Dairy & Food

Market Analyst: A forecasting service for clients of The Jerry Dryer Group

File for Ref ARM

..............Special Edition..................

With the launch of cash cheese trading at the Chicago Mercantile Exchange today, we are distributing this Special edition of our weekly newsletter to a broad audience of those interested in the cheese and dairy foods business.

New era in cheese trading begins at CME

The wholesale cash cheese market -- a key indicator of supply and demand conditions -- began trading at the Chicago Mercantile Exchange in Chicago today after 41 years of trading in Green Bay. Participation was high at the inaugural session, with 13 cars of cheddar (about 520,000 lbs.) changing hands. The price of 40-lb. blocks closed at \$1.1500 on a sale (down 3 cents from last week's close) and 500-lb. barrels closed at \$1.1500 on an offer (down 2 cents from last week's close).

- Sales included 5 cars of blocks at \$1.1500, 4 cars of barrel at \$1.1600 and 4 cars of barrel at \$1.1575.
- ***Active trading volume gets the new cash market off to a good start.*** During the past three weeks, an average of less than 7 loads traded per week at the National Cheese Exchange.
- At industry functions we've attended over the last month or two, the move of the cash market to Chicago has been a primary topic of conversation. Although not required, the industry commonly used the weekly National Cheese Exchange price as a benchmark for pricing other varieties of cheese. And USDA used the change in the value of cheese from month to month to adjust the minimum raw milk price throughout most of the country.
- We've been frequently asked, by readers and non-readers alike, what effect the new market will have on dairy pricing dynamics. In response to those inquiries, we interviewed more than 20 traders and potential traders this week -- those who have a history of trading on the National Cheese Exchange and those now planning to join the ranks at the Chicago Mercantile Exchange. We found unanimous support for the new market and today's trading activity points toward substantially more participation in Chicago.
- In our conversations, the key factor that came up time and time again was that traders

are expecting increased participation because of the operating characteristics of the CME.

- For one thing, the ***CME has a long history as a credible commodity market.*** It boasts a successful track record of managing its operations within the federal regulatory system. We believe this oversight will bolster confidence in the new market for cheese, thereby encouraging increased trading activity.
- Now, companies wishing to participate need simply to set up an account with a broker-member of the CME. The cost is modest. And there is no need to travel to the market each week to participate. This latter factor kept many Eastern and Western cheese traders from taking part regularly on the Green Bay-based Exchange.
- But most importantly, unlike the Green Bay market, ***the CME will offer anonymous trading. This is the norm for commodity markets.*** We think providing anonymous trading through brokers will attract greater participation by existing traders, as well as new participation by companies that were concerned about disclosing competitive information when trading on the NCE. It will give both buyers and sellers an opportunity to build or liquidate inventories without tipping their hand to all of their competitors. It will make it much easier for manufacturers, brokers and end users to move cheese to the market -- to the ultimate consumer -- without broadcasting their marketing plans. And this greater liquidity will assure that the prevailing price is reflective of current supply-and-demand conditions.
- As one major manufacturer noted: "It is the beginning of a whole new, positive marketing environment."
- Our conversations identified two major cheese marketing companies that never traded at the NCE and four others that seldom traded at the Green Bay market. These companies indicated that they will be active participants at the Chicago Mercantile Exchange. Asked why, their responses were very straightforward and followed two lines of logic:
  - ⇨"We must participate, because more of our competitors will be there."
  - ⇨"Now we can trade without broadcasting our marketing strategy to the world."
- Some observers have argued that anonymous trading will protect sellers from public scrutiny. Quite frankly, it will also protect buyers. ***The new market will not repeal the law of supply and demand. When cheese supplies are long, prices will go down. When cheese supplies are short, prices will move higher.***
- Will the new market reduce the volatility the the industry has experience since the government began phasing itself out of the dairy business a few years ago? Of course

not. Markets rise and fall for a number factors. Prices move as cheese inventories rise and fall. They also rise and fall in relation to expectations about inventories. Weather, feed supplies, consumer demand and other factors all figure into the mix. Anticipation of a supply shortage can raise prices. And as we witnessed last fall, realization of higher inventories than originally anticipated can result in a price decrease as well.

