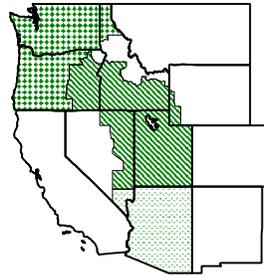


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JULY 2000

USDA ISSUES FEDERAL MILK ORDER FORWARD PRICING PILOT PROGRAM RULES

Dairy farmers will have a new, voluntary tool for marketing their milk used in non-fluid products, beginning August 1, 2000. USDA has issued final rules to implement a dairy forward contracting pilot program for milk marketed under the Federal milk marketing order program. The pilot program will be in effect for milk marketed August 1, 2000, through December 31, 2004.

Under the new program, handlers may enter into forward contracts with dairy farmers or cooperative associations to buy milk that will be used to make non-fluid products such as butter, powdered milk, cheese, ice cream, and yogurt. For milk covered by forward contracts, a handler will not be required to pay dairy farmers the mandated minimum Federal order price. Instead, dairy farmers and handlers will agree to a price as specified in a forward contract. The pilot program is voluntary and intended to offer an additional marketing tool for dairy farmers.

"We hope this new program will be a positive experience for dairy farmers," said Kathleen Merrigan, AMS administrator, "but it is important that producers understand

(Continued On Page 3)

MARKET SUMMARIES FOR JUNE

Pacific Northwest

Producers delivered a total of 479.5 million pounds of milk to the market during June. Comparisons to the previous month may be biased due to eligible milk not pooled in May and June 2000. Fewer than three handlers did not pool milk; the amount of eligible milk not pooled is restricted. Daily deliveries averaged 16.0 million pounds, up 0.3 percent from May. An estimated 854 producers delivered milk to the market during the month. Daily deliveries per producer averaged 18,717 pounds, down 0.7 percent from May.

Class I producer milk during June totaled 167.8 million pounds, 35.0 percent of total producer receipts. Daily usage averaged 5.6 million pounds, down 3.5 percent from May.

Producers will receive \$1.4278 per pound of protein, \$1.4128 per pound of butterfat, and \$0.0438 per pound of other solids. Producers will also receive the

(Continued On Page 2)

Estimated Uniform Price (@ 3.5% BF) June 2000

Federal Order	Per Cwt.
Pacific Northwest	\$11.91
Western	\$11.01
Arizona-Las Vegas	\$12.10

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market's producer price differential of \$2.45 per hundredweight, subject to applicable location adjustments. The market average component tests for the month were: 3.57% butterfat, 2.96% protein, 5.73% other solids, and 8.69% nonfat solids.

Western

Producers delivered a total of 381.9 million pounds of milk to the market during June. Comparisons to the previous month are biased due to eligible milk not pooled in May and June 2000. Fewer than three handlers did not pool milk; the amount of eligible milk not pooled is restricted.

Daily deliveries averaged 12.7 million pounds, up 1.7 percent from May. An estimated 769 producers delivered milk to the market during the month. Daily deliveries per producer averaged 17,923 pounds, down 0.3 percent from May.

Class I producer milk during June totaled 82.0 million pounds, 21.5 percent of total producer receipts. Daily usage averaged 2.7 million pounds, down 4.6 percent from May.

Producers will receive \$1.4278 per pound of protein, \$1.4128 per pound of butterfat, and \$0.0438 per pound of other solids. Producers will also receive the market's producer price differential of \$1.55 per hundredweight, subject to applicable location adjustments. The market average component tests for the month were: 3.49% butterfat, 2.97% protein, 5.76% other solids, and 8.73% nonfat solids.

Arizona Las Vegas

Producers delivered a total of 261.1 million pounds of milk to the market during June. Daily deliveries averaged 8.7 million pounds, down 7.6 percent from May. An estimated 119 producers delivered milk to the market during the month. Daily deliveries per producer averaged 73,126 pounds, down 7.6 percent from May.

