



MONTANA'S MILK INDUSTRY: AN ANALYSIS OF THE STATE-REGULATED MARKET

20P-03

Performance Audit

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The Board of Milk Control

- The Board was created in the wake of the Great Depression and the creation of the Montana Milk Act
- Five members serve four-year terms
- They issue licenses to producers and distributors for a \$2 fee, which is deposited in the General Fund
- The Board is solely funded through assessments placed on the industry

The Milk Control Bureau's Regulatory Activities



TRACKING QUOTA
BALANCES



CALCULATING
PRODUCER PRICES



POOLING MONTHLY
PRODUCTION

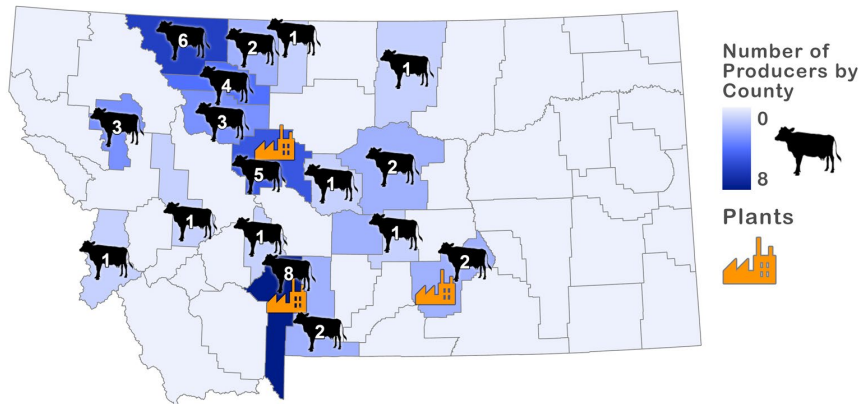
Audit Objective

Do the Milk Control Bureau and Board of Milk Control ensure that Montana's milk industry is effectively regulated through producer pricing, pooling, and quota?