- To help cheese traders manage the risk that results from volatility, the CME expects to add a cheese futures contract to its menu by the end of the year. Linking a futures market to the cash market also should make it easier for producers, processors and end-users to cross -hedge, which should promote participation in both cash and futures markets.
- We can already see this happening in the butter market. With the advent of the butter futures market in Chicago, trading activity at the Chicago butter market has increased dramatically. Historically, three to five brokers participated in the weekly cash butter market. Reports indicate that there were as many as 18 traders on the floor of the cash butter market last Friday. And that, in turn, is spurring more futures trading.
- At the onset, the trading rules at the CME have been set up to mirror the rules of the NCE -- and with very good reason. It will help assure early participation in the new market. After some trading experience, the rules will be reviewed. Meanwhile, rules for the pending cheese futures market in Chicago are under development. Both rules will be reviewed to make them as compatible as possible, further encouraging participation in both markets.
- ***The bottom-line*** is that the CME, like the Green Bay market, will serve as the industry's best cash market to buy and sell cheese. It can become a mechanism for price discovery. It also can facilitate the process of finding a supply-and-demand balance that the market will support.

Note: News media receiving this issue of **Dairy & Food Market Analyst** *are granted permission to quote any portion or reprint the entire report with attribution. Inquires for additional information, including the CME trading rules, may be directed to Jerry Dryer, Editor,* ***Dairy & Food Market Analyst*** *at 312-621-8900.*

For additional information resources, please see the following page.

# # #

FOR FURTHER INFORMATION ...

If you need additional information about the new cash cheese market at the Chicago Mercantile Exchange or the cheese/dairy market in general, please feel free to contact any of the following industry personnel and economists:

- Kevin Ruda, Beatrice Cheese, 414-782-2750/fax 414-782-8097

- Denis Wyssbrod, Dairystate Brands, 715-423-1577/fax 715-424-2763

- Don Storhoff, Foremost Farms, 608-356-8316/fax 608-356-3575

- Will Hughes, Wisconsin Federation of Cooperatives, 608-258-4400/fax 608-258-4407

- Andrew Novakovic, Cornell University, 607-255-7602/fax 607-254-5269

- Bruce Gardner, former USDA economist, 301-405-1271/fax 301-314-9091

- Bob Yonkers, Pennsylvania State University, 814-865-6363/fax 814-865-3746

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Market Analyst:
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Quarles & Brady

File ARDY

April 23, 1997

Rep. Alvin Ott
State Capitol, Room 318-N
P.O. Box 8953
Madison, WI 53708

Dear Al:

As you know, the National Cheese Exchange will hold its final trading session in Green Bay this Friday. On May 1, the Chicago Mercantile Exchange will take over operation of cash trading for cheese. Kraft Foods, Inc., is strongly supportive of this transition.

Enclosed please find a copy of a press release which the Chicago Mercantile Exchange issued recently concerning a "simulated trading session" which it will conduct on Thursday, April 24, 1997, in preparation for the May 1 commencement of actual trading on the exchange.

Please let me know if you need any additional information on this subject.

Very truly yours,

QUARLES & BRADY

PC

Peter C. Christianson

PCC:jf3

NEWS RELEASE

CHICAGO MERCANTILE EXCHANGE

FROM: PETE CHRISTIANSON
Quarles & Brady
(608) 251-5000

Contact: Ellen Resnick, 312/930-3435
Annette Wallace, 312/466-4435
awallace@cme.com

FOR IMMEDIATE RELEASE

CME ANNOUNCES CHEESE SIMULATION AND TRADING SCHEDULE

CHICAGO, April 17, 1997 — On Thursday, April 24 the Chicago Mercantile Exchange (CME) will introduce cheese industry participants to the new cash trading procedures with a simulated trading session. The event will take place in the CME's new cheese/butter cash trading pit located on the Lower Trading Floor.

"We welcome current and new market users alike to participate in this our new spot cheese trading," said Robert Prosl, CME Board member and chairman of the CME Dairy Products Committee.

The simulation will begin at 2:30 p.m. Central Time with the opening market price based on the April 18 closing price on the National Cheese Exchange. The closing price will be determined by a call session announced at 3:00 p.m. This method, used in the butter cash market, allows for expanded trading if necessary to reflect the best supply/demand driven price for the trading session.

The CME built the new pit in response to the growing participation of brokers in both cheese and butter spot trading. The semi-circle shaped trading pit is located at the northern end of the lower trading floor and features approximately 50 phones, a necessary feature to cash trading. The bids and offers are posted on dry erase boards located in the center of the pit.

The simulated session will serve as a precursor to the regular session that will launch on Thursday, May 1 at 1:15 p.m. Trading will follow the same format as the simulation thus ending at 1:45 with a closing call session.