Class I producer milk during June totaled 76.9 million pounds, 29.5 percent of total producer receipts. Daily usage averaged 2.6 million pounds, down 2.8 percent from May.

Producers will receive \$1.3860 per pound of butterfat and \$7.51 per hundredweight of skim, subject to applicable location adjustments. The market average butterfat test for the month was 3.55%. ♦

JUNE'S CLASS PRICES

June's non-advanced Class Prices were calculated using NASS commodity price surveys from June 6, 13, 20, and 27. Component prices for the month are \$1.4278 per pound of protein, \$1.4128 per pound of butterfat, \$0.0438 per pound of other solids, and \$0.8556 per pound of nonfat solids.

June's Class III and IV prices at 3.5% butterfat are \$9.46 and \$12.38 per hundredweight, respectively. Class II butterfat was also announced at \$1.4198 per pound. Class I skim and butterfat and Class II skim prices for June were announced on May 21, 2000. The Class II price at 3.5% butterfat is \$13.08 for June.

The June Class III price compared to May is up 9 cents. The Class III price is \$1.96 lower than June 1999 and \$0.34 below the support price.

Commodity Prices -- The NASS survey of cheddar cheese prices showed an increase in prices received for 40-pound blocks and 500-pound barrels. The survey of 40-pound blocks showed an increase of 12.16 cents between the June 17 and the July 15 surveys, to \$1.2181 per pound. The survey of 500-pound barrels (adjusted to 39% moisture) showed an increase of 13.11 cents to \$1.2300 per pound.

The NASS butter price showed a net decrease of 10.39 cents between the weeks ending June 17 and July 15 from \$1.2814 per pound to \$1.1775 per pound.

The NASS nonfat dry milk showed a net decrease of 0.01 cents since mid-June to \$1.0118 per pound. The average price for NASS whey showed an increase of 1.06 cents since mid-June to \$0.1900 per pound. ♦

NASS COMMODITY PRICES

	<u>May</u>	<u>June</u>	<u>Change</u>
Cheese*	\$1.1022	\$1.1137	\$0.0115
Butter	\$1.1680	\$1.2725	\$0.1045
Nonfat Dry Milk	\$1.0071	\$1.0097	\$0.0026
Whey	\$0.1760	\$0.1794	\$0.0034

* The weighted average of barrels plus 3 cents and blocks

AUGUST'S CLASS I PRICE ANNOUNCEMENT

On July 21, the August 2000 Class I price was announced at \$13.85 for the Pacific Northwest and Western Orders, and \$14.30 for the Arizona-Las Vegas Order. The Class I price was calculated using NASS commodity price surveys from the weeks of July 8 and 15.

The August Class III and IV advance skim prices are \$6.43 and \$7.70 per hundredweight, respectively. The Class IV skim price has set the skim price for Class I milk for the first eight months of the year 2000. The butterfat portion of the Class I mover decreased 14.42 cents to \$1.2913 per pound.

The July 2000 Class II skim and nonfat solids were also announced on July 21. The skim price is \$8.40 per hundredweight, and the nonfat solids price is \$0.9333 per pound for all Federal Orders.



NASS COMMODITY PRICES FOR CLASS I PRICE CALCULATIONS			
	<u>July</u>	<u>August</u>	<u>Change</u>
Cheese*	\$1.1060	\$1.2269	\$0.1209
Butter	\$1.2911	\$1.1729	(\$0.1182)
Nonfat Dry Milk	\$1.0106	\$1.0093	(\$0.0013)
Whey	\$0.1794	\$0.1893	\$0.0099

* The weighted average of barrels plus 3 cents and blocks.

***(Continued From Page 1)
Forward Pricing Pilot Program***

this program is voluntary and that they still have the provisions of the milk marketing order program if they do not choose to forward contract. AMS will be monitoring all aspects of contracting under this pilot program to ensure that dairy farmers are not adversely affected."

