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Pricing Amendments to the Federal Milk Marketing Orders

The [Federal Milk Marketing Order](#) (FMMO) system was authorized in the Agricultural Marketing Agreement Act of 1937 (50 Stat. 246). FMMOs are geographically defined fluid-milk demand areas. Under FMMO law and regulations, the U.S. Department of Agriculture (USDA) establishes a minimum milk price, and milk handlers (processors) are required to pay milk producers a minimum price for fluid milk, referred to as the *uniform pricing formula*. The FMMO system is designed to ensure orderly marketing conditions for milk—meaning milk producers are fairly treated in the marketplace and consumers are assured an adequate supply of fluid milk.

In general, Congress has not made legislative changes to the FMMO system other than conducting oversight. One example of legislative action is when in the 1996 farm bill (P.L. 104-127, §143), Congress required USDA to consolidate and reform the FMMO system (e.g., reducing the system to 11 orders; **Figure 1**). The 1996 farm bill also amended the pricing method. These actions led to new [order provisions](#) that took effect in 2000. In the 2018 farm bill, Congress directed changes to the system that amended the uniform pricing formula. As part of a potential farm bill reauthorization, the 119th Congress may consider whether or not to amend portions of the FMMO system or address specific issues (e.g., concerns raised during the hearing process that led to 2025 FMMO amendments).

This In Focus discusses the FMMO system, order amendments, and potential issues for Congress. The FMMO system is separate from the [Dairy Margin Coverage Program](#), which provides revenue support when monthly margins (i.e., the difference between the milk price and a calculated feed cost) fall below producer-selected levels.

in federal orders. A Western Order terminated in 2004, and California joined the FMMO system in 2018.

FMMO System and Amendments

Under the FMMO system, milk is classified by four uses: Class I, fluid milk; Class II, soft products (e.g., cottage cheese and sour cream); Class III, cheese; and Class IV, butter and nonfat dry milk (NDM). The component values (butterfat, protein, nonfat solids, and other solids) used to determine each class price are based on wholesale prices of cheese, butter, NDM, and whey.

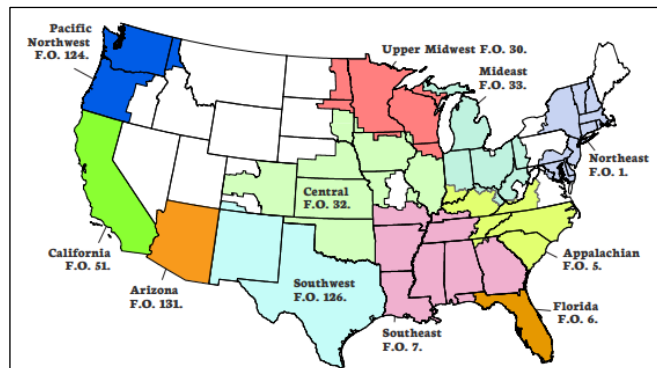
USDA's Agricultural Marketing Service (AMS) may establish and amend FMMOs through a formal public hearing process that allows interested parties to present evidence regarding marketing and economic conditions. Dairy stakeholders operating in an order (e.g., Upper Midwest or California) may submit petitions to USDA to amend their order.

On January 17, 2025, USDA finalized amendments to FMMO uniform pricing provisions as requested by the dairy industry and after an amendment hearing process that started in May 2023 with letters initiating the amendment process. This section covers a recent national hearing process and the amendments in the approved final decision.

Hearing Process

Beginning on August 23, 2023, USDA hosted a 49-day hearing to evaluate changes proposed by the U.S. dairy industry to the uniform pricing formulas applicable to all 11 FMMOs. During the hearing process, the dairy industry submitted proposals and evidence to support their amendments to the FMMOs.

Figure 1. Federal Milk Marketing Orders, 2025



Source: USDA, Agricultural Marketing Service (AMS), [Map of Federal Milk Marketing Order](#).

Notes: F.O. = federal order. Blank areas of the map are regulated by state orders or are unregulated. Alaska and Hawaii are not included

The hearing focused on five topics: (1) milk composition factors that represent the protein, nonfat solids, other solids contained in skim milk; (2) commodity products included in the Dairy Product Mandatory Reporting Program survey; (3) Class III and IV formula factors that represent the costs to manufacture a dairy product (i.e., *make-allowances*) and the amount of butterfat in raw milk that can be recovered during the cheesemaking process (i.e., butterfat recovery factor); (4) the Class I skim milk price formula, which is the method for calculating the Class I milk price; and (5) [Class I differentials](#), which reflect the costs for transporting milk from surplus milk production regions to deficit regions. USDA heard testimony and evidence on 21 proposals.

Post-hearing Procedures

USDA published its recommendation on July 15, 2024 (89 [Federal Register](#) 57580). According to [USDA](#), 128 public comments were submitted and, based on these comments,

USDA adjusted certain provisions and published its final decision on December 2, 2024 (89 *Federal Register* 95466).

