

conditions are not available to only a few. These buyer-traders were as knowledgeable of market conditions and cheese prices as Kraft. The simple explanation is that had there been a demand for the cheese being sold by Kraft, the price would not have declined. The authors have made no effort to rule out other causes for market declines such as the demand for and supply of cheese at the time these prices were allegedly manipulated downward by Kraft. In the report, there is little or no discussion of market forces during the period in question.

The professors' report confirms that NCE has consistently expressed the view that NCE prices cannot be manipulated by the unilateral action of an individual trader and that prices move as a result of interaction between buyers and sellers and general market conditions. We hold to that view. From time to time in the past, there have been instances where traders took credit for a rise in the cheese market merely because they bought cheese on NCE at a level higher than a previous transactions. At other times, members have been accused of lowering the cheese market by offering cheese at a lower level. It is our view that everyone present at a trading session is a party to the bargain. During the period of this study, Kraft did not unilaterally lower the price. When an offer remains uncovered, all other traders at the trading session are obviously not interested in that cheese at that price. If a bid for cheese remains unfilled, all other traders at the trading session are sending out a message that what the bidder is willing to pay is insufficient to warrant parting with their cheese.

NCE AS A "THIN MARKET"

At p. III-17 and Appendix 7.A of the report (p. VII-48), it confirms that most U.S. agricultural commodities have thin spot or negotiated markets or have thinly reported markets and that this is particularly true in commodities in which formula pricing and/or contracting is widespread. The report goes on to state further that less than one percent of total cheese production was sold on NCE during the years 1974-1993. However, NCE only traded in cheddar cheese of the styles known as forty-pound block and barrels during those years. In 1994, cheddar cheese represented about 44% of total cheese production, and in 1995, cheddar cheese represented about 45% of total cheese production. The report then suggests something wrong with price changes resulting from unfilled bids to buy or uncovered offers to sell rather than consummated transaction and the extreme sensitivity of relatively small purchase or sales. After carefully reading Appendix 7.A., we are convinced that NCE stands far above other spot and negotiated markets in terms of reliability, trustworthiness and reflection of true supply and demand. Our members are very knowledgeable, competitive companies. Most have large inventories of cheese and are quick to exploit a situation of someone bidding for cheese at what they consider an unrealistic price. Anyone attempting to raise the price of cheese by bidding, will soon run out of money. On the other hand, our members are also quick to take advantage of a bargain and anyone offering cheese in an attempt to lower the price will soon run out

of cheese. The fact is that most of the major U.S. cheese companies are members and traders at NCE.

However, the report admits that, in reality, competitive ideals of economic theory are seldom realized in world markets and markets for most manufactured products do not meet the conditions of perfectly competitive markets.

We do not characterize the NCE as a thin market and would prefer to see how trading at the NCE compares to other cash markets prior to coming to any conclusions. Volume of trading on the NCE varies depending on market conditions. When members' supplies are about balanced with demands, the volume of sales will be low. When there is a surplus of cheese, offerings tend to be heavy. When there is a shortage, it is reflected in bids and purchases. Volume of trading varies from year to year. Here are some statistics:

<u>Year</u>	<u>Total Sales In Pounds</u>	<u>Cars</u>
1988	14,858,000	391
1989	4,598,000	121
1990	12,996,000	342
1991	15,162,000	399
1992	14,440,000	380
1993	22,648,000	596
1994	30,020,000	790
1995	45,480,000	1,137

In 1994, sales on NCE represented 1.01% of total cheddar cheese production. In 1995, sales on NCE represented 1.47% of total cheddar cheese production.

We are also pleased to note that the professors' report concludes that an electronic market system would be an improvement for "pricing efficiency and increased competition" (p. VII-41). NCE commenced the process of instigating electronic trading prior to the release of the report. A prototype of the system was successfully demonstrated and a production system is in the process of being developed. It is anticipated that in time the use of this system will broaden the trading base by increasing NCE membership and increase the volume of trading.

CONCLUSION

We submit that NCE transactions are credible because those affected economically; that is, those buying and selling, can be presumed to know what they are doing. If a mistake is made or others disagree, the situation is promptly corrected. The transactions between traders serve to reflect the value of cheese not traded through the application of logic and common sense which are merely the laws of the marketplace.

Obviously there are those who still persist on claiming that cheese prices are determined by some sort of conspiracy at NCE trading sessions. There are now, as there have been in the past, those who advocate that NCE should be eliminated and the report commencing at p. VII-38 suggests a number of alternatives for price discovery mechanisms. The weakness is that the principal purpose of these alternatives is price discovery, whereas NCE provides the

framework for pure competition based on bidding and selling by knowledgeable people who are actively competing with one another.

Prices are determined as a result of buyers and sellers forming an opinion from credible data. The opinion may not always be absolutely infallible, but like the jury system, cash exchanges have been around for a long time and no one has come up with a better idea.

Respectfully submitted,

NATIONAL CHEESE EXCHANGE, INC.

By: 
R. J. Gould, President

HEARING IN D.C.

Cheese exchange study ripped

**Congressmen, Kraft
officials say UW report
has serious flaws**

BY PATRICK JASPERSE
of the Journal Sentinel staff

Washington — During an occasionally bitter congressional hearing Wednesday, lawmakers and industry officials attacked a University of Wisconsin study that suggested Kraft Foods Inc. has manipulated national dairy prices through Green Bay's National Cheese Exchange.

"It bothers me a little bit that you pick on Kraft, Kraft, Kraft," said Rep. Thomas Ewing (R-Ill.). "There are other members of the exchange."

Kraft, based in Northfield, Ill., is a subsidiary of Philip Morris Cos.

Prepared for the Wisconsin Department of Agriculture, Trade and Consumer Protection, the study found that

Kraft dominated the cheese exchange, making 74% of all sales from 1988 through 1992.

The study, released in March, said Kraft sometimes sold cheese on the exchange for a loss to drive down prices it paid suppliers, thereby saving the company millions of dollars per year.

The tiny exchange meets for a half-hour each Friday morning and trades only 0.2% of the nation's cheese. Yet its "opinton" price is used to determine milk and dairy product prices throughout the United States. The state report has prompted several ongoing federal and state investigations.

Kraft "had a financial motive for influencing prices, had the power to influence prices and at times exercised this power for its benefit," said Willard F. Mueller, a UW-Madison economics and law professor, a former chief economist for the Federal Trade Commission and an author of the study.

Wisconsin Agriculture Secretary Alan Tracy said that "when any one trader has the ability of affecting the outcome, you have defined an

Please see CHEESE page 4

Cheese/ Study draws criticism

From page 1

imperfect market."

The study's validity, however, came under heavy assault from most of the legislators and other witnesses who spoke.

Rep. Calvin Dooley (D-Calif.) said the study of the National Cheese Exchange in Green Bay contained "bias" and was initiated with a "predetermined outcome."

Betsy Holden, executive vice president of Kraft Foods, said the report was "based on flawed analysis and repeated misuse of information. It repeatedly fails the economic and common-sense test."

"We are straining at gnats," said Rep. Charlie Rose (D-N.C.), adding that this "controversy has been stirred up in Wisconsin."

On the first of two days of hearings held by a pair of subcommittees of the House Agriculture Committee, virtually the only legislator defending the study was Rep. Steve Gunderson (R-Wis.), who served as chairman of the hearing.

The sharpest exchange of the day was between Gunderson and Green Bay attorney Richard Gould, president of the National Cheese Exchange since 1960.

Gould said he did not think there had been any manipulation of prices or other illegal activity and said that other traders

would not have allowed Kraft to depress prices artificially.

"It's just unrealistic ... that they bamboozled these large co-ops of cheese producers," Gould said. "It makes these co-ops look like they were run by incompetents."

Credibility Debate

Gunderson countered that the exchange has "a serious credibility problem" and asked Gould: "What in the hell does it take to get you guys to look at yourself?"

"This report is nothing more than a hypothesis of these professors," and offers no evidence of any price manipulation or other wrongdoing, Gould said.

"I think Richard Nixon has more credibility in Wisconsin than the Green Bay cheese exchange," Gunderson complained.

"I object to that. I object to that," Gould said. He said the furor over the cheese exchange was whipped up by a "small cadre of farmers" who complain every time dairy prices drop and by reporters who "like controversy."

Gould said he would welcome government regulation, adding that he learned only after reading the UW-Madison study that the exchange already was subject to regulation by the Commodities Futures Trade Commission.

Kraft officials turned out in force for the hearing, providing reporters with a fat file of documents and displaying glossy graphics to the lawmakers.

Kraft's Holden denied the report's assertion that the company sometimes sold cheese on the exchange for a lower price than it could have received elsewhere.

TASK FORCE ON CHEESE PRICING

SUMMARY OF ACTION

THURSDAY, JULY 25, 1996

1. Meeting called to order.
2. Opening comments from Secretary Alan T. Tracy.
3. Background on report given by Ann Roth.
4. Overview of report findings.
5. Review of report suggestions.
6. Overview from Seth Eisner of Kraft Foods, Inc.
7. Questions from task force.
8. Other business. Representatives from the industry will be invited to next meeting.
9. Adjourned. The next meeting of the Task Force on Cheese Pricing is scheduled for September 19, 1996.

Task Force members in attendance:

Robert Burns, Vice Chair
Gary Anderson
Glenn Hackman, for Fred Kasten
Bernard Goldbach
Richard Gould
Bob Thelen
Wilfrid Turba
Seth Eisner, for Marsha Glenn
Deborah Van Dyk
Alan Tracy
Bill McCoshen
Larry Lemmenes
Gerald Jaeger
Will Hughes
Ed Jesse
Bob Wagner
Jon Peterson

MINUTES

TASK FORCE ON CHEESE PRICING

THURSDAY, JULY 25, 1996

CALL TO ORDER

The first meeting of the Task Force on Cheese Pricing was called to order by Vice Chair Robert Burns, of Beatrice Cheese, Inc., at 1:05 p.m. The meeting was held in the board room at the Wisconsin Department of Agriculture, Trade and Consumer Protection. Mr. Burns stated that written comments would be accepted from the audience, to be discussed at the next meeting.

OPENING COMMENTS

Secretary Alan Tracy reviewed the Governor's charge to the task force:

- Recommend improvements to the current system for the benefit of the dairy industry and customers.
- Recommend ways to improve current market information.
- Recommend ways to improve current trading market mechanism.

BACKGROUND ON REPORT

Ann Roth of the Office of the Secretary gave an overview of the history of the study:

- Decreases in prices on National Cheese Exchange in 1987 prompted concern by producers.
- Legislative request in 1987 to Wisconsin Department of Justice to investigate market manipulation on Exchange.
- 1988 DOJ investigation concluded that there was no evidence of antitrust law violations.
- Continued concern over cheese prices led to Legislative request to further investigate cheese pricing (1990, 1991).
- Legislative request to DOJ, then referred to DATCP.
- Wisconsin Department of Agriculture, Trade and Consumer Protection has regulatory authority under its "Little FTC" Act.
- DATCP contracted with UW to conduct a..."study and analysis of market practices related to the purchase and sale of cheese, including transactions on the National Cheese Exchange..." (1992)
- DATCP gathered necessary proprietary information under its authorities.
- The study covers the period 1980-1993, and focuses on the period 1988-1993.

