

INTRODUCTION

Technical and economic developments over the past two decades have altered the structure, conduct, and performance of the United States dairy industry.¹ On the production side, milk producers have responded to higher production costs by adopting modern management techniques and by expanding herd size to capture economies of scale. Milk producers have also attempted to offset declining profit margins by organizing into local and interregional cooperatives, i.e. cooperatives with members in more than one state. Interregional cooperatives in particular have increased the market power of member producers by bargaining for and obtaining Class I premiums for fluid milk.

Milk processing and distribution have undergone considerable structure change. The proportion of milk distributed through supermarket chains and sold under private label has steadily increased. To gain greater control over their source of supply, chain stores have developed centralized milk procurement programs and, in some cases, acquired control of milk processing plants through backward integration. Significant economies of scale in milk processing and the increased market power of producers and distributors relative to processors have resulted in fewer and larger processing plants.

Declining per capita consumption of dairy products, on a milk equivalent basis, has prompted the dairy industry to increase financial support for dairy education and promotional programs. Milk legislation, particularly as it relates to Class I base plans and price supports, has attempted to balance demand and supply for milk products.

The Problem

Although recent organizational changes in the dairy industry, particularly the spread of interregional cooperatives and growth of processor-retailer integration, have been confined to other states, present conditions suggest that may occur in Florida. For example, leaders of interregional cooperatives consider Florida a lucrative area for expanding their membership. Florida's high Class I price, relative to other federal order markets, would increase the pooled returns to non-Florida members, although it would reduce returns to Florida producers. Higher profits on milk processed and distributed by corporate food chains coupled with steady increases in the proportion of state produced milk utilized in fluid products provide a strong incentive for milk distributors to integrate into processing. Both prospects raise