a handler.

◆