OVERVIEW OF REPORT FINDINGS

Professor Bruce Marion, Department of Agricultural & Applied Economics, UW-Madison, presented an overview of the report findings.

REPORT SUGGESTIONS

John Norton, bureau director of Trade Practices, presented the recommendations found in the report:

- To promote efficient and competitive prices that accurately reflect underlying supply and demand conditions in the dairy industry.
- Decentralized spot transactions are used in several commodities as a reference price for formula pricing and would be feasible for cheese.
- Spot market price reporting needs improvement if it were to replace NCE as a basis for formula pricing.
- Accommodate a wider range of trading activity.
- Broader access and participation via a decentralized and direct exchange.
- Provide opportunities for market participants to hedge risk.
- May improve price discovery process by increasing number of participants.
- Federal government and dairy industry should develop more timely, reliable and broadly-available information related to milk and cheese market conditions.

REPRESENTATIVE FROM KRAFT FOODS, SETH EISNER

Seth Eisner, of Kraft Foods, stated that there were fundamental errors in the UW report. Mr. Eisner went on to say that Kraft sold on the exchange only when it had a surplus and for the highest price available. He also stated that other than the period from late 1983 to the middle of 1986 Kraft was consistently a seller.

QUESTIONS FROM TASK FORCE

Mr. Burns invited each member of the task force to ask questions of Professors Willard F. Mueller and Marion.

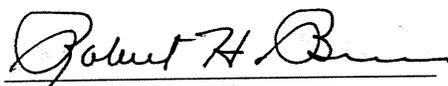
OTHER BUSINESS

The task force requested that representatives from the Chicago Board of Trade; the Coffee, Sugar and Cocoa Exchange; the California Market News; and the U.S. Department of Agriculture be invited to its next meeting to provide more information about pricing mechanisms and electronic information delivery. Committee member Richard Gould will provide information on electronic trading on the NCE.

ADJOURNMENT

The meeting was adjourned at 3:45 p.m. The next meeting of the Task Force will be held in Madison at the Department of Agriculture, Trade and Consumer Protection on September 19, 1996 at 1:00 p.m. There were two additional dates set for future Task Force meetings, October 17, 1996 and November 14, 1996, at 1:00 p.m. also at the Department of Agriculture, Trade and Consumer Protection.

Signed



Approved

8-19-96



Office of the Secretary

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

File # *HCY*

July 26, 1996

The Honorable Alan T. Tracy
Secretary, Department of Agriculture,
Trade and Consumer Protection
State of Wisconsin
2811 Agriculture Drive
Madison, Wisconsin 53704-6777

Dear Secretary Tracy:

Thank you again for your letter to Chairman Robert Pitofsky concerning the report entitled *Cheese Pricing: A Study of the National Cheese Exchange*, prepared for the Wisconsin Department of Agriculture, Trade and Consumer Affairs (the "Report"). As you know, the Report discusses patterns of trading in bulk cheese on the Exchange during the period from 1988 to 1993, and expresses concerns that the pricing structure for bulk cheese, combined with these trading patterns, has led to distortions in the general prices for bulk cheese, to the detriment of consumers and dairy producers.

The Report has been reviewed by Patrick Roach, an attorney in the Bureau of Competition -- in consultation with staff of the Office of Policy and Evaluation of the Bureau of Competition -- to determine whether any federal statutes may have been violated or whether further steps should be taken by the Commission staff in light of the matters discussed in the Report. After a thorough review of the contents of the Report, the Commission staff have concluded that it is unlikely that a violation of the antitrust laws could be established with respect to the matters set out there, and have determined that no further review is warranted at this time.

Specifically, based on their review, the staff have concluded that essential elements of either a conspiracy or a monopolization theory of enforcement are not likely to be established. A conspiracy theory of enforcement under Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45, would focus on whether there has been trade-restraining conduct undertaken as joint or concerted activity by two or more firms. The theory would require establishing the existence of collusive conduct analogous to the "contract, combination or conspiracy" element of a violation of Section 1 of the Sherman Act, 15 U.S.C. § 1. However, the Report twice expressly states that the authors found "no evidence of collusive conduct" among the traders whose activities are the subject of the Report. Report at

VII-23, -31. This conclusion makes it unlikely that an antitrust violation could be established based on a conspiracy theory of enforcement.

A monopolization theory of enforcement, analogous to that under Section 2 of the Sherman Act, 15 U.S.C. § 2, would focus on whether a single firm -- exercising monopoly-level economic power in a properly defined economic market -- has engaged in trade-restraining conduct that has harmed or threatens to harm competition. The Report suggests that one of the traders on the Exchange -- Kraft General Foods, Inc. -- should be considered to possess monopoly-level economic power by reason of having accounted for 74 percent of all sales transactions on the Exchange over the period studied by the Report. Report at VII-31-32. However, based on the information contained in the Report, it does not appear that a "market" consisting only of Exchange trading could properly be used to assess economic power for antitrust law purposes. Trading on the Exchange reportedly is only one of several ways of carrying on commerce in bulk cheese, and during 1988-1993 reflected on average only 0.2 percent of the volume of bulk cheese bought and sold in the United States. Such a narrow market definition appears to be contrary to the antitrust law principle that markets should be defined on the basis of the alternative sources to which buyers and sellers can reasonably turn for supplies of the goods at issue.¹

After evaluating the information contained in the report in light of other possible economic market definitions, the staff concluded that it was unlikely that the market power element of a monopolization enforcement theory could be established. The Report itself concludes that the economic market in which competition in bulk cheese occurs is national in scope and consists of all natural bulk cheeses produced by the cheese manufacturing process. Report at II-15-21. Kraft's requirements for bulk cheese reportedly account for approximately 15 to 20 percent of total U.S. cheese production, a share that the Report concludes is "quite modest" and insufficient alone to indicate the existence of monopoly market power. Report at VII-28. Based on other data contained in the Report, it appears that Kraft's presence in other alternatively defined potential economic markets lies below the market share levels that traditionally have been held sufficient to establish market power for purposes of a monopoly theory of enforcement.

It should be emphasized that in determining that no further

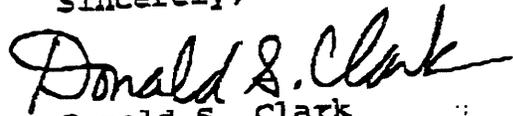
¹ *Brown Shoe Co., Inc. v. United States*, 370 U.S. 294 (1962); *Tampa Electric Co. v. Nashville Coal Co.*, 365 U.S. 320, 327 (1961).

The Honorable Alan T. Tracy -- Page 3

action is warranted at this time, the Commission staff have reached no conclusion as to the intent or economic effect of the conduct discussed in the Report, or as to the appropriateness of any law enforcement or regulatory action by any other federal or state agency. Moreover, as this discussion indicates, the determination is based on the information presently known concerning the matters discussed in the Report, and is subject to change if other or further information is received that warrants a different conclusion. This letter presents only a sketch of the principal economic and legal theories considered by the staff in their inquiry into possible violations of the antitrust laws. If you or your staff should have any further questions, please feel free to contact Mr. Roach directly at (202) 326-2793.

Thank you for bringing this matter to the attention of the Commission and for your assistance in keeping the Commission appraised of potential competitive problems. Please let me know if I may be of service in this or any other matter.

Sincerely,



Donald S. Clark
Secretary of the Commission

TASK FORCE ON CHEESE PRICING

SUMMARY OF ACTION

THURSDAY, SEPTEMBER 19, 1996

1. Meeting called to order.
2. Opening comments from Bob Burns.
3. Overview of National Cheese Exchange Operations and Structure given by Richard Gould.
4. Videotape and Slide Presentation about the Coffee, Sugar and Cocoa Exchange given by Janet Troy.
5. Overview of the USDA Dairy Market News Service given by Don Nelson.
6. Videotaped Presentation and Conference Call with David Ikari and Staff of the California Department of Food and Agriculture.
7. Other business. Proposal by DATCP Secretary Alan Tracy to have members submit topics for discussion at the next Task Force meeting by October 1.
8. Adjourned. The next meeting of the Task Force is scheduled for October 17, 1996.

Task Force Members in Attendance:

Robert Burns, Vice Chair
Gary Anderson
Lee Davis, for Marsha Glenn
Richard Gould
Will Hughes
Gerald Jaeger
Ed Jesse
Larry Lemmenes
Terry Grosenheider, for Bill McCoshen
Jon Peterson
Bob Thelen
Alan Tracy
Wilfred Turba
Deborah Van Dyk
Bob Wagner

MINUTES

TASK FORCE ON CHEESE PRICING

THURSDAY, SEPTEMBER 19, 1996

CALL TO ORDER

The second meeting of the Task Force on Cheese Pricing was called to order by Vice Chair Robert Burns at 1:03 p.m. The meeting was held in the board room of the Wisconsin Department of Agriculture, Trade and Consumer Protection's central office.

OPENING COMMENTS

Vice Chair Bob Burns announced that Lee Davis, of Kraft Foods, would be substituting for Seth Eisner [Marsha Glenn]. Bob stated that Bruce Gardner was not able to attend this meeting. He reminded the task force of the Governor's charge to recommend ways to improve current market information and trading mechanisms. Bob introduced Richard Gould of the National Cheese Exchange.

OVERVIEW OF NATIONAL CHEESE EXCHANGE OPERATIONS

Richard Gould, president of the National Cheese Exchange, gave an overview of the operations and structure of the NCE:

- The NCE is a private, non-profit Wisconsin corporation.
- It does not own, buy or sell cheese.
- NCE members do not use the Exchange as a principal outlet or source of supply. The normal outlets are retail and wholesale markets.
- Management is vested in a 7-member board of directors. Six are elected by the membership; the president is elected by these six and cannot be a trader.
- Anyone can become a member of the NCE by submitting a membership application, then being elected by the current membership.
- Members pay an initiation fee of \$100 and annual dues of \$600. Each member has only one vote.
- Trading session lasts for 30 minutes every Friday, but may be extended if this time is not adequate to act on all bids and offers posted. This prevents last-minute price manipulation.
- The NCE is a cash market. The buyer must make payment within seven days. Shipment must be made within three days.
- NCE standards apply to each carload of cheese. The cheese must meet all applicable state and federal regulations.
- Trading is limited to 40-pound blocks and barrels because they are uniform, available in large quantities, and bought and sold by many companies, thus ensuring that prices are competitive.

- A full and detailed record of all transactions is made to the Federal Milk Market Administrator's office each week. Milk marketing agreements and orders have used NCE prices as a basis for formula prices.
- The NCE's primary value is in its availability as an alternative market for cheese.
- NCE prices reflect the value of cheese because trading on the Exchange reflects supply and demand conditions.
- The objective of the NCE "is to provide a free and open market where the laws of supply and demand can work."

Responses to Task Force Members' Questions

- Members may initiate changes in NCE operations by submitting their concerns to the NCE Rule Committee. Any rule change is reviewed by the NCE Board, which makes a recommendation.
- Electronic Trading: system being developed so members can trade using their computers. Could be available as soon as January 1997. Green Bay site would still be available.
- Cannot trade specialized cheese on the Exchange. Need uniformity for competitive trading.
- Physical distance from Green Bay as a barrier to trade: rules in place to make trade as fair as possible, and these rules should make it unnecessary to have additional trading sites.
- Anonymity in trading would be difficult, but would be more likely with electronic trading.
- Because of the way trading is conducted on the Exchange, members have no say in whom they will buy from or sell to.