The creation of the new cheese cash market came as a result of the acceptance last month of a CME proposal to the boards of the National Cheese Institute and National Cheese Exchange (NCE). The final day of trading on the NCE in Green Bay, WI is expected to be Friday, April 25.

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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

File APO

March 7, 1997

Mr. Al Ott
State Representative
Wisconsin State Assembly
Post Office Box 8952
Madison, Wisconsin 53708

Dear Representative Ott:

Thank you for your letters of December 17, 1996, and January 29, 1997, cosigned by the other members of the Wisconsin State Assembly Committee on Agriculture, regarding use of the National Cheese Exchange (Exchange) prices in determining the Basic Formula Price (BFP) under Federal milk orders. Secretary Glickman has asked me to respond on his behalf.

As you indicate in your letters, many milk producers and their organizations have indicated their concern with using Exchange prices to establish the BFP. On January 29, 1997, the Department of Agriculture (USDA) announced that it will seek public comment on whether Exchange prices should be used in the determination of the BFP. Based on the comments we receive, we will determine whether we should proceed to replace Exchange prices in establishing the BFP. This action is in addition to the process currently underway to consolidate and reform Federal orders by April 1999 as mandated by the 1996 Farm Bill. The enclosed news release describes this action in more detail.

Although USDA does not have authority to regulate trading on the Exchange, USDA is very interested in Exchange price information because it is being used by the dairy industry to price cheese and in Federal milk marketing orders. We are now in the process of making the Federal order consolidation and pricing reforms. Order reform will include consideration of possible replacements for the BFP as well as the pricing structure in all markets, including component pricing. Since both the BFP and component pricing use Exchange prices, the use of Exchange information must be addressed as part of the process to consolidate and reform Federal orders.

In addition, Secretary Glickman recently directed USDA's National Agricultural Statistics Service to begin collecting data for a national survey of Cheddar cheese prices received by manufacturing plants. This new cheese price series will be beneficial to the dairy industry because USDA can then report a probability-based national average cheese price. USDA now reports a variety of cheese prices through its dairy market news program, which helps inform the dairy industry of current transaction prices for Cheddar cheese. But these prices cannot be aggregated into a national average Cheddar cheese price because they are not derived from probability-based survey techniques.

We, in USDA, have been very concerned regarding the recent dairy situation, and have been exploring various options to help stabilize farm milk prices. In this regard, USDA announced on January 7, 1997, that we are taking several actions to strengthen farm-level milk prices. Detailed information on these actions is contained in the enclosed news release.

Again, we appreciate your writing and expressing your views. Please share this information with your colleagues.

Sincerely,

Michael V Dunn

Michael V. Dunn
Assistant Secretary
Marketing and Regulatory Programs

Enclosures

For Immediate Release – March 21
Contact: Sandy Chalmers (608) 266-7746; Kim Markham (608) 266-5831

ASSEMBLY REPUBLICANS APPLAUD NEW CHEESE MARKET

MADISON -- Assembly Speaker Ben Brancel (R-Endeavor) and Republican legislators hailed yesterday's announcement of a new cash market for cheese at the Chicago Mercantile Exchange.

"This is another big step toward replacing the Cheese Exchange price as the gauge for setting federal milk prices," Brancel said. "Secretary Glickman keeps saying he needs an alternative for the Cheese Exchange price before he can help Wisconsin farmers—well, now he has one."

Cheese industry representatives said the last day of trading on the National Cheese Exchange would be April 25, 1997, with the new cash market opening at the Chicago Mercantile on May 2.

"The new cash market for cheese on the Chicago Mercantile should help to restore public confidence in the market," said Representative Al Ott (R-Forest Junction), who chairs the Agriculture Committee. "While it's unfortunate that the center of national cheese trading activity will no longer be in Wisconsin, our dairy industry will be gone if we don't unite to keep the infrastructure competitive and viable."

Representative Judy Klusman (R-Oshkosh) said the new cash market will allow for anonymous trading, one of the recommendations made by Governor Thompson's task force on cheese pricing. "Anonymous trading--standard practice for commodity trading--will attract more traders, which will eventually lead to a larger volume of cheese traded," she said. "We're continuing to move toward market-driven dairy prices."

Representative Sheila Harsdorf (R-River Falls) pointed out that the Chicago Mercantile, one of the world's largest commodity exchanges, is subject to stringent federal regulation, as well as internal surveillance. "This new cheese market will provide a price based on supply and demand, with safeguards against price manipulation," she said. "Farmers concerned about unfair trading on the Cheese Exchange should be reassured by this action."