After the publication of the final decision, eligible dairy producers (dairy farmers) in each FMMO voted whether to approve USDA’s final decision. Producers had to vote on the entire FMMO, not on individual provisions. The decision was approved, and [USDA announced](#) a final rule amending the uniform pricing formulas applicable in all 11 FMMOs (90 *Federal Register* 6600). The rule is scheduled to generally go into effect on June 1, 2025, except for amendments to skim milk composition factors that are expected to be implemented on December 1, 2025.

Amendments to the FMMOs

Table 1 compares the amendments in the current FMMO regulations with those in the approved final rule.

Current	2025 Amendments
Skim Milk Composition Factor: 3.1% protein, 5.9% other solids, and 9.0% nonfat solids.	Increase factors to 3.3% protein, 6.0% other solids, and 9.3% nonfat solids. Delay implementation by six months (12/2025).
Surveyed Commodity Products. The Dairy Products Mandatory Reporting Program (DPMRP) survey reports the 500 lb. barrel cheddar cheese price and the 40 lb. block cheddar cheese price. Both prices are used to calculate the Class III price.	Remove the 500 lb. barrel cheddar cheese from the DPMRP survey and rely solely on the 40 lb. block cheddar cheese price to determine the monthly average cheese price used to calculate the Class III price.
Base Class I Skim Milk Price: average of the advanced Class III and Class IV skim milk prices plus \$0.74 per cwt (referred to as the “average-of” formula).	Amend the base Class I skim milk price to be the higher of the advanced Class III or Class IV skim milk prices for the month. Adopt a Class I extended shelf life adjustment.
Class III and IV Formula Factors. Sets <i>make-allowances</i> price (\$/lb.) for butter, cheese, dry whey, and nonfat dry milk. The <i>butterfat recovery factor</i> is set at 90%.	Increase make-allowances for butter, cheese, dry whey, and nonfat dry milk. Increase the butterfat recovery factor to 91%.
Class I differentials. The lowest Class I differential is \$1.60 per cwt and the largest Class I differential is \$6.00 per cwt.	Keep the lowest Class I differential at \$1.60 per cwt. and adopt modified, location-specific Class I differential values.

Source: CRS compiled from [90 Federal Register 6600](#).

Notes: cwt = hundredweight (i.e., 100 pounds); lb. = pounds.

USDA Analysis of 2025 FMMO Amendments
According to USDA’s [Regulatory Economic Impact Analysis](#) of the 2025 FMMO amendments, “the overall

economic impact across all FMMOs would have been beneficial over the 5-year period [2019-2023] analyzed. Assuming future data are similar to historic data, the analysis shows the proposed amendments, which incorporate more current milk marketing costs faced by producers and processors, are likely to contribute to increases (on average) in producer revenue and pool values.” Based on the regulatory analysis, the increases would be about at 1.2%.

Issues for Congress

Congress may consider directly amending portions of the FMMOs through the farm bill reauthorization process or addressing other issues raised during the 2023/2024 FMMO hearing process.

Mandatory Cost Studies

Until the 2025 final FMMO amendments, make-allowances had not been updated since 2008. During the hearing processes, different stakeholders submitted proposals using varying methods for updating make-allowances. Some [stakeholders](#) have suggested Congress direct USDA to conduct mandatory plant-cost studies every two years to enable frequent updates of make-allowance values. The FMMO hearing process cannot mandate USDA to administer such a study.

Voting on FMMO changes

When voting on amendments to the FMMO, a [dairy cooperative](#) can cast a single vote that represents all of their eligible voting members. According to [USDA](#), after the enactment of the Agricultural Marketing Agreement Act of 1937, which authorized the use of bloc voting, bloc voting “led to the organization of many new cooperatives, some formed as a first step in obtaining a milk marketing order and others to represent producer views different from those of the members of existing cooperatives.” Given that dairy cooperatives have consolidated over the past century and may now serve a more diverse group of dairy producers, some dairy producers have stated that the use of cooperative bloc voting may not reflect the interests of all voting members. Changes to FMMO voting requirements would require congressional action.

Organic Milk

Handlers of certified organic milk who operate in an FMMO are obligated to participate in the FMMO pool for fluid milk. Under the FMMO system, organic and conventional milk producers receive the same price. Prior to the 2023/2024 FMMO hearing process, the [Organic Trade Association \(OTA\)](#) submitted a letter proposing the exemption of organic milk from certain aspects of the FMMO system. [Other dairy stakeholders](#) have cited that such exemptions could harm conventionally produced milk in the balancing function between fluid and manufactured products. [USDA responded](#) to the OTA by stating it was limiting the scope of the FMMO amendments to proposals directly impacting the uniform pricing formulas. Congress may consider evaluating how organic milk is priced under the FMMO system and other support for the organic dairy industry.

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