OVERVIEW OF THE COFFEE, SUGAR, AND COCOA EXCHANGE

Janet Troy, vice president of marketing and communications, gave a videotaped presentation of the structure and operations of the CSCE, followed by a more detailed slide presentation:

I. ORGANIZATION AND STRUCTURE OF CSCE:

1. Membership. Membership Organization, governed by Board of Managers composed of member traders as well as public member(s). (Having public members is required by CFTC.)

There are 527 Full Members, 118 Associate Members (trade options only), 25 Dairy Permits available (full member privileges --goal is to generate interest in dairy futures contracts and options).

Members include manufacturers and processors of commodities traded, trade houses, commission brokers, floor traders. Currently, member seat costs about \$150,000, dairy permits cost \$2,000.

2. Management. The President (Jim Bowe) is appointed by the board and oversees internal staff. There are committees responsible for recommending policies and rules to the Board for each commodity group (for example, a dairy committee makes recommendations regarding dairy contracts trading).

3. Internal and External Control Measures:

- The Clearing Corporation provides the financial settlement of each trade; it assumes the opposite side of every transaction. This is the “backbone” of the exchange, providing financial integrity. Clearing members must meet strict financial requirements and there are limits on the size of the positions they may hold.
- There are rules governing trading, adopted by the board. Rules must be approved by CFTC.
- The Compliance, Audit and Review System reviews all trades.
- The Market Surveillance Unit watches the position of traders.
- There are established disciplinary processes for rule violations. (Required by CFTC.)
- Regulatory Oversight by the Commodity Futures Trading Commission. The National Futures Association licenses brokers and maintains broker registry.

3. Pricing information: Trading volume, prices, can be obtained daily through the CSCE’s free fax program and their home page on the World Wide Web. The Wall Street Journal does not carry trading information on dairy futures due to their current low volume.

4. Anonymity of Traders: A trader’s identity (the account member) is not known until after the contract has finished trading for the month, and only then, if delivery on the contract takes place. If the position is offset before delivery, the identity of the trader would never be known.

5. Hours of trading. Dairy futures and options are traded daily, from 9 am to 2 pm.

6. Electronic trading: CSCE does not use electronic trading for executing trades. The traders in the pit as well as the industries and individuals involved like the open outcry method. Ms. Troy stated that electronic trading could be useful for linking up with other markets, or for after-hours trading (for example, in the case of international markets).

II. DISCUSSION OF TRADING IN MILK AND CHEESE FUTURES AND OPTIONS

Contract volume to date for 1996: Cheddar Cheese: 630 futures contracts (10,000 lbs./contract) to date, no options. Non-Fat Dry Milk: 168 futures contracts, a few options. Fluid milk: 3,800 contracts (50,000 lbs./contract), 700+ options. Trading in

butter futures and options will begin mid-October. (These are for volume of contracts traded, not necessarily--and mostly not--delivered.)

[Note, total U.S. production of cheddar cheese in 1995 was 2.4 billion pounds; of milk, 155 billion pounds]

Right now, 100 milk contracts traded a day is considered a "good" trading day. (By comparison, for cocoa, a smaller market than the milk market, about 6,000 contracts are traded daily.)

Interest in dairy contracts. Ms. Troy stated that there continues to be a lot of interest in the dairy futures trading, especially for the milk futures contracts. The CSCE has a full schedule until the end of the year for presentations on trading dairy futures contracts. They also have videos available. They meet many producers who would like to see their coops involved in futures contracts. The Chairman of the CSCE Board is very committed to making the dairy market grow, as is the President.

Larry Lemmenes discussed Alto Dairy's program. Its members are able to forward contract their milk. About 10 % of members are enrolled, although not all participate in any given month. Alto assumes market calls for its members.

Ms. Troy discussed possible causes for low volume of trading, citing she believed it is primarily an education issue and also that companies need to make changes internally to be able to accommodate using futures contracts in their organizations.

In addition, government pricing programs can affect market participation (for example, the non-fat dry milk contracts never really took off because the support price was at market clearing level and thus there was no volatility in NFDM prices.)

Proposal for replacing BFP with Futures Price: There is precedent for using a futures price. For example, the coffee futures price is the reference price for coffee in world markets. For milk, Jim Bowe has suggested using the weighted average of the prices of all transactions that occur each day during the calendar month (except the last trading day) in which the contract expires. The last trading day would not be incorporated since prices on the last trading day of the month can sometimes become distorted. The price is weighted by the volume of the transaction. Each day, a cumulative weighted average price would be calculated, resulting in a monthly weighted average price that could replace the BFP.

--Break--

Don Nelson, Madison-based representative of the USDA Dairy Market News Service, gave a brief overview of the Service:

- History: the News Service is authorized by the Agricultural Marketing Agreement Act of 1946. It is supported by congressional and user fees.

- Staff collects information mainly through telephone surveys. Surveys represent producers, processors, end users, buyers, brokers and others. The survey is voluntary and confidential.
- Composite data is published and released weekly.
- Unbiased, timely news report is necessary to :
 - even the playing field for the small producer;
 - importance of an unbiased third party (as opposed to a private party)
 - low cost to gather data
 - public good
- Market News reports five sources of prices: NCE, Chicago Mercantile Exchange, Chicago Wholesale prices, including CCC purchase prices, Wisconsin Assembly Point prices, and Coffee, Sugar, Cocoa Exchange.

Responses to Task Force Members' Questions

- Covers 10% of spot shipments (outside of long-term contracts).
- The market is adequately covered.
- Assembly point information is from the same sources.
- Differences in WAPP and NCE prices indicate the "tightness" of the market.
- Because the WAPP represents a larger volume of cheese sales, it may be a better indicator of price.

David Ikari and staff of the California Department of Food and Agriculture gave a videotaped presentation and conference call describing the California weighted average price method of determining the price for milk:

- History: For over 30 years, California has set minimum milk prices using the fat and solids not fat (SNF) components of milk.
 - Fat price was obtained using the CME price for butter, plus an allowance to cover the transportation cost.
 - Cheese price was obtained using the NCE price.
 - NFDm price was determined by surveying manufacturers of milk powder.
- Implemented weighted average prices for NFDm powder, butter and cheese, and found the following factors important:
 - Audits of monthly average price data, to prevent market manipulation
 - The CME and NCE prices, for butter and cheese, represented only a small fraction of California butter and cheese traded.
- Current and proposed reporting criteria for cheddar cheese:
 1. Brokerage fees and letter of credit costs are deducted from cheese price.
 2. Freight charges are deducted.
 3. Credits from prior sales are applied in the month credit is invoiced.
 4. Cheese is reported at price sold, with adjustments indicated in 1.-3.
 5. Reported sales include all whole milk cheddar cheese aged 4-30 days (although none is sold to consumers before it is aged 10 days). It shall be of equivalent quality to USDA Grade A or better. The cheese must be colored and fall in the 6-8 range on the NCI color chart. Whole milk cheddar cheese

shall contain no more than 39% water, no less than 50% fat as a percentage of total solids.

6. Reported sales are for the 26th of the prior month through the 25th of the current month.
 7. Reported sales shall not include sales or transfers to other plants in the same organization.
 8. Reported sales shall only include 40 pound blocks.
 9. Reports include sales of all 40 pound blocks, regardless of volume.
 10. Reports are made consistent with Dairy Marketing Branch sample forms.
- The criteria for butter and NFDM are similar, with differences in 5.-9. based on the type of commodity.

Responses to Task Force Members' Questions

- The higher standards for California NFDM do not directly affect the price.
- Reasons for using a weighted average price over an exchange price for butter and powder:
 - Although actual California butter and powder prices move with exchange prices, the relationship was unknown, and varied over time. A weighted average price would eliminate determining the differential between actual and exchange prices.
 - Survey includes 7 entities for butter and powder, about 15 for cheese (these include some entities that do not produce 40 pound blocks). Cheese taken outside of California not included.
 - Make allowance is determined through audits of plants and testimony from plants. Production costs, and price producer receives is balanced against marketing costs and profit. Make allowance is then set within range of observed plant costs. All plants in California must pay the minimum price (even "non-pool" plants). Make allowance is reviewed every 1-2 years.
 - Over-order premiums consist of a "co-op balancing" premium and a protein premium. This is affected by any quotas.

OTHER BUSINESS

Bob Burns invited each member of the Task Force to indicate whether they needed more information at the next meeting. Most members indicated that the information they have received is sufficient. Gary Anderson suggested that the members of the NCE consider what changes could be made to improve the Exchange. Alan Tracy suggested that a way to organize the process be developed, and that Task Force members send their proposals to John Norton of the DATCP by October 1.

ADJOURNMENT

The meeting was adjourned at 3:55 p.m. The next meeting will be held on October 17, 1996, at 1:00 p.m.

Approved _____

Signed _____

MINUTES

TASK FORCE ON CHEESE PRICING

THURSDAY, OCTOBER 17, 1996

CALL TO ORDER

The third meeting of the Task Force on Cheese Pricing was called to order by Vice Chair Robert Burns at 1:05 p.m. The meeting was held in the Capital Conference Center at the Ramada Inn I-90, Madison. The minutes from the second meeting on September 19, 1996, were approved.

OPENING COMMENTS

Bob Burns stated that no questions or comments would be taken from the audience during the meeting, but could be submitted to the Task Force in writing. He introduced Scott Warner, facilitator for the meeting. Bob announced that Elizabeth Kohl, deputy secretary for the Department of Agriculture, Trade and Consumer Protection, would substitute for Alan Tracy. Terry Grosenheider, from the Department of Commerce, would substitute for Bill McCoshen.

CRITERIA FOR EVALUATING PROPOSALS

Ed Jesse presented several criteria for evaluating the task force members' proposals, based on characteristics of a perfect market. The members voted, 12 to 3, to keep milk pricing and cheese pricing as separate issues. After discussion, the members agreed upon the following modified criteria:

- Does the proposal encourage more buyers and sellers to participate in NCE trading?
- Does it make it easier for current and potential traders to use the NCE?
- Does it mitigate the potential influence of large traders vis-à-vis small traders?
- Does the proposal expand the amount of market information and equalize its accessibility to traders?
- Does it improve public confidence in the NCE?
- Does it better reflect supply and demand?

The last two criteria listed were added at the meeting. Another criterion, Does the proposal decrease the impact of the NCE on farm prices? was proposed, but not used.

PROPOSALS SUBMITTED FOR REVIEW

Task force members sent proposals for discussion to the department. DATCP staff organized the preliminary proposals into categories to simplify review at the meeting. These proposal categories were:

- Structure and Organization of the NCE
- Participation in and Access to the NCE
- Cheese Market Information Services
- Alternative Reference Prices for Milk and/or Cheese

The members discussed each proposal, then decided if they wanted to keep it for final discussion at the next meeting. The proposals were grouped by category, and it is noted as to whether they

were kept, removed from consideration, kept for additional information, or deferred to the November 14 meeting.