"While this new market is being established, we intend to keep pushing Secretary Glickman for quick action on replacing the Cheese Exchange price in setting federal milk prices," Representative David Ward (R-Fort Atkinson) said. Ward owns and operates a dairy farm.

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Chairman:
Agriculture Committee

Member:
Environment & Utilities
Government Operations
Natural Resources
Rural Affairs

Al Ott
State Representative • 3rd Assembly District

To: All Senate Offices

From: Representative Al Ott

Date: March 19, 1997

The attached memo was prepared by David Stute, Director of the Legislative Council, at my request. It is regarding the Federal Commodity Futures Trading Commission's approval of the trading of basic formula price milk futures and options contracts on the Coffee, Sugar and Cocoa Exchange.

I have already shared the memo with my Assembly colleagues and thought you might be interested as well.

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Home: P.O. Box 112 • Forest Junction, WI 54123-0112 • (414) 989-1240

Markham, Kim

From: Tierney, Jodie
Sent: Friday, March 14, 1997 9:56 AM
To: Markham, Kim
Subject: SB2

I just got a phone call from a small farmer opposed to SB2.

Arnold Gudex
Campbellsport WI
414-533-8020

If you every need to use him at a hrg he wants to come and testify.

Chairman:
Agriculture Committee

Member:
Environment & Utilities
Government Operations
Natural Resources
Rural Affairs

Al Ott
State Representative • 3rd Assembly District

MEMORANDUM

DATE: March 14, 1997

TO: Assembly Agriculture Committee Members

FROM: Representative Al Ott

RE: Testimony from Secretary Alan Tracy

Secretary Tracy asked me to distribute to you the attached copy of his testimony before the U.S. Senate Sub-Committee on Agriculture, Rural Development and Related Agencies on March 13, 1997. His testimony dealt with alternatives to the NCE in the dairy pricing system.

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STATEMENT OF ALAN T. TRACY, SECRETARY WISCONSIN DEPARTMENT OF AGRICULTURE, TRADE AND CONSUMER PROTECTION

ON ALTERNATIVES TO THE NATIONAL CHEESE EXCHANGE IN THE DAIRY PRICING SYSTEM

BEFORE THE
SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT
AND RELATED AGENCIES
OF THE
COMMITTEE ON APPROPRIATIONS,
U.S. SENATE

MARCH 13, 1997
WASHINGTON, D.C.

Good morning Chairman Cochran and Subcommittee members. Thank you for inviting me to share with you my perspective on current dairy pricing issues, and in particular, alternatives to the National Cheese Exchange in determining milk prices.

Farm milk prices, and the mechanisms for determining them, are of utmost importance to Wisconsin farmers and Wisconsin's economy. Wisconsin leads the nation in the number of dairy farmers and dairy cows and in the production of cheese. The dairy industry contributes over $17 billion to Wisconsin's economy, nearly 10 percent of our state's overall economic output.

Just about a year ago today, our department released a report detailing the findings of a comprehensive study on cheese pricing and trading activities on the National Cheese Exchange (NCE). The study was conducted by researchers at the University of Wisconsin at our request and under our authority to investigate business practices in Wisconsin. The report concluded that "As currently organized, the Exchange appears to facilitate market manipulation." The report stimulated widespread interest and debate about the NCE, including a Congressional hearing before the House Committee on Agriculture's Subcommittee on Livestock, Dairy and Poultry, and Subcommittee on Risk Management and Specialty Crops.

The report's findings were of particular concern because of the link between NCE prices and milk prices paid to farmers. While less that two percent of all bulk cheddar cheese is traded on the National Cheese Exchange, the NCE price largely determines the "Basic Formula Price," the price of manufacturing milk under the entire Federal milk pricing system. It is vitally important that the underlying market or markets be competitive and that farmers have confidence that prices accurately reflect the supply of and demand for milk.

Wisconsin Governor Thompson convened a Task Force on Cheese Pricing to "make recommendations to improve the current system of pricing for the benefit of the dairy industry and consumers." A copy of the Task Force's report to the Governor is attached for the record. Governor Thompson, along with task force members, representatives of our farm organizations and members of our Congressional delegation met with USDA Secretary Glickman in early February to present the Task Force's recommendations.