To help dairy farmers become familiar with forward contracting, USDA has prepared a tip sheet of guidelines for contracting, which must accompany any contract offered to a producer by a handler. The contract must also contain a disclosure statement which, when signed by the producer, acknowledges that the producer received the USDA tip sheet. In addition, initial contracts may not be written for a period longer than 12 months. Both the signed disclosure statement and a copy of the contract must be submitted to the appropriate milk market

administrator to be considered eligible for the pilot program.

Any handler participating in the pilot program will still be subject to all other provisions of an order and must submit all required reports, including reports of receipts, milk utilization reports, and monthly payroll reports that show how much milk was received, how it was used, and the prices paid for that milk.

Handlers participating in the pilot program will also have to keep, and make available to market administrators, such records that verify and establish the handler's obligations under the order. Handlers will be required to submit a copy of each forward contract, together with the disclosure statement signed by a producer or cooperative association, to the market administrator.

Frequently asked questions and answers, and a fact sheet explaining the program are available on the AMS web site at <http://www.ams.usda.gov/dairy> and are also available from market administrator offices. The final rules were published in the July 18 Federal Register.

**FORWARD PRICING PILOT PROGRAM:
FREQUENTLY ASKED QUESTIONS**

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 will take appropriate remedial action.

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: Is there any restriction concerning the length of a forward contract?

A: A contract with a producer or cooperative association participating for the first time under the pilot program is limited to 12 months. Thereafter, any contract under the pilot program involving this producer or cooperative association may be unlimited in length provided that it does not extend beyond the pilot program termination date, December 31, 2004.

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 in the same manner as would be done if the milk were not under contract.

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 receiving producer milk 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 contract payments will be required to be made on the same day as minimum order payments are required to be made.

(Continued On Page 8)

**FORWARD PRICING PILOT PROGRAM:
FACT SHEET AND DISCLOSURE STATEMENT**

1. The Forward Pricing Pilot Program is a voluntary program that allows dairy farmers and handlers buying their milk to enter into forward contracts for that portion of milk that the handler uses for nonfluid milk products. Dairy farmers are under no obligation to participate in this program and may continue to have their milk priced under the order's minimum payment provisions. If a handler pressures a dairy farmer to sign a forward contract, this should be reported to the market administrator immediately.

2. By entering into a forward contract with a handler, a dairy farmer gives up the right to receive the minimum Federal order prices for the amount of their milk under contract.

3. The first forward contract involving a dairy farmer or cooperative association that is participating in the pilot program for the first time is restricted to 12 months. Thereafter, subsequent contracts may be of unlimited duration provided that they do not extend beyond the pilot program termination date, December 31, 2004.

4. Dairy farmers entering into a forward contract should understand all of the terms of the contract, including how their milk will be priced, the length of the contract, and any charges or deductions that will be made. If a formula will be used to price your milk, you should understand how the formula works and what factors affect its movement. You should understand what will happen if you cannot fulfill the terms of the contract. What may you be liable for? You should also understand what remedies are available to you if the processor defaults on the contract.

5. The terms and conditions of a contract must be in writing. If you and the handler to whom you deliver your milk renegotiate or modify any terms of the contract, the changes must be put in writing as an amendment to the contract and submitted to the market administrator. The contract should contain a clause explaining how disagreements will be settled.

6. Market administrators will continue to be responsible for verifying the accuracy of the weights and tests of your milk on the same basis as if your milk was subject to Federal order pricing. If you should choose to price components of your milk that are not tested for and priced under the order in which your milk is pooled, you will have to arrange for private testing of your milk to verify the buying handler's weights and tests.

7. The following disclosure statement must be signed by each dairy farmer that enters into a forward contract with a handler under the pilot program. The disclosure statement must be attached to each contract submitted to the market administrator. Contracts that are submitted without the disclosure statement will be considered to be invalid for the purpose of exempting a handler from an order's minimum pricing provisions. Forward contracts must be signed by the producer and handler prior to the first day of the month for which they are effective and must be in the possession of the market administrator by the 15th day of that month.