1) Structure and Organization of the NCE

- Inclusion of public member(s) on NCE Board-- **keep**

Members' Comments:

Some members questioned whether it would improve the NCE to have a public member on its board. Others countered that it could not hurt, and it could improve public perception of the NCE. The proposal was kept by a vote of 8 to 6.

- Limit on daily/weekly price movements-- **remove**

Members' Comments:

- ⇒ It would restrict trading and limit participation on Exchange
- ⇒ Not applicable to cash markets, public not involved
- ⇒ Large price adjustments indicative of scares
- ⇒ Limits would have prevented the large increase that occurred this year.

The members voted to remove this proposal, 14 to 2.

- DATCP rule to prohibit noncompetitive trading against interest-- **remove**

Jim Matson, chief legal counsel for DATCP, presented the rule. The rule prohibits trading against interest on the NCE which could affect milk or cheese prices off the Exchange. "Trading against interest" is defined in the rule as a systematic practice of trading that would not appear to be economically rational. DATCP proposed the rule to its Board because of considerations brought out in the UW-DATCP report, including:

- The current cheese pricing system may be susceptible to price manipulation
- If the system remains unchanged, there may be a need for rules to prevent unfair price manipulation in the future
- Regulation, by itself, will not correct any underlying market problems

Members' Comments:

- ⇒ It would be difficult to enforce rule
- ⇒ Rule would severely reduce participation in trading on the NCE, because no one would trade cheese if they could be subject to penalties
- ⇒ If trading against interest doesn't occur on the NCE, passing this rule should be of no concern
- ⇒ The task force should strive to make substantive changes in how the cheese pricing discovery mechanism works. This rule or similar regulation should be used as a last resort

The members voted to remove the rule from further consideration, 13 to 3.

2) Participation in and access to trading on the NCE

Anonymous trading on the NCE

This proposal was further broken down into two subproposals:

* The report that led to the Governor's formation of the Task Force is entitled: Cheese Pricing: A Study of the National Cheese Exchange, and is authored by W. F. Mueller, B.W. Marion, M.H. Sial, and F.E. Geithman.

- Participants' identities kept anonymous during trading, then released to public-- **keep**
Members' Comments:
⇒ Trading on the NCE would be inhibited, and is, if the participants' identities are not kept anonymous
- Participants' identities kept anonymous (before, during or after trading) -- **keep**
Members' comments:
⇒ Volume of trading would increase if trading was kept anonymous
⇒ Concern that anonymous trading limits public oversight and knowledge about Exchange transactions
⇒ There was considerable discussion on "anonymous" trading, and the effect it may have on trading on the NCE. Different ideas about the meaning of "anonymous" were evident.

The members voted 7 to 6 to keep anonymous trading during trading with subsequent publication. Two members requested more information. The members voted 13 to 1 to consider trading with complete anonymity.

- Remote access to NCE trading sessions-- **keep**
Members' Comments:
⇒ NCE is planning to incorporate electronic trading in early 1997, while still allowing trading in Green Bay
The vote was unanimous to keep this proposal.
- Expanded trading sessions-- **keep**
This proposal includes longer sessions and more sessions per week.
Members' Comments:
⇒ No one has shown interest in expanding trading time on the NCE. Trading on the NCE will continue longer than 30 minutes if trading is active.
⇒ Increasing trading to 24 hours a day would be very expensive, and require a total reorganization of the NCE
The members voted to keep this proposal, 9 to 7.

The members discussed multiple pricing points for freight discounts. It was agreed that this proposal was too narrow, and it was expanded to:

- Examination of freight discounts-- **keep**
Members' Comments:
⇒ Room for improvement on freight differential
Members unanimously agreed to keep this proposal, but asked for more information.

---BREAK---

The Task Force discussed making a recommendation to the Governor that he take a strong interest in milk pricing issues. The Task Force felt that milk pricing should be left to groups now working on it, or to another task force appointed by the Governor, which could make recommendations in a year's time. However, several members felt the creation of another task force was not necessary and therefore that part of the recommendation was removed. DATCP staff accepted the task of writing a draft recommendation reflecting this thinking to the Governor, to be reviewed by Task Force members at the November 14 meeting.

3) Cheese market information services

- Expanded WAPP series to include major manufacturing areas-- **keep**
 - ⇒ Expand area for price data collection, perhaps including the Northeast, California

Members unanimously voted to keep this proposal.

- Report spot transactions for important cheese varieties-- **defer to November 14 meeting**
 - ⇒ Standardize mozzarella covering significant amount of sales
 - ⇒ NCE has considered trading mozzarella, but it is not standardized, thus is not capable of being traded on the Exchange
 - ⇒ "Most of the mozzarella has a home to go to", it has a buyer, so there is no excess to be traded
 - ⇒ This recommendation is to collect spot transaction information, not necessarily to include mozzarella on the Exchange

- Volume statistics on spot transactions-- **defer to November 14 meeting**
- Members voted to defer this proposal.

- Examine ways to improve market news sampling procedures to ensure representative sample of spot market-- **keep**

- ⇒ Mandatory reporting for statistical reliability-- **remove**
 - Because the collection of the WAPP series is a national service, Wisconsin cannot require mandatory reporting

The vote was in favor of keeping this proposal without the mandatory reporting requirement.

- Use electronic system to post spot sales; provide average weekly spot price-- **remove**

4) Alternate Reference Prices for Milk and/or Cheese

CHEESE:

- Improve WAPP series that is national, statistically reliable-- **keep**
- Recommend to officials of the CSCE and the CME to look into establishing a cash market for cheese-- **keep for more information**
- Establish a stronger oversight body for markets involved in the pricing of cheese with necessary sanctions to prevent manipulation-- **remove**

Bob Burns stated that anyone could change their vote at this time.
Meeting adjourned at 3:50 p.m.

Approved _____ Date _____

Chairman:
Agriculture Committee



Member:
Environment & Utilities
Government Operations
Natural Resources
Rural Affairs

Al Ott

State Representative • 3rd Assembly District

October 30, 1996

The Honorable Tommy G. Thompson, Governor
State of Wisconsin
115 East, State Capitol
Hand-Delivered

Dear Governor Thompson:

As you may already know, recent news articles regarding the October 17, 1996 meeting of the Governor's Task Force on Cheese Pricing have created a state of controversy among dairy farmers in Wisconsin. After reading the articles myself, I was not surprised when I was contacted by farmers in my assembly district who are extremely disappointed in the progress of the task force.

I was not present at the October 17th meeting, so I base my knowledge of the proceedings on the newspaper articles. However, the controversy surrounding the National Cheese Exchange and its relationship to milk prices is not new. Dairy farmers in my district have contacted me regarding this issue for a long time.

Perhaps unfairly, the work of the task force is becoming political in nature. There is a perception among members of the dairy industry that events at the National Cheese Exchange no longer reflect market supply and demand but rather manipulation by traders on the Exchange which is being tolerated by your administration. Much of this perception comes from news accounts of the task force's meetings. However, I'm sure you'll agree, there is no room for politics with this issue. Until this is resolved, there is going to be controversy surrounding action on the Exchange.

I urge you to carefully monitor the work of the task force. If what has been reported in recent news articles is correct, it appears that members of the task force don't agree on exactly what their mission is and they have made very little progress in attempting to improve the cheese pricing system. Their deadline of January 1, 1997 for presenting recommendations to you is fast approaching. It will be in everyone's best interest if much of the controversy surrounding this issue can be set aside in exchange for improvements to the cheese pricing

Page 2

system that dairy farmers and the cheese industry can both agree will make the system work better for all involved.

Thank you for your consideration of this matter. Please feel free to contact me if you would like to discuss this further.

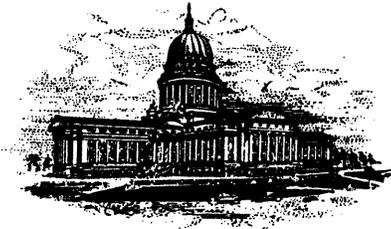
Sincerely,

A handwritten signature in black ink, appearing to read "Al Ott". The signature is fluid and cursive, with the first name "Al" and the last name "Ott" clearly distinguishable.

Al Ott
State Representative
3rd Assembly District

ARO:kjm

cc: Gerald Moehn
Joe Brantmeier
Don Mielke
Alan Tracy, Secretary, DATCP
Pete Knigge, Chairman, DATCP Board
Chris Spooner, Policy Advisor, Governor's Office



Wisconsin State Assembly

P.O. BOX 8952 • MADISON, WI 53708

November 1, 1996

The Honorable Tommy G. Thompson, Governor
State of Wisconsin
115 East, State Capitol
Hand-Delivered

Dear Governor Thompson:

In light of recent activity on the National Cheese Exchange and controversial newspaper articles regarding the Governor's Task Force on Cheese Pricing, we are respectfully requesting to meet with you to discuss these matters.

We have heard from several disappointed dairy farmers in our districts regarding the drastic fall in cheese prices on the Exchange last month. They are also concerned that no substantial progress is being made by the task force in their mission to provide suggestions to you for improvements to the cheese pricing system.

As legislators deeply concerned about Wisconsin's dairy industry, we would like to meet with you so that we have a full understanding of your view of the task force and its mission. Also, this would be an opportunity for us to provide you with our views as policy makers and to let you know what we are hearing from our constituents regarding this very important issue.

A meeting at your earliest convenience would be greatly appreciated. Please feel free to contact Representative Al Ott to arrange a time. Thank you in advance for your consideration of our request.

Sincerely,

Representative Al Ott

Representative John Ainsworth

Representative David Ward

Representative Cliff Otte



Representative Eugene Hahn



Representative Rick Skindrud



Representative Bob Zukowski



Representative Luther Olsen



TOMMY G. THOMPSON

**Governor
State of Wisconsin**

November 1, 1996

Dear Members of the Task Force on Cheese Pricing:

I appreciate the Task Force's work to date on issues concerning cheese pricing. While my charge to the Task Force included a request for constructive recommendations on the future of the National Cheese Exchange (NCE), I also asked for recommendations to improve the current cheese pricing system for the benefit of the dairy industry and consumers.

As you are aware, dairy farmers remain concerned about the effect of cheese prices on the price they are paid for milk. Because the NCE price for cheese is a major component of the basic formula price for milk, the NCE is a prime discovery mechanism for milk prices. Improvements to the cheese pricing system cannot be considered without also taking into account the effects such changes would have on the milk pricing formula.

Many of you, including myself, have been working closely with the Upper Midwest Dairy Coalition on changes within the federal milk pricing system. It is not productive for the Task Force to duplicate these efforts. However, I would like you to consider recommendations which address the link between the NCE and the basic formula price without including the broader issues of milk pricing.

Thank you for your contribution to Wisconsin's dairy industry through your service on this Task Force.

Sincerely,

A handwritten signature in cursive script that reads "Tommy G. Thompson".

TOMMY G. THOMPSON
Governor



TOMMY G. THOMPSON

Governor
State of Wisconsin

For Immediate Release -- Nov. 7, 1996
Contact: Kevin Keane (608) 266-8110

GOVERNOR EXPANDS CHEESE EXCHANGE TASK FORCE

MADISON -- Gov. Tommy G. Thompson said today he will add two more farmers to the Governor's Task Force on the National Cheese Exchange and lead a delegation of state farmers to Washington to lobby for changes in the entire dairy pricing system.