At the outset, I would like to caution this Subcommittee that these suggestions are not magic solutions that will miraculously provide high, stable milk prices for our nation's dairy farmers. With the end of the federal dairy price support program in sight, we have left the era of government supported, stable milk prices and entered the era of market-driven, national, and increasingly, international pricing. However, the Task Force suggestions, if implemented, will move milk pricing to markets that are more competitive and that will more accurately represent the supply of and demand for milk for all its manufacturing uses.

The Task Force recommendations include both an interim replacement for the NCE price in the current Basic Formula Price (BFP), as well as longer term replacements for the BFP. We have suggested that in the short term, the NCE price be replaced by a national average cheese price, collected and reported by USDA's National Agricultural Statistics Service (NASS). NASS has recently begun collecting this price series. For the longer term, we have suggested two alternatives: 1) Substituting an average monthly milk futures price for the BFP; or 2) Replacing the BFP with a competitively determined "milk pay price," collected through a national survey of prices that dairy plants actually pay for milk, less performance premiums, Class I pool disbursements and over-order values. The Task Force has also recommended that USDA and federal dairy policy should be moving toward the deregulation of milk pricing, including the eventual elimination of setting a Basic Formula Price for milk.

For the purpose of illustration let's compare the current pricing mechanism for milk with the pricing mechanism for corn. Imagine for a moment, that Cargill, Continental Grain and Mitsubishi sat down once a week with Ralston-Purina, Nabisco and Tyson Foods, for example, to buy and sell a few trainloads of corn, and that regardless of whether any corn actually changed hands, the prices at which corn was traded (or was offered or bid) became the price of corn for virtually every corn transaction in the coming month. Corn farmers would be up in arms. Yet this is similar to what happens for milk, based on trading on the NCE, where a handful of large companies set the price for more than 100,000 dairy farmers. Dairy farmers however, unlike corn farmers, do not have the option of storing their product to wait for a better price.

Now compare that scenario with what actually does occur in the corn market: Every day, thousands of farmers and hundreds of grain elevators sell and buy corn or agree to sell and buy corn at a future time, using prices from the futures contract markets. In addition, Wall Street investors and market speculators bring their knowledge and their expertise to the futures market and actively participate. The expectations of thousands of individuals on the future supply of and demand for corn are measured by the minute. Compared to the level of information about, participation in and sophistication of the market mechanism for corn, our dairy market mechanisms are still in their infancy.

If we have a clear vision of where we would like to go, we can better determine in what direction to take the next step. For the best future dairy pricing mechanisms, why not use as a model the systems used for corn, wheat, soybeans and other agricultural commodities, adapted to the peculiarities of milk? Why couldn't dairy farmers, at least on a monthly or quarterly basis, evaluate offers from various dairy plants for their upcoming production? Such offers could cover a range of time periods from which the milk producer could choose. Dairy farmers could also price their product in advance on the futures market. The plants, at the time they contract for future production, could sell milk futures that they would buy back as the milk is delivered. Further processors could also hedge their purchases. Investors and speculators, seeing the making of a real market, would bring their money, expertise and analysis to that market. The dairy futures market would work to provide a clear measure of future price expectations, updated by the minute.

I am optimistic that dairy futures markets will grow, and that they will eventually provide a competitive, dynamic market reflecting an accurate value of the demand for and supply of milk and dairy products.

USDA and federal dairy policy need to evolve, reducing government involvement and relying more on the marketplace. We need action now to improve the milk pricing mechanism, but we also need to take a longer term view to the milk pricing reform effort currently under way.

One of the dairy farmers who came to Washington with Governor Thompson in February, Pete Knigge of Omro, Wisconsin, made a statement to Secretary Glickman that I'd like to repeat for you today. He said, "I'm not here to complain about the price of milk, I'm here to fix the way milk is priced." No, he wasn't happy about his pay prices this past winter. But he doesn't want you, or USDA, or any other government entity to set dairy prices. He wants them set in the marketplace, but he wants a mechanism he can trust to accurately tell him the market price for his product. I think Pete's statement concisely describes the mission before us today.

I want to thank the committee for your interest in this subject and I especially want to thank you, Senator Kohl for arranging for me to be here today and for your constructive work to reform national dairy policy. I would be pleased to answer any questions committee members may have.

'95-'96 Cheese/Butter Inventory Price Data Tells Story

USDA's National Agricultural Statistics Service released data on commercial and government dairy holdings for the three major dairy commodities, comparing monthly totals for calendar '95 and '96 (except for 12/96 nonfat dry milk data). Let's study these figures to draw some conclusions about butter and cheese pricing trends.