Disclosure Statement

I am voluntarily entering into a forward contract with _____ (handler's name). I have been given a copy of the contract and I have received the USDA's Pilot Program Fact Sheet to which this disclosure statement was attached. By signing this form, I understand that I am forfeiting my right to receive the order's minimum prices for that portion of my milk that is under contract for the duration of the contract. I also understand that my milk will be priced in accordance with the terms and conditions of the contract.

Printed Name: _____
Signature: _____
Date: _____
Address: _____
Producer No. _____

MONTHLY SELECTED STATISTICS

NASS Commodity Prices (\$/pound)	Jun_2000	May_2000
Butter	\$1.2725	\$1.1680
Cheese, Weighted Average Blocks & Barrels	1.1137	1.1022
Nonfat Dry Milk	1.0097	1.0071
Whey	0.1794	0.1760

	PACIFIC NORTHWEST		WESTERN		ARIZONA-LAS VEGAS	
	Jun_2000	May_2000	Jun_2000	May_2000	Jun_2000	May_2000
Minimum Class Prices (3.5% B.F.)						
Class I Milk (\$/cwt.)	\$13.60	\$13.38	\$13.60	\$13.38	\$14.05	\$13.83
Class II Milk (\$/cwt.)	13.08	12.63	13.08	12.63	13.08	12.63
Class III Milk (\$/cwt.)	9.46	9.37	9.46	9.37	9.46	9.37
Class IV Milk (\$/cwt.)	12.38	11.91	12.38	11.91	12.38	11.91
Producer Prices						
Producer Price Differential (\$/cwt.)	\$ 2.45	\$ 2.33	\$ 1.55	\$ 1.47	+	+
Butterfat (\$/pound)	1.4128	1.2854	1.4128	1.2854	+	+
Protein (\$/pound)	1.4278	1.5514	1.4278	1.5514	+	+
Other Solids (\$/pound)	0.0438	0.0403	0.0438	0.0403	+	+
Uniform Skim Price (\$/cwt.)	+	+	+	+	7.51	7.61
Uniform Butterfat Price (\$/pound)	+	+	+	+	1.3860	1.2699
Statistical Uniform Price (\$/cwt.) . .	\$11.91	\$11.70	11.01	10.84	12.10	11.79
Producer Data						
Number of Producers	854 *	856	769 *	769	119 *	127
Avg. Daily Production (lbs.)	18,717 *	18,623	17,923 *	16,279	73,126 *	74,172
Number of Handlers						
Pool Handlers	26	26	19	19	6	6
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	34.99%	36.36%	21.47%	22.89%	29.46%	28.00%
Class II	9.26%	9.21%	9.29%	7.47%	5.11%	4.40%
Class III	39.37%	38.40%	65.05%	63.87%	32.42%	31.51%
Class IV	16.38%	16.03%	4.19%	5.77%	33.01%	36.09%

+ Not Applicable. * Preliminary.

MONTHLY SUPPLEMENTAL STATISTICS

	May_2000	Apr_2000	May_2000	Apr_2000	May_2000	Apr_2000
Producer-Handler Data (Thousand lbs.)						
Production	24,692,819	23,848,294	2,586,874	2,452,402	R	R
Class I Use	19,854,706	17,534,630	1,861,203	1,650,874	R	R
% Class I Use	80.41%	73.53%	71.95%	67.32%	R	R
Class I Route Disposition In Area (Thousand lbs.)						
By Pool Plants	164,940,585	154,739,266	72,086,257	65,224,332	75,793,540	75,182,238
By Producer-Handlers	19,954,508	17,438,346	1,866,350	1,669,610	R	R
By Other Plants	<u>703,877 *</u>	<u>511,294</u>	<u>1,112,733 *</u>	<u>1,151,744</u>	<u>13,821,642 *</u>	<u>12,536,209</u>
Total **	185,598,970	172,688,906	75,065,340	68,045,686	R	R

* Preliminary.