Gov. Thompson, who created the task force this summer, originally put five farmers on the task force, which gave farmers the greatest proportion of representation on the 18-member task force. With recent concern about the volatility of cheese prices on the exchange, the governor decided to add two more farmers.

"We are all concerned about the recent decline in cheese prices for Wisconsin farmers," Gov. Thompson said. "While control of cheese and dairy prices rests with the federal government, Wisconsin is taking the initiative of developing recommendations to strengthen the system for the benefit of our farmers and the dairy industry in our state.

"I expect the task force to forward serious recommendations to improve the system, and we will take those recommendations directly to Washington," the governor added.

Gov. Thompson appointed the task force on cheese pricing in an effort to improve the National Cheese Exchange for the benefit of all involved. The task force is expected to forward its recommendations by Jan. 1.

The governor has continued to lobby Congress and the White House for changes to the milk marketing orders system and other federal regulations that affect the prices Wisconsin farmers receive for their milk and cheese. The governor also has been a national leader in fighting the creation of the Northeast Interstate Dairy Compact.

Gov. Thompson will lead a delegation of Wisconsin farmers to Washington to lobby the Department of Agriculture and the next Congress for changes in the system.

"We're going to continue pushing for common sense changes to the dairy pricing system so Wisconsin farmers can compete on a stable and level playing field," Gov. Thompson said. "Working together, we will bring about meaningful change."

--- 30 ---

WANTED

DAIRY PRODUCERS

NOVEMBER 8, 1996

NATIONAL CHEESE EXCHANGE

AND TASK FORCE

PROTEST BEING HELD AT

STATE CAPITOL, MADISON, WI.

NOV. 8, 1996

9 AM - 12:00 NOON

MADISON, WISCONSIN
STATE CAPITOL BUILDING

Due to a 29 3/4 cent drop on the National Cheese Exchange since Friday, October 25th, producers could see up to a \$3.00 drop per cwt. IN FARM MILK PRICES BY DECEMBER. STAND TOGETHER - SHOW UNITY - CHANGES ARE NEEDED NOW!!

For more information please contact:

P.O. Box 8934
Madison, WI 53708-8934
(608) 224-4848

National Agricultural Statistics Service, USDA
WI Department of Agriculture, Trade & Consumer Protection

*Fill in
cheese
good charts
ARL*

AGRICULTURE HIGHLIGHTS

November 12, 1996

Prepared for Wisconsin's Board of Agriculture, Trade and Consumer Protection

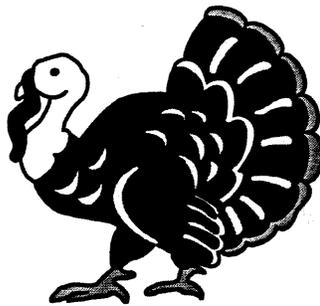
Milk Prices

The October 1996 Basic Formula Price fell \$1.24 to \$14.13 per cwt. at 3.5% milkfat. This was the first month-to-month decline since February 1996. The October 1996 price is \$1.52 above last year.

On the National Cheese Exchange, Inc., the price for barrels began to decline on September 27 and for 40 pound blocks on October 18.

Milk Production

State	July-September 1996 (million pounds)	Percent change from last year
CA	6,441	+1
WI	5,623	-3
NY	2,875	-1
PA	2,594	0
MN	2,289	0
MI	1,365	-2
WA	1,351	-1
TX	1,339	-2
ID	1,251	+13
OH	1,073	-4
US	37,813	-1

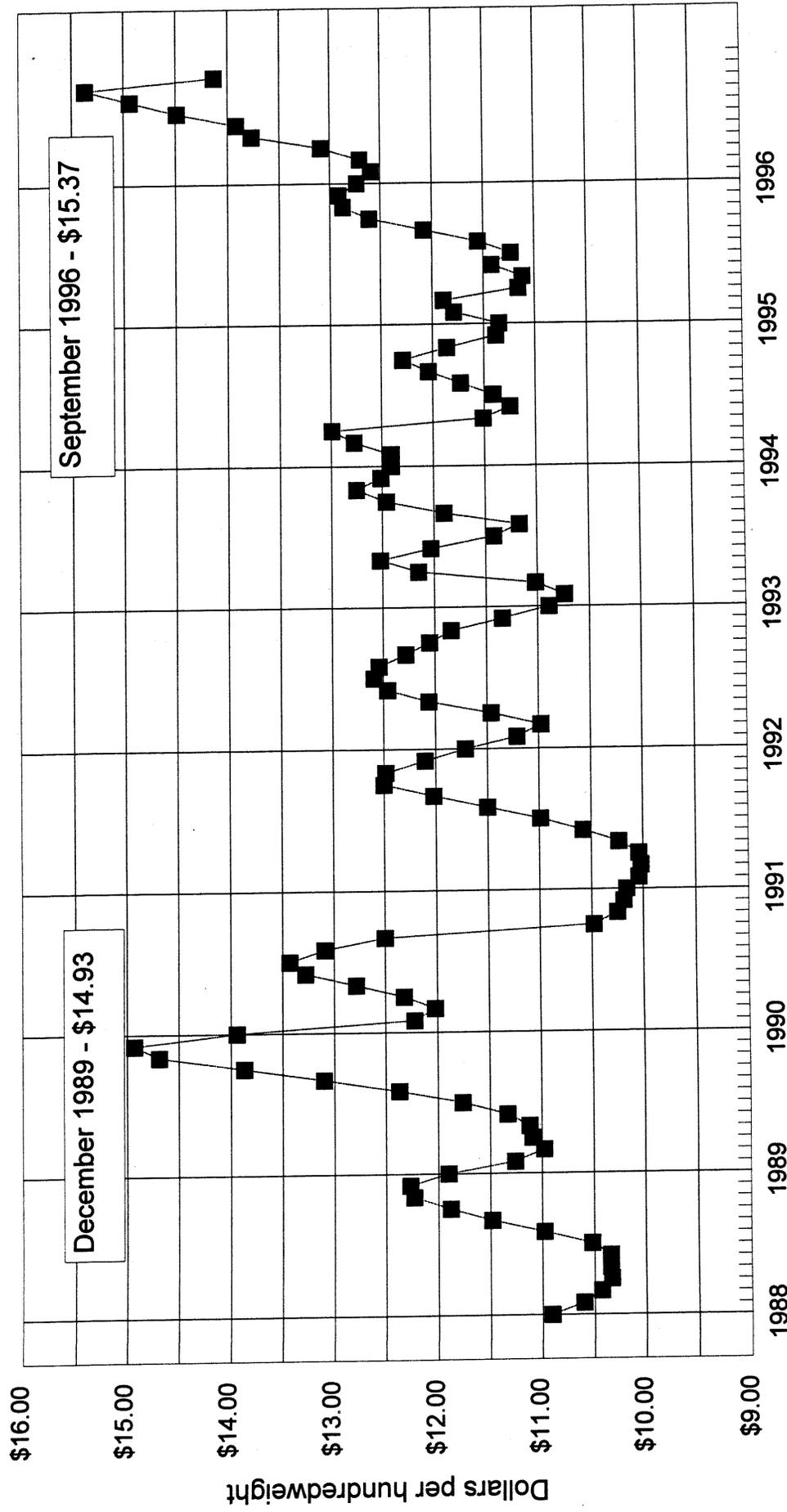


Happy Thanksgiving

Upcoming Releases

- Nov. 12 Crop Production
- 14 Milk Production
- 27 Agricultural Prices
- Dec. 5 Basic Formula Price

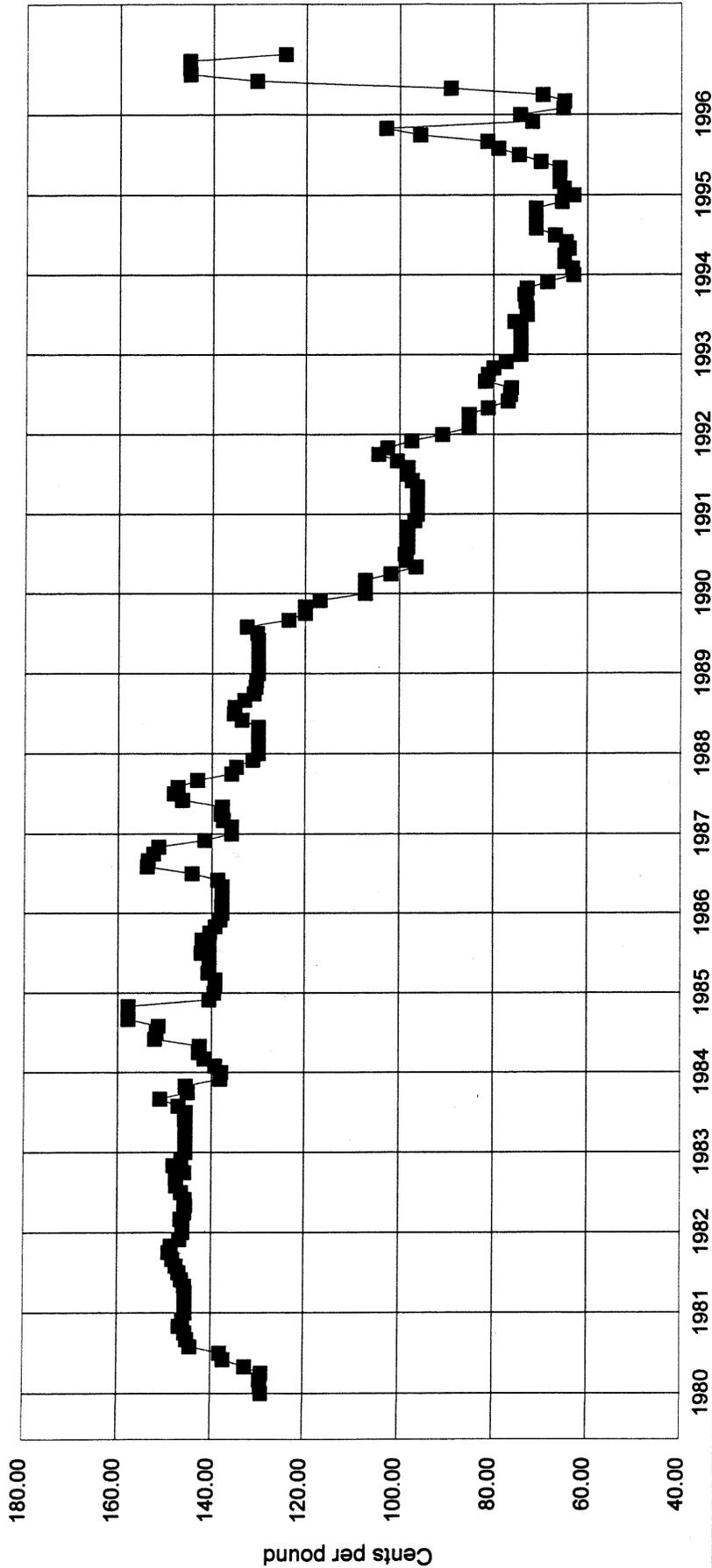
Basic Formula Price and Minnesota-Wisconsin* Price Series 3.5% Butterfat



* The Minnesota-Wisconsin Price was replaced by the Basic Formula Price in June 1995.