Studying NASS' cheese and butter inventory data ... it's a fair conclusion that cheese prices rose too high in late spring and early summer '96. That set the stage for precipitous decline. And butter prices never should have collapsed in September-October as far as they did, because inventories were miniscule, leading into the peak demand season, October thru December.

Public and Private Cheese Inventories and NCE Monthly Block Cheddar Avgs. January 1995 through December 1996

Month	Inventories $ NCE 40-lb.	Month	Inventories $ NCE 40-lb.
Jan.96	323 mil. lb $1.3788	Jan.95	318 mil. lb. $1.222
Feb.	343 mil. lb. $1.3775	Feb.	322 mil. lb. $1.2780
Mar.	349 mil. lb. $1.3874	Mar.	324 mil. lb. $1.2900
Apr.	369 mil. lb. $1.4325	Apr.	335 mil. lb. $1.2110
May	381 mil. lb. $1.4925	May	344 mil. lb. $1.2113
June	385 mil. lb. $1.4933	June	348 mil. lb. $1.2520
July	387 mil. lb. $1.5623	July	361 mil. lb. $1.2503
Aug.	369 mil. lb. $1.6358	Aug.	339 mil. lb. $1.3037
Sept.	364 mil. lb. $1.6942	Sept.	320 mil. lb. $1.3774
Oct.	370 mil. lb. $1.5793	Oct.	312 mil. lb. $1.4140
Nov.	370 mil. lb. $1.3245	Nov.	298 mil. lb. $1.4225
Dec.	397 mil. lb. $1.2373	Dec.	307 mil. lb. $1.4191

CHEESE:

Inventories of Natural American Cheese (Cheddar, Colby and Monterrey Jack) registered higher every month during 1996 compared to the prior year, according to NASS. During the first six to eight months of '96, downtrending milk production caused marketers to build inventories of cheese. They worried about second-half '96 milk output. A cold/wet spring and cool summer focused serious concerns about the nation's grain crop, which in turn caused doubts about second-half '96 national milk volume.

However, a unduly warm September in the Midwest and Plains extended the growing season for corn so national grain output snuck past critical levels and pulled down prices. (Consumers will never appreciate how a late frost in '96 helped avert a significant run-up in feed prices.)

Higher cheese prices to retailers and food processors reduced consumer sales in the last four months of '96, and also spurred substitution of imitation cheese for some portions of natural cheese by food processors. Demand for commodity cheese eroded, just as the nation's dairy farmers were earning near record milk prices and purchased grain costs began coming down in September/October. Nervous butter market signals caused additional raw milk to go to cheese plants in September-October. Cheese prices held favorably compared to butter, as butter's collapse hit in late September and early October.

Hindsight's always easier ...

In retrospect, events are easier to see. Last summer, dairy product marketers held legitimate fears about a deteriorated '96 grain crop, and the effects upon milk production that a short grain crop would produce. Eroding retail sales, and dramatic substituting of imitation cheese by schools, food service and fast-food sectors, didn't really hit until August/September. The industry bet short--driving up commodity values. Milk output in fall '96 was better than anticipated, while consumer demand declined. Recipe for a mess.

Comparing fall months' Natural American Cheese inventories for '95 and '96, it's obvious that things got out of hand in the last four months. The '96 (all-time) price peak for 40-lb. blocks was $1.6950--which held until mid-October, and then plunged to $1.1875 by year's end.

Should cheese prices at the National Cheese Exchange have climbed as far as they did last summer? No. Should cheese prices have fallen so sharply in the fall--probably not. The pendulum swung too far in each direction.

BUTTER:

Propelled by shortages of milkfat for the ice cream trade, butter prices zoomed into the stratosphere last spring and summer ... only to crash in late September and October--several weeks after ice cream makers' peak demand passed. Butter prices last year resemble cheese prices--too high up, followed by a terrible crash. However, NASS' butter inventory data suggests butter prices' free-fall was a dramatic overreaction. This fall, butter inventories were scant, at best. Scarce inventories and strong demand did not justify the depths to which prices of the commodity fell at the Chicago Mercantile Exchange.

Butter prices lost more than half their value, once the price plunge began in mid-October. Starting on October 11, Grade A butter prices (the industry benchmark) fell from $1.45 per pound down to $.64 per pound in early November.

USDA data shows total butter inventories declining every month after July 1996, except for October, when butter inventories were the same as September. By November (the only month in '96 when butter inventories were higher than the prior year), butter inventories registered only 18 million lbs. That's only one ounce of butter for every man, woman and child in the United States! One ounce? That's only one-quarter of a quarter stick of butter!