** 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		
	Jun 2000	May 2000	Jun 2000	May 2000	Jun 2000	May 2000	
TOTAL PRODUCER MILK	479,535,967	494,184,014	381,926,373	388,082,261	261,060,412	292,015,766	
RECEIPTS FROM OTHER SOURCES	12,819,922	11,551,473	5,236,387	5,051,252	2,250,091	4,546,704	
OPENING INVENTORY	22,101,423	24,562,349	14,342,877	13,952,353	13,320,680	10,905,385	
TOTAL TO BE ACCOUNTED FOR	514,457,312	530,297,836	401,505,637	407,085,866	276,631,183	307,467,855	
UTILIZATION OF RECEIPTS							
Whole milk	25,219,077	25,626,952	11,252,870	11,205,055	19,269,609	19,906,944	
Flavored milk & milk drinks	7,828,557	10,063,840	3,553,937	5,139,518	2,878,673	4,209,522	
2% milk	68,299,980	72,949,206	30,060,035	30,645,768	30,776,593	31,172,660	
1% milk	22,190,663	25,915,415	13,707,095	15,141,056	8,014,188	8,999,684	
Skim milk	27,526,867	28,728,991	8,917,756	9,291,792	10,596,712	11,033,467	
Buttermilk	1,582,521	1,656,181	627,029	663,068	428,523	471,263	
CLASS I ROUTE DISP. IN AREA.	152,647,665	164,940,585	68,118,722	72,086,257	71,964,298	75,793,540	
Class I dispositions out of area	9,825,920	9,951,170	11,027,426	10,787,842	4,816,649	4,849,329	
Other Class I usage	19,733,606	17,459,295	10,704,646	11,999,878	6,866,676	6,433,269	
TOTAL CLASS I USE.	182,207,191	192,351,050	89,850,794	94,873,977	83,647,623	87,076,138	
TOTAL CLASS II USE	51,233,250	51,783,108	38,325,582	31,245,577	14,097,076	13,806,980	
TOTAL CLASS III USE	191,739,077	192,517,948	252,966,689	251,691,644	84,965,303	92,343,253	
TOTAL CLASS IV USE	89,277,794	93,645,730	20,362,572	29,274,668	93,921,181	114,241,484	
TOTAL ACCOUNTED FOR	514,457,312	530,297,836	401,505,637	407,085,866	276,631,183	307,467,855	
CLASSIFICATION OF RECEIPTS							
Producer milk:	Class I	167,806,681	179,692,537	81,999,722	88,823,936	76,917,977	81,764,916
	Class II	44,406,258	45,503,220	35,484,504	28,993,240	13,338,351	12,851,059
	Class III	188,796,536	189,756,734	248,456,796	247,875,384	84,630,685	92,015,371
	Class IV	78,526,492	79,231,523	15,985,351	22,389,701	86,173,399	105,384,420
Other receipts:	Class I	14,400,510	12,658,513	7,851,072	6,050,041	15,570,771	15,452,089
	Class II	6,826,992	6,279,888	2,841,078	2,252,337	1/	1/
	Class III	2,942,541	2,761,214	4,509,893	3,816,260	1/	1/
	Class IV	10,751,302	14,414,207	4,377,221	6,884,967	1/	1/
Avg. daily producer receipts		15,984,532	15,941,420	12,730,879	12,518,783	8,702,014	9,419,863
Avg. daily Class I use		6,073,573	6,204,873	2,995,026	3,060,451	2,788,254	2,808,908

1/ Restricted - Included with Class I.

HIGHLIGHTS THIS ISSUE:

- **USDA Issues Federal Milk Order Forward Pricing Pilot Program Rules: Effective August 1, 2000.**
- **Market Summaries for June 2000**
- **June 2000 Class Prices and Commodity Prices**
- **Class I Prices for August 2000**
- **Federal Milk Order Forward Pricing Program:**
 - **Frequently Asked Questions**
 - **Fact Sheet and Disclosure Statement**

(Continued From Page 5)

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: Yes, milk under forward contract can be priced any way that the handler and producer mutually agree upon.

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

A: This restriction was specified by the legislative amendment.

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 and will make certain that a signed disclosure statement is attached to each contract entered into by a dairy farmer under the pilot program. 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.