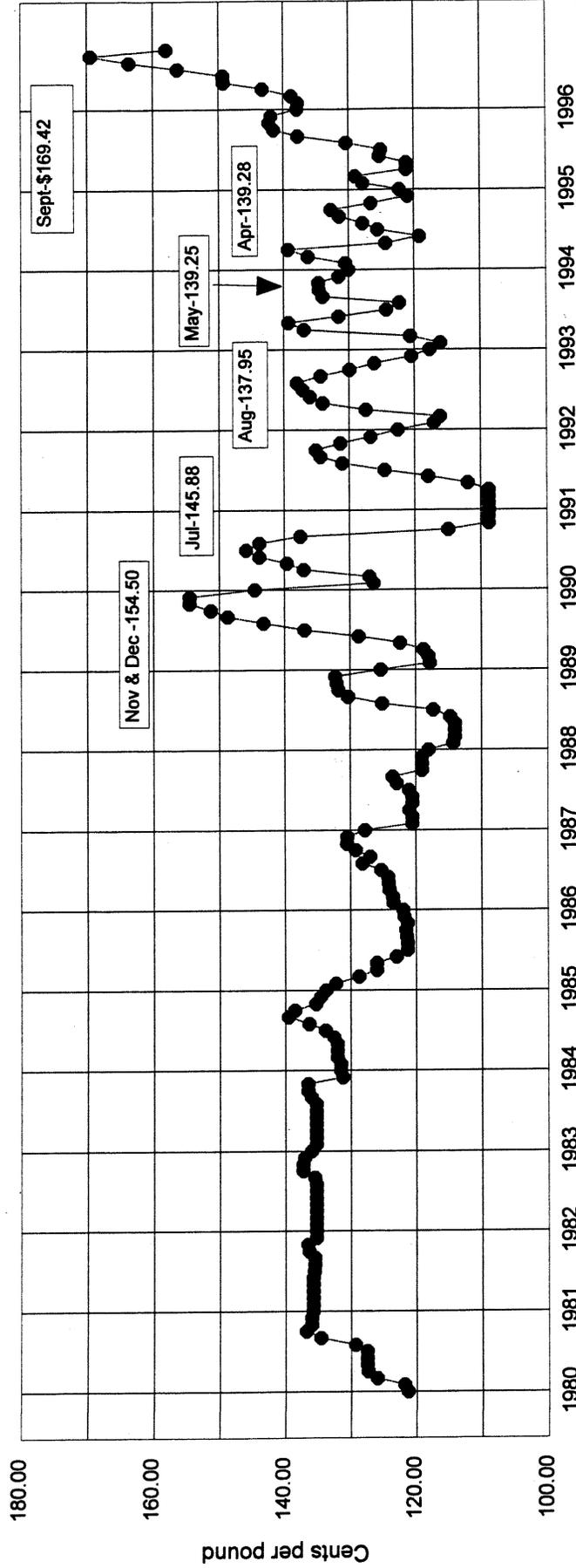
Grade A Butter Monthly Averages

Chicago Mercantile Exchange: 1980-present



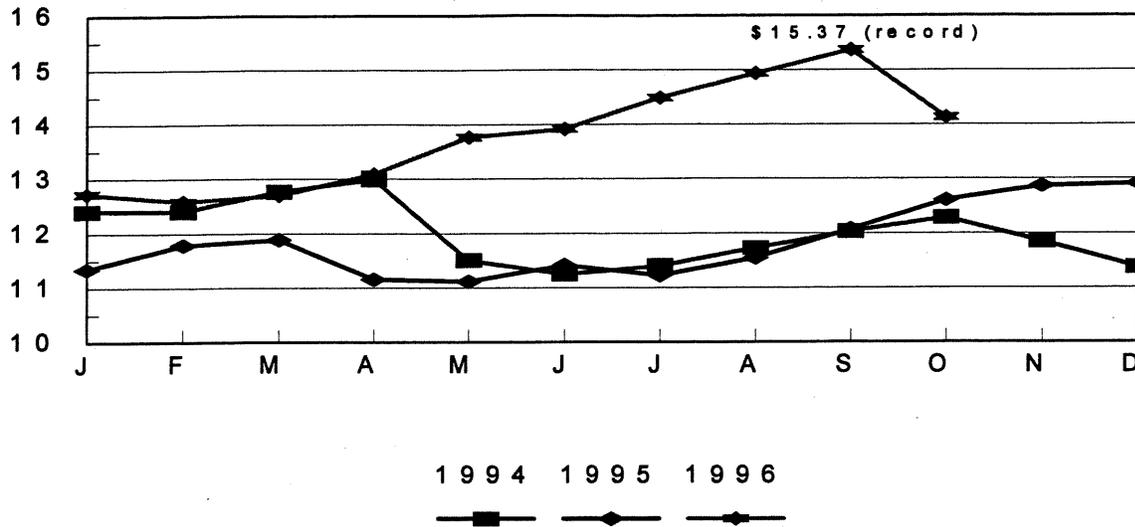
Cheddar 40 lb. Block Monthly Averages

National Cheese Exchange, Inc., 1980-present



**Basic Formula Price (May 1995-October 1996) and
Minnesota-Wisconsin Manufacturing Milk Prices
(January 1994-April 1995)**

Dollars per hundredweight



WISCONSIN MILK PRICES

Month	All Milk			M-W 3.5%		
	1994	1995	1996	1994	1995	1996
	Dollars per cwt.					
January	13.66	12.50	13.97	12.41	11.35	12.73 1/
February	13.61	12.76	13.83	12.41	11.79	12.59 1/
March	13.76	12.81	13.94	12.77	11.89	12.70 1/
April	13.79	12.28	14.22	12.99	11.16	13.09 1/
May	12.59	12.13	14.82	11.51	11.12 1/	13.77 1/
June	12.17	12.14	14.97	11.25	11.42 1/	13.92 1/
July	12.12	11.92	15.53	11.41	11.23 1/	14.49 1/
August	12.52	12.29	16.02	11.73	11.55 1/	14.94 1/
September	12.94	13.12	16.69	12.04	12.08 1/	15.37 1/
October	13.28	13.99	15.80	12.29	12.61 1/	14.13 1/
November	13.11	14.48		11.86	12.87 1/	
December	12.64	14.33		11.38	12.91 1/	

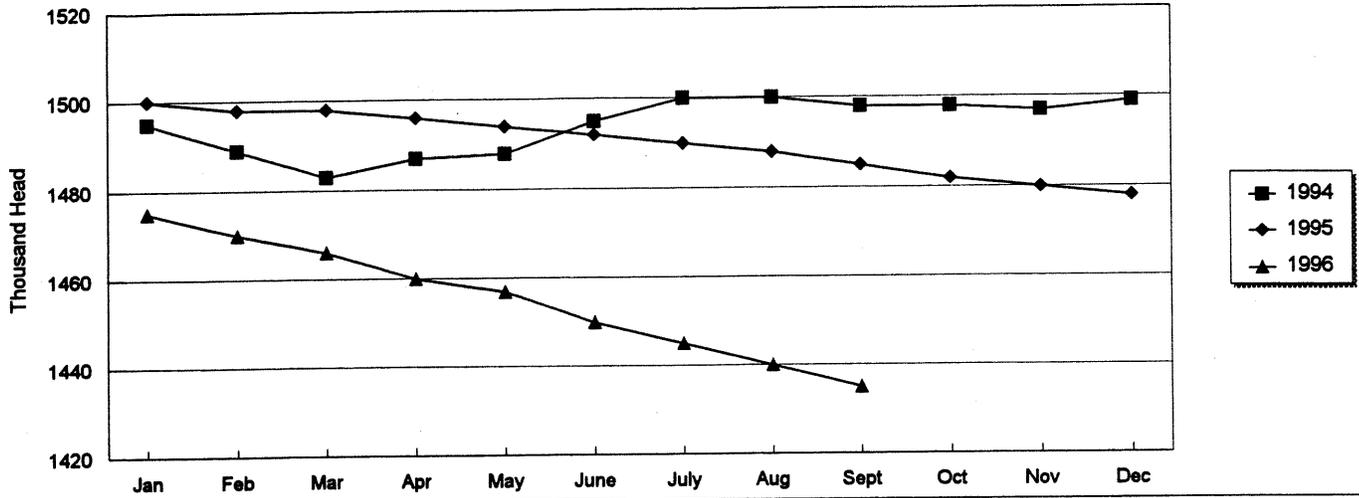
1/Basic Formula Price.

MILK PRODUCTION

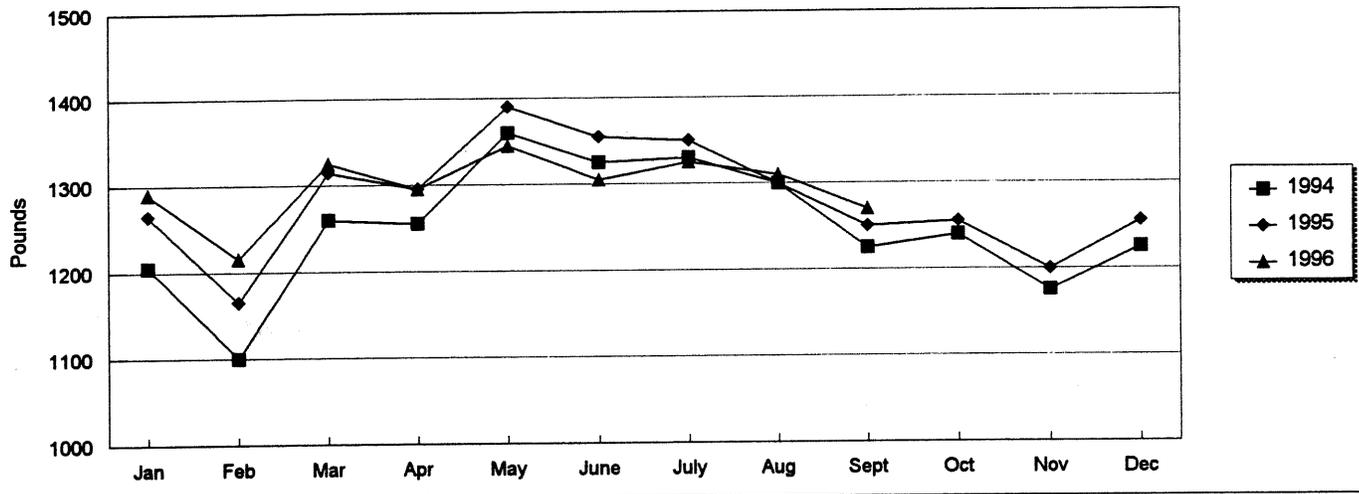
Year and month	WISCONSIN				UNITED STATES			
	Cow numbers	Production per cow	Total milk	Change from year ago	Cow numbers	Production per cow	Total milk	Change from year ago
	Thousand	Pounds	Mil. Lbs.	Percent	Thousand	Pounds	Mil. Lbs.	Percent
ANNUAL								
1992	1,618	14,737	23,844	n.c.	9,688	15,570	150,847	+ 2
1993	1,543	14,805	22,844	-4	9,589	15,704	150,582	n.c.
1994	1,494	15,001	22,412	-2	9,500	16,175	153,664	+ 2
1995	1,490	15,397	22,942	+ 2	9,461	16,451	155,644	+ 1
1996								
								22 MONTHLY STATES
Jan.	1,475	1,290	1,903	n.c.	8,026	1,406	11,285	n.c.
Feb.	1,470	1,215	1,786	+ 2 1/	8,010	1,338	10,719	+ 3 1/
Mar.	1,466	1,325	1,942	-1	7,998	1,459	11,671	n.c.
Apr.	1,460	1,295	1,891	-2	7,988	1,434	11,451	n.c.
May	1,457	1,345	1,960	-6	7,987	1,470	11,740	-2
June	1,450	1,305	1,892	-6	7,984	1,387	11,075	-3
July	1,445	1,325	1,915	-5	7,977	1,397	11,142	-2
Aug.	1,440	1,310	1,886	-2	7,969	1,377	10,970	-1
Sept.	1,435	1,270	1,822	-2	7,961	1,341	10,675	-1
Oct.								
Nov.								
Dec.								