Public and Private Butter Inventories and CME Monthly Butter Avg. Prices January 1995 through December 1996

Month	Inventories CME $/lb.	Month	Inventories CME $/lb.
Jan.96	25 mil lb. $ .744	Jan.95	90 mil. lb. $ .63
Feb.	34 mil. lb. $ .6521	Feb.	88 mil. lb. $ .6504
Mar.	49 mil. lb. $ .6500	Mar.	75 mil. lb. $ .66
Apr.	40 mil. lb. $ .6957	Apr.	79 mil. lb. $ .66
May	34 mil. lb. $ .8916	May	81 mil. lb. $ .66
June	30 mil. lb. $1.3063	June	79 mil. lb. $ .70
July	32 mil. lb. $1.4487	July	68 mil. lb. $ .7465
Aug.	27 mil. lb. $1.4500	Aug.	50 mil. lb. $ .79
Sept.	21 mil. lb. $1.4500	Sept.	33 mil. lb. $ .8133
Oct.	21 mil lb. $1.2445	Oct.	24 mil. lb. $ .9574
Nov.	18 mil. lb. $ .7147	Nov.	16 mil. lb. $1.03
Dec.	14 mil. lb. $ .7302	Dec.	19 mil lb. $ .7183

Yet in September-October, butter prices plunged to rock bottom ... despite the fact that fall is butter's peak demand season. Candy and baked goods manufacturers use butter heavily as an ingredient for their Christmas wares. Retail purchases of butter increase during the holiday season, as consumers put the best spread on their table.

Butter and milkfat values plunged into the cellar--just as the fall demand season peaked. Virtually no butter inventories existed in the nation! Some surplus. (*Editor's note: Butter-pricing, based on trading at the Chicago Mercantile Exchange, is too narrow. A handful of traders play the game. Once, in recent years, butter prices fell 40 cents per pound on the trade of a single carload of product.*)

Jan. 22 Milk Strike Hard to Quantify

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'95-'96 Cheese/Butter Inventory Price Data Tells Story

USDA's National Agricultural Statistics Service released data on commercial and government dairy holdings for the three major dairy commodities, ~paring monthly totals for calendar '95 and '96 ept for 12/96 nonfat dry milk data). Let's study ..ese figures to draw some conclusions about butter and cheese pricing trends.

Studying NASS' cheese and butter inventory data ... it's a fair conclusion that cheese prices rose too high in late spring and early summer '96. That set the stage for precipitous decline. And butter prices never should have collapsed in September-October as far as they did, because inventories were miniscule, leading into the peak demand season, October thru December.

Public and Private Cheese Inventories and NCE Monthly Block Cheddar Avgs. January 1995 through December 1996

Month	Inventories $ NCE 40-lb.	Month	Inventories $ NCE 40-lb.
Jan.96	323 mil. lb $1.3788	Jan.95	318 mil. lb. $1.222
Feb.	343 mil. lb. $1.3775	Feb.	322 mil. lb. $1.2780
Mar.	349 mil. lb. $1.3874	Mar.	324 mil. lb. $1.2900
Apr.	369 mil. lb. $1.4325	Apr.	335 mil. lb. $1.2110
May	381 mil. lb $1.4925	May	344 mil. lb. $1.2113
June	385 mil. lb. $1.4933	June	348 mil. lb. $1.2520
July	387 mil. lb $1.5623	July	361 mil. lb. $1.2503
ıg.	369 mil. lb $1.6358	Aug.	339 mil. lb. $1.3037
Sept.	364 mil. lb. $1.6942	Sept.	320 mil. lb. $1.3774
Oct.	370 mil. lb. $1.5793	Oct.	312 mil. lb. $1.4140
Nov.	370 mil. lb. $1.3245	Nov.	298 mil. lb. $1.4225
Dec.	397 mil. lb $1.2373	Dec.	307 mil. lb. $1.4191

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CHEESE

Inventories of Natural American Cheese (Cheddar, Colby and Monterrey Jack) registered higher every month during 1996 compared to the prior year, according to NASS. During the first six to eight months of '96, downtrending milk production caused marketers to build inventories of cheese. They worried about second-half '96 milk output. A cold/wet spring and cool summer focused serious concerns about the nation's grain crop, which in turn caused doubts about second-half '96 national milk volume.

However, a unduly warm September in the Midwest and Plains extended the growing season for corn so national grain output snuck past critical levels and pulled down prices. (Consumers will never appreciate how a late frost in '96 helped avert a significant run-up in food prices.)