MONTANA'S MILK INDUSTRY & REGULATORY PRACTICES

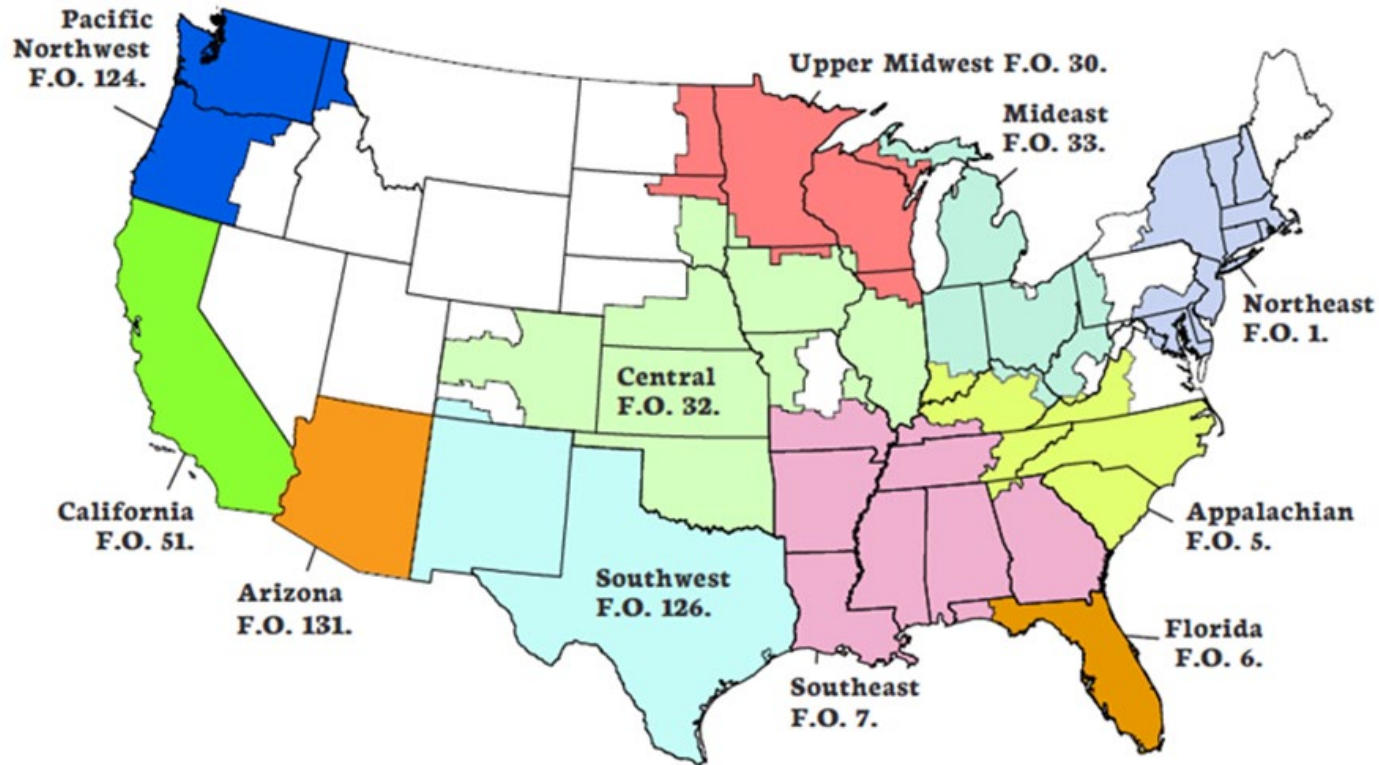
Chapter 2

Montana's Milk Industry



- Montana is a state-regulated milk industry, as opposed to federally-regulated or unregulated
- 43 producers operate in 19 counties under two processing organizations
- There are three processing plants in the state.
 - Meadow Gold in Great Falls and Billings
 - Darigold in Bozeman
- Many farms are leaving the market in Montana and nationally

11 Federal Milk Marketing Order Areas



REGULATORY
PRACTICES IN
THE U.S.

Regulatory Practices in Other States

Maine

- State regulated
- Statewide pooling structure
- No quota system

Virginia

- State regulated
- Base system
- Influenced by FMMOs

Pennsylvania

- Official General Orders
- Producer pools
- No quota system

North Dakota

- Industry Demographics
- Price setting
- No quota or pooling system

Quota



The quota system is used with the pooling structure to discourage excess production.

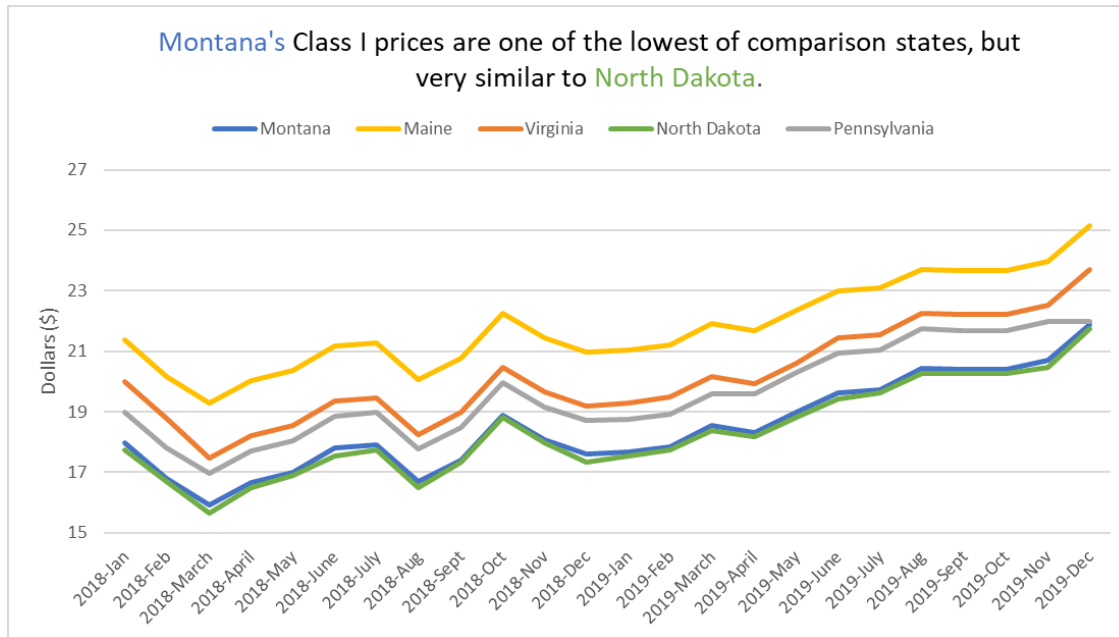


Producers can produce within quota to receive full prices for their milk or receive excess quota prices.