1/Includes extra day due to leap year. Source: Wisconsin Agricultural Statistics Service.

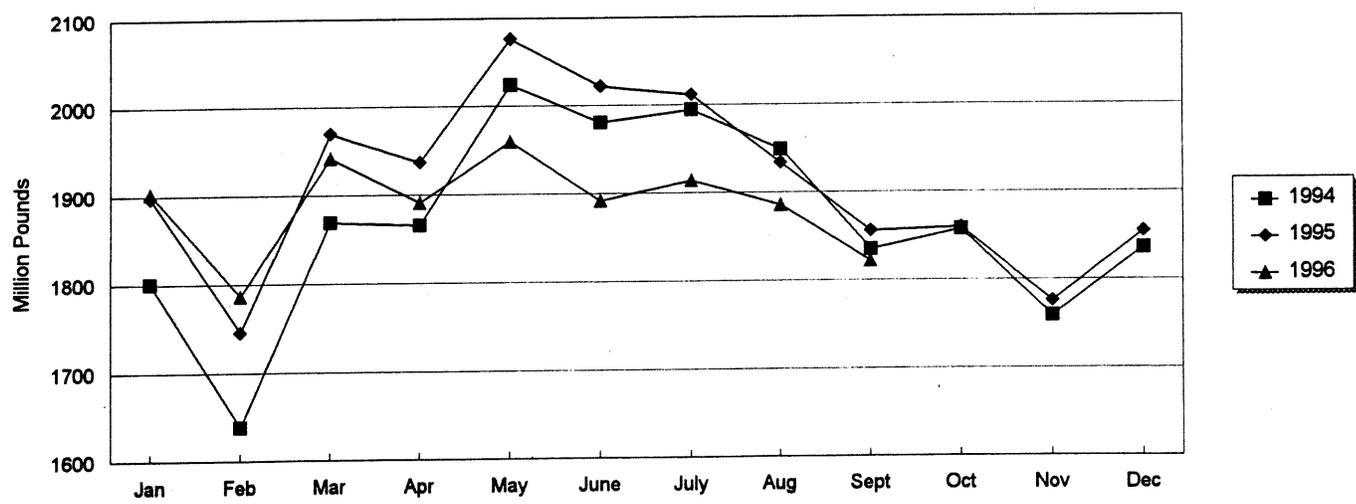
Milk Cows
Wisconsin, 1994-96



Milk Production Per Cow
Wisconsin, 1994-96

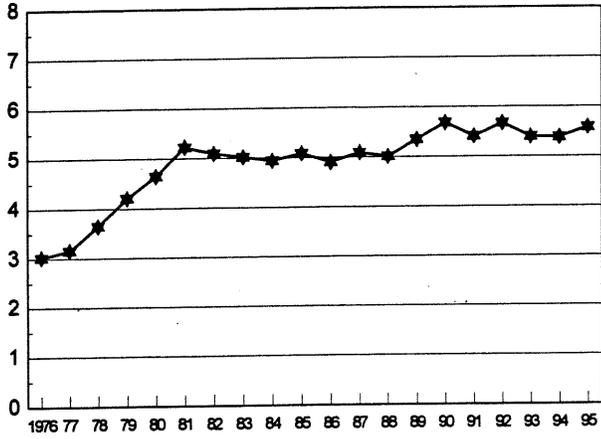


Milk Production
Wisconsin, 1994-96



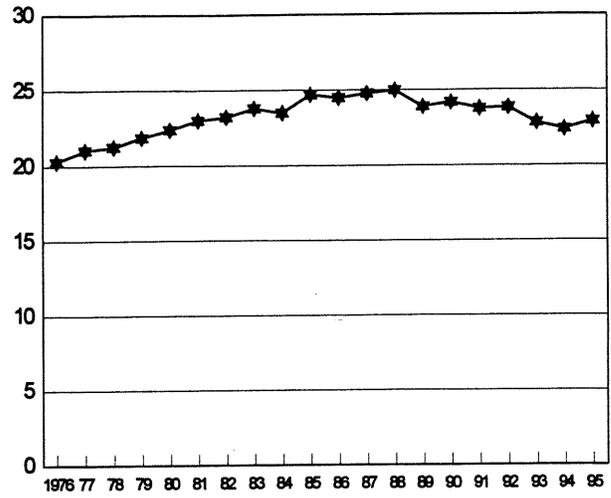
Wisconsin Cash Receipts From Farm Marketings

Billion dollars



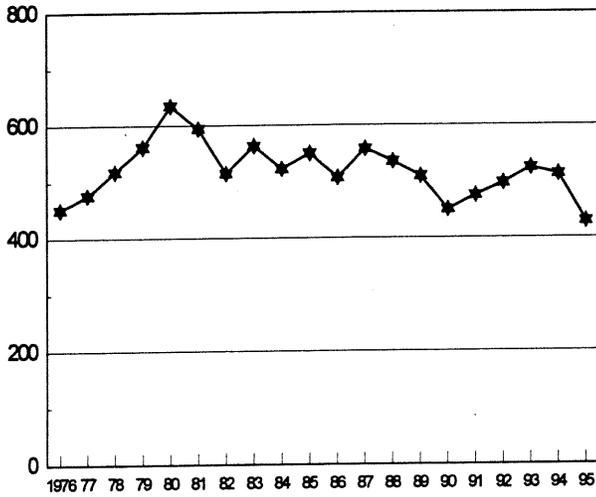
Wisconsin Milk Production

Billion pounds



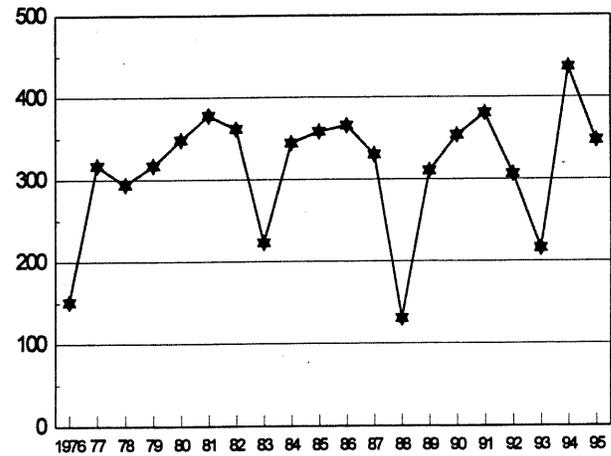
Wisconsin Hog Marketings

Million pounds



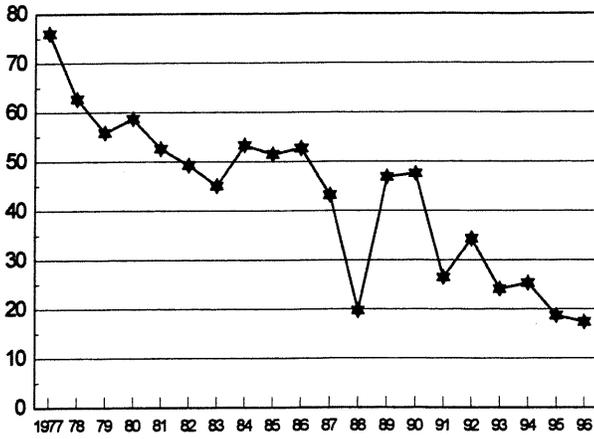
Wisconsin Corn for Grain Production

Million bushels



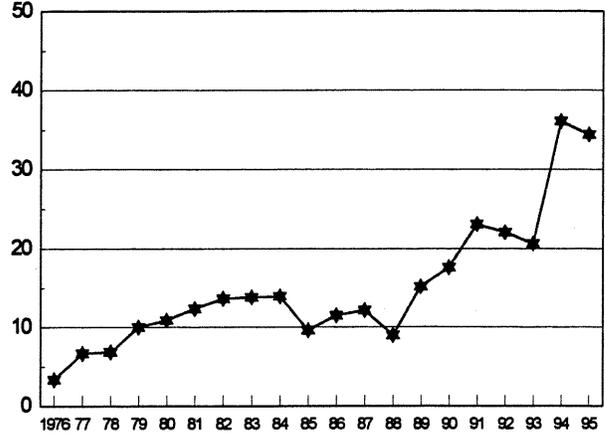
Wisconsin Oats Production

Million bushels



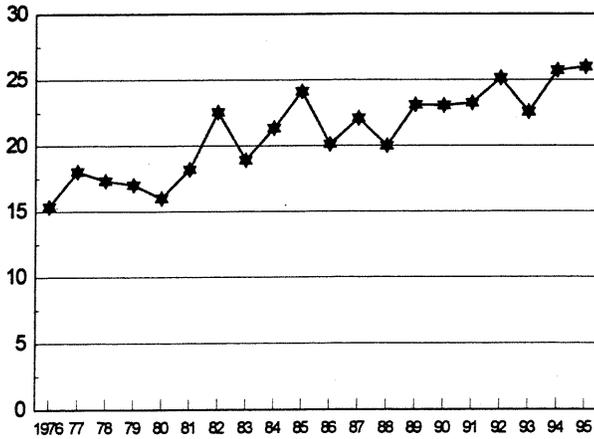
Wisconsin Soybeans Production

Million bushels



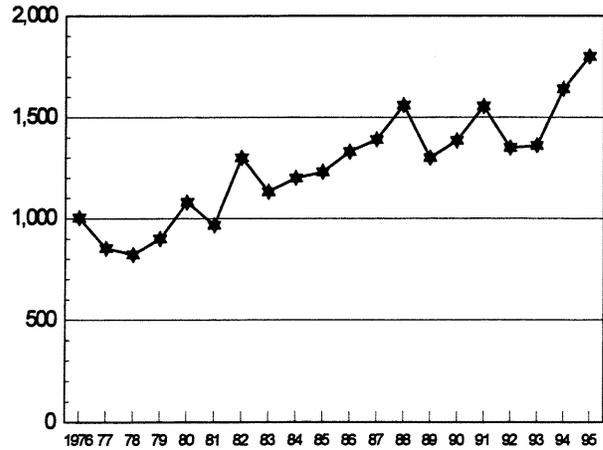
Wisconsin Potato Production

Million cwt.