Higher cheese prices to retailers and food processors reduced consumer sales in the last four months of '96, and also spurred substitution of imitation cheese for some portions of natural cheese by food processors. Demand for commodity cheese eroded, just as the nation's dairy farmers were earning near record milk prices and purchased grain costs began coming down in September/October. Nervous butter market signals caused additional raw milk to go to cheese plants in September-October. Cheese prices held favorably compared to butter, as butter's collapse hit in late September and early October

Hindsight's always easier ...

In retrospect, events are easier to see. Last summer, dairy product marketers held legitimate fears about a deteriorated '96 grain crop, and the effects upon milk production that a short grain crop would produce. Eroding retail sales, and dramatic substituting of imitation cheese by schools, food service and fast-food sectors, didn't really hit until August/September. The industry bet short--driving up commodity values. Milk output in fall '96 was better than anticipated, while consumer demand declined Recipe for a mess.

Comparing fall months' Natural American Cheese inventories for '95 and '96, it's obvious that things got out of hand in the last four months. The '96 (all-time) price peak for 40-lb. blocks was $1.6950--which held until mid-October, and then plunged to $1.1875 by year's end.

Should cheese prices at the National Cheese Exchange have climbed as far as they did last summer? No. Should cheese prices have fallen so sharply in the fall--probably not. The pendulum swung too far in each direction.

BUTTER

Propelled by shortages of milkfat for the ice cream trade, butter prices zoomed into the stratosphere last spring and summer ... only to crash in late September and October--several weeks after ice cream makers' peak demand passed. Butter prices last year resemble cheese prices--too high up, followed by a terrible crash. However, NASS' butter inventory data suggests butter prices' free-fall was a dramatic overreaction. This fall, butter inventories were scant, at best. Scarce inventories and strong demand did not justify the depths to which prices of the commodity fell at the Chicago Mercantile Exchange.

Butter prices lost more than half their value, once the price plunge began in mid-October. Starting on October 11, Grade A butter prices (the industry benchmark) fell from $1.45 per pound down to $.64 per pound in early November.

USDA data shows total butter inventories declining every month after July 1996, except for October, when butter inventories were the same as September. By November (the only month in '96 when butter inventories were higher than the prior year), butter inventories registered only 18 million lbs. That's only one ounce of butter for every man, woman and child in the United States! One ounce? That's only one-quarter of a quarter stick of butter!

Public and Private Butter Inventories and CME Monthly Butter Avg. Prices January 1995 through December 1996

Month	Inventories CME $/lb.	Month	Inventories CME $/lb.
Jan.96	25 mil lb. $ .744	Jan.95	90 mil. lb. $ .63
Feb.	34 mil. lb. $ .6521	Feb.	88 mil. lb. $ .6504
Mar.	49 mil. lb. $ .6500	Mar.	75 mil. lb. $ .66
Apr.	40 mil. lb. $ .6957	Apr.	79 mil. lb. $ .66
May	34 mil. lb. $ .8916	May	81 mil. lb. $ .66
June	30 mil. lb. $1.3063	June	79 mil. lb. $ .70
July	32 mil. lb. $1.4487	July	68 mil. lb. $ .7465
Aug.	27 mil. lb. $1.4500	Aug.	50 mil. lb $ .79
Sept.	21 mil. lb. $1.4500	Sept.	33 mil. lb. $ .8133
Oct.	21 mil lb. $1.2445	Oct.	24 mil. lb. $ .9574
Nov.	18 mil. lb. $ .7147	Nov.	16 mil. lb. $1.03
Dec.	14 mil. lb. $ .7302	Dec.	19 mil lb. $ .7183

Yet in September-October, butter prices plunged to rock bottom ... despite the fact that fall is butter's peak demand season. Candy and baked goods manufacturers use butter heavily as an ingredient for their Christmas wares. Retail purchases of butter increase during the holiday season, as consumers put the best spread on their table.

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State Senator
Alice Clausing

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February 10, 1996

TO: Legislative Colleagues

FROM: Senator Alice Clausing

RE: Co-sponsorship of LRB 2336/1, relating to the appointment of the Secretary of Agriculture, Trade, and Consumer Protection

Prior to last biennium, the Secretary of the Department of Agriculture, Trade, and Consumer Protection was appointed by the citizen-controlled Agriculture Board. Last session, our law was changed to give the Governor direct appointment authority of the DATCP Secretary