This marks the first of a series of five short articles about how milk is priced in Pennsylvania. About 2/3 of Pennsylvania is in Federal Milk Marketing Orders (FMMO); under the FMMO, the US Dept. of Agriculture (USDA) establishes a producer minimum price for milk delivered in the FMMO. The process of pricing begins with an understanding of the “Three Cs” of FMMO Pricing:

- **Commodity** – A collective term for dairy-based products traded on markets around the world, e.g. butter, non-fat dry milk, and dry whey.
- **Component** – Particles contained in fluid milk that are used in pricing, e.g. butterfat, proteins, and other milk solids.
- **Class** – Designation of milk by its end use: 1) *Class 1* - fluid milk and milk beverages; 2) *Class 2* – soft manufactured products such as cottage cheese and yogurt; 3) *Class 3* – hard cheeses; and 4) *Class 4* – butter and dry products such as non-fat dry milk.

Around the 5<sup>th</sup> of each month, USDA’s Agriculture Marketing Service (AMS) publishes surveyed commodity prices: cheese, butter, dry whey, and non-fat dry milk, specifically. The prices are in the form of weighted averages for each commodity and become the basis for the 2<sup>nd</sup> step in pricing milk—to determine the component value of milk.

For components, formulas calculate protein prices from cheese and butter prices, butterfat prices from butter prices, other solids prices from dry whey prices, and nonfat solids prices from non-fat dry milk prices.

Part 2 will look at how the component prices described above are combined with other factors to derive Class pricing. Parts 3 and 4 will address Pennsylvania-specific milk pricing.