The Board of Milk Control has not awarded additional quota to producers since 2001.

Class Utilization Prices



- Montana's three utilization classes:
 - Class I
 - Class II
 - Class III
- Class I prices are below many other states
- Reviewed the formulas and base prices to calculate the Montana's class prices

Conclusion

PG. 13

Practices followed by the Milk Control Bureau for calculating minimum producer prices of Class I, II, and III milk assures the calculations are correct and ensures producers can have confidence they are receiving the correct price for any milk supplied to the processing plants in the state.

Pooling and Uniform Price

- Pooling combines utilization to calculate a uniform price
- It is a common practice in federally-regulated markets, state-regulated markets, and unregulated markets
- Legislators sought to disband the statewide pooling structure in 2019 with House Bill 592
- Alternatives include:
 - Separating the pool between the two processing organizations
 - Separating and grouping producers based on quota or regional location

Conclusion

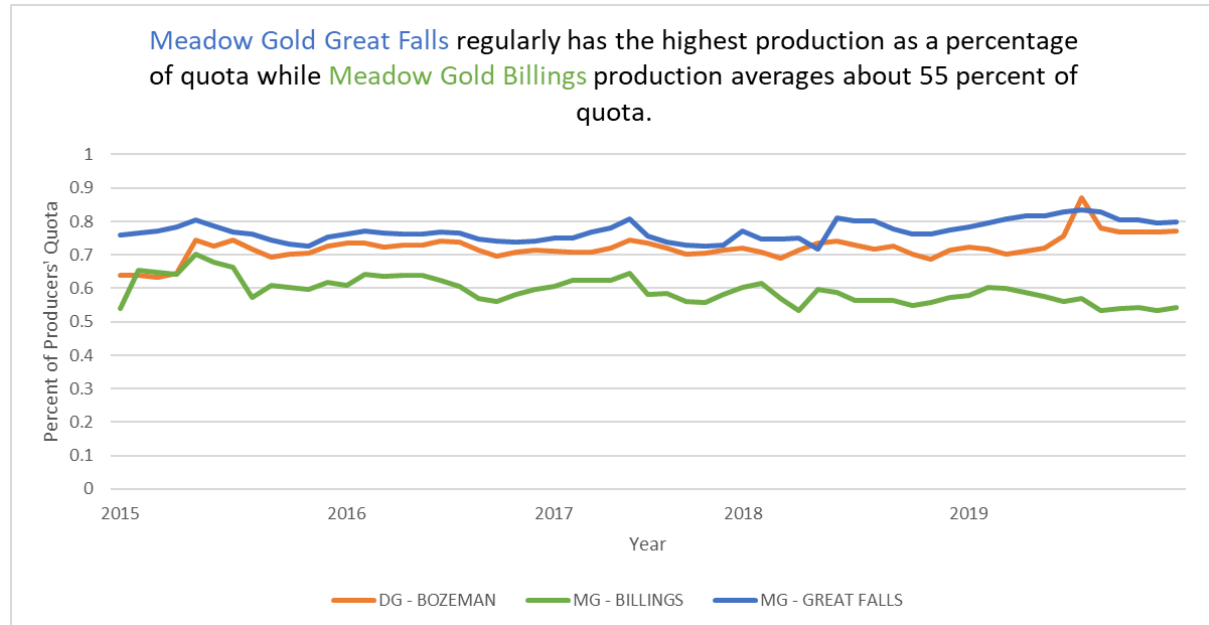
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The current pooling structure protects individual producers from large losses and protects all producers from market volatility. Changing the pooling structure, either by splitting it among processing plants or eliminating it altogether, may be futile with current market conditions and a diminishing industry.

QUOTA IN THE CURRENT MARKET

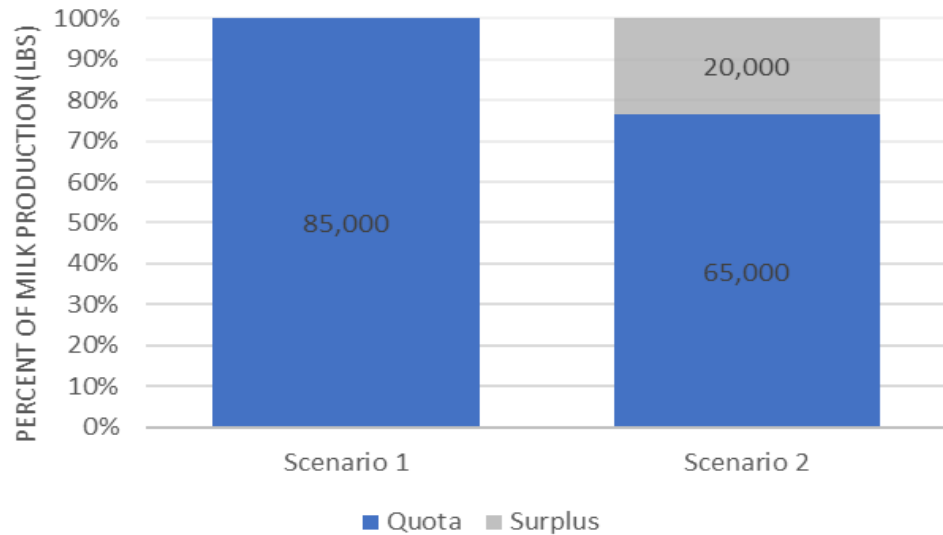
Chapter 3

Production Levels Reveal Inefficiencies in the Market

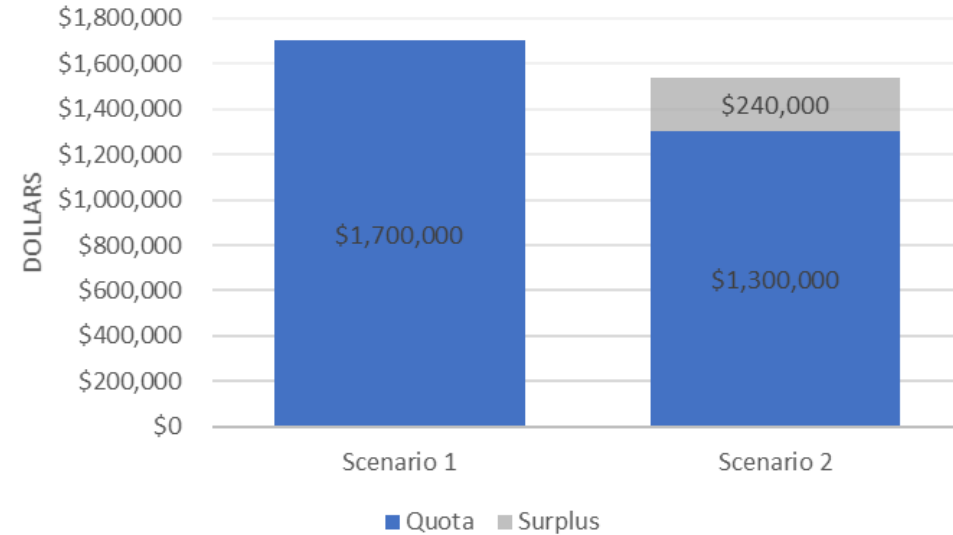


Producers Receive Less Money Under the Current Quota System

HIGH QUOTA BALANCES LEAD TO MORE OF MONTANA'S MILK SUPPLY SOLD AS SURPLUS.



PRODUCERS RECEIVED MORE MONEY WHEN MILK WAS PRODUCED WITHIN THE STATE'S DEMAND.



Barriers to Reducing Quota

Administrative rule allows the board to increase quota from two market triggers

No additional quota has been awarded since 2001

Any quota not purchased is reallocated to all remaining producers

No calculations or considerations for decreasing quota in a declining market

We recommend the Department of Livestock and the Board of Milk Control:

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PURSUE CHANGES TO
ADMINISTRATIVE RULE

DECREASE QUOTA TO
REFLECT CURRENT
PRODUCTION AND
INDUSTRY NEEDS



QUESTIONS