Wisconsin Cranberry Production

Thousand barrels



Potatoes: Area Harvested, Yield, and Production, by Seasonal Group,
State, and United States, 1994-96

Seasonal Group: and State	Area Harvested :		Yield :		Production		
	1995 :	1996 :	1995 :	1996 :	1994 :	1995 :	1996
	- 1,000 Acres -		---- Cwt ----		----- 1,000 Cwt -----		
Winter 1/	11.9	14.5	208	226	2,372	2,473	3,273
Spring 1/	84.3	89.2	240	238	22,646	20,193	21,197
Summer 1/	70.7	76.3	254	250	17,381	17,931	19,095
Fall							
CA	13.0	11.5	410	400	5,600	5,330	4,600
CO	76.8	77.8	310	370	25,795	23,808	28,786
ID	398.0	408.0	333	343	138,801	132,657	139,960
10 SW Co	27.0	28.0	420	425	12,690	11,340	11,900
Other ID	371.0	380.0	327	337	126,111	121,317	128,060
IN	4.6	5.2	260	250	1,148	1,196	1,300
ME	78.0	77.0	220	280	18,375	17,160	21,560
MA	3.3	2.7	260	260	744	858	702
MI 2/	54.5	46.0	300	300	14,040	16,350	13,800
MN 2/	77.0	82.0	270	300	20,035	20,790	24,600
MT	9.8	10.2	300	315	3,200	2,940	3,213
NE	11.5	12.5	320	350	3,996	3,680	4,375
NV	7.6	8.0	365	390	2,760	2,774	3,120
NM	6.3	6.7	380	400	3,000	2,394	2,680
NY	28.5	28.5	270	280	7,805	7,695	7,980
ND	121.0	131.0	210	220	28,200	25,410	28,820
OH	5.4	5.1	260	250	1,348	1,404	1,275
OR	53.2	64.0	466	499	27,514	24,788	31,925
Malheur	12.8	13.3	390	380	5,074	4,992	5,054
Other OR	40.4	50.7	490	530	22,440	19,796	26,871
PA	17.0	16.5	240	255	3,780	4,080	4,208
RI	0.9	0.8	270	300	248	243	240
SD	5.2	5.7	190	280	1,540	988	1,596
UT	5.1	4.2	240	280	1,590	1,224	1,176
WA	147.0	161.0	550	560	88,920	80,850	90,160
WI	80.0	81.0	325	390	25,740	26,000	31,590
WY	1.5	0.8	260	280	476	390	224
Total	1,205.2	1,246.2	334	359	424,655	403,009	447,890
US	1,372.1	1,426.2	323	345	467,054	443,606	491,455

1/ Estimates for current year carried forward from earlier forecast.

2/ Summer potatoes included with fall in 1994 for comparative purposes.

Crop Forecast - November 1, 1996

Selected States	Harvested for Grain		Yield		Production	
	1995	1996	1995	1996	1995	1996
	Thousand acres		Bushels		Thousand bushels	
			CORN			
Wisconsin	3,050	3,200	114.0	109.0	347,700	348,800
Illinois	10,000	10,800	113.0	137.0	1,130,000	1,479,600
Iowa	11,400	12,400	123.0	140.0	1,402,200	1,736,000
Michigan	2,170	2,350	115.0	94.0	249,550	220,900
Minnesota	6,150	7,000	119.0	121.0	731,850	847,000
United States	64,995	73,269	113.5	126.5	7,373,876	9,265,288
			SOYBEANS			
Wisconsin	800	870	43.0	37.0	34,400	32,190
Illinois	9,700	9,850	39.0	41.0	378,300	403,850
Iowa	9,260	9,450	44.0	44.0	407,440	415,800
Michigan	1,490	1,640	40.0	29.0	59,600	47,560
Minnesota	5,800	5,900	40.5	38.0	234,900	224,200
United States	61,624	63,440	35.3	37.9	2,176,814	2,402,610

Source: Wisconsin Agricultural Statistics Service



TOMMY G. THOMPSON

**Governor
State of Wisconsin**

November 13, 1996

Secretary Alan Tracy
Department of Agriculture, Trade and Consumer Protection
Post Office Box 8911
Madison, WI 53708-8911

Bob Burns, Co-Chair
Task Force on Cheese Pricing
Post Office Box 8911
Madison, WI 53708-8911

Dear Secretary Tracy and Mr. Burns:

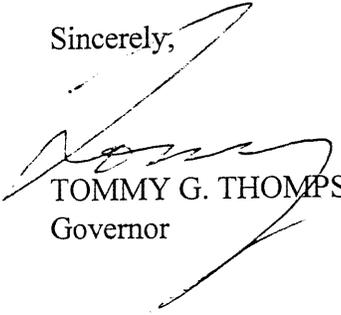
When the Task Force on Cheese Pricing meets tomorrow, I ask you to consider two recommendations related to the charge of the Task Force.

First, the Task Force should recommend in its report that the price of milk should be based on the supply and demand of milk without reference to the National Cheese Exchange. The United States Department of Agriculture should not use the National Cheese Exchange to determine the basic formula price as it does currently.

Second, in order to improve marketplace information on bulk cheddar cheese prices, the Task Force should consider recommending a more accurate system for reporting spot sales. This cheese price reporting program should be initiated by the United States Department of Agriculture, will need to be timely and accurate in order to reflect the actual price of cheese, and should not be burdensome.

Thank you for your contribution to Wisconsin's dairy industry through your service on this Task Force.

Sincerely,


TOMMY G. THOMPSON
Governor

**PROPOSALS ADOPTED AT THE NOV. 14
CHEESE PRICING TASK FORCE MEETING**

**RELATED TO ADDRESSING THE LINK BETWEEN THE NCE AND
MILK PRICES:**

The task force recommends that:

Resolution
The US Department of Agriculture should not use the National Cheese Exchange price to determine the basic formula price for manufacturing milk as it does currently.

The price of manufacturing milk under Federal Milk Marketing Orders should be based on supply and demand of milk.

The USDA could accomplish this by:

First, substituting the NASS-reported national average cheese price for the NCE price in the BFP as soon as it is available and reliable; (mandatory reporting, if necessary for reliability)

And then:

Phasing in the CSCE's or CME's BFP milk futures contract for the BFP according to a schedule based on the accuracy of the CSCE or CME price reflecting national supply and demand conditions for manufacturing milk.

or:

*- adopted by
Task Force*

Replacing the BFP with a national survey of manufacturing milk prices, less performance premiums and over-order values.

RELATING TO POSSIBLE ALTERNATIVE PRICE DISCOVERY MECHANISMS FOR CHEESE:

- **Recommend to the Coffee, Sugar and Cocoa Exchange and the Chicago Mercantile Exchange to establish a cash contract for cheese**

RELATING TO IMPROVED MARKET INFORMATION :

- **Recommend to USDA to expand weekly Wi. Assembly Point Price series to a statistically reliable regional series to include major manufacturing areas. (Mandatory reporting, if needed for statistical reliability.)**

This series could then be available as a possible alternative reference price for cheese contracted sales.

RELATED TO THE STRUCTURE OF THE NCE:

- **Recommend to the NCE Board that they consider imposing a limit on the daily price movement on NCE prices**

- *
trading against
interest
prior movement
- Ask the Commodity Futures Trading Commission and the Federal Trade Commission to re-evaluate its regulatory authority of the National Cheese Exchange

PRELIMINARY PROPOSALS STILL ON THE TABLE

(Held over for the December 5 meeting)

NCE RELATED:

- Inclusion of public member on NCE board
- Anonymous trading on the NCE
 - * *Anonymity of buyers and sellers to the public*
 - * *Anonymity among buyers and sellers during the trading process*
 - * *If anonymity among buyers and sellers during trading, also limits on trading lot size*
- Remote access to trading sessions
 - * *NCE will have remote access in trading sessions in 1997*
 - * *Expanded concept beyond what the NCE is doing-- continuous, electronic trading*
- Expanded trading sessions
 - * *Proposals to increase frequency of trading sessions*

* *Proposals to move to continuous, electronic trading*

- Examination of freight discounts

TASK FORCE ON CHEESE PRICING

SUMMARY OF ACTION

THURSDAY, NOVEMBER 14, 1996

1. Meeting called to order.
2. Opening comments from Bob Burns.
3. Alan Tracy reviewed the recent developments.
4. Discussion and evaluation of deferred proposals from the previous meeting. The proposals were kept for further discussion, kept for more information, removed from consideration, or deferred.
5. Adjourned. The next meeting of the Task Force is scheduled for December 5, 1996.

Task Force Members in Attendance:

Robert Burns, Chair
Gary Anderson
Marsha Glenn
Bernard Goldbach
Richard Gould
Jim Holte
Will Hughes
Gerald Jaeger
Ed Jesse
Larry Lemmenes
Bill McCoshen
W.O'Neill McDonald
Jon Peterson
Bob Thelen
Alan Tracy
Wilfred Turba
Don Kelly for Deborah Van Dyk
Darin Von Ruden
Bob Wagner

MINUTES

TASK FORCE ON CHEESE PRICING

THURSDAY, NOVEMBER 14, 1996

CALL TO ORDER

The fourth meeting of the Task Force on Cheese Pricing was called to order by Vice Chair Robert Burns at 1:01 p.m. The meeting was held in the board room of the Wisconsin Department of Agriculture, Trade and Consumer Protection's central office. The minutes from the third meeting on October 17, 1996, were approved.

OPENING COMMENTS

Bob Burns stated that no questions or comments would be taken from the audience during the meeting, but could be submitted to the Task Force in writing. He introduced Scott Warner, facilitator for the meeting. Alan Tracy introduced the two new task force members, Darin Von Ruden and Jim Holte.

REVIEW OF DEVELOPMENTS

Mr. Tracy reviewed the November 1, 1996 letter from Governor Thompson in order to clarify the charge to the task force. Governor Thompson's letter asked the task force to address the link between pricing on the NCE and the BFP. A second letter from Governor Thompson, dated November 13, 1996, was sent to the task force asking them to consider two recommendations. First, the price of milk should be based on the supply and demand of milk without reference to the NCE. Second, the task force should consider recommending a more accurate system for reporting spot sales.

Because of complaints from the audience that they couldn't hear the task force members, there was a ten minute break to turn off the air circulation system and try to locate a public address system. The meeting was called back to order by Mr. Burns at 1:21 p.m.

Mr. Tracy also discussed an October 29, 1996 letter from Dan Glickman, Secretary, United States Department of Agriculture (USDA), in which Mr. Glickman addresses a plan to have the National Ag Statistics Service (NASS) begin monthly price reporting on spot sales of cheese.

A task force member suggested that the NCE be eliminated from discussion because the Governor's letter indicated that an alternative dairy pricing program should be considered. An objection to this suggestion was offered urging the task force to continue to consider proposals concerning the NCE because it is so highly correlated to what the USDA reports for cheese prices. A second task force member added that there is a need to address the NCE because the assembly point prices are largely based on what happens at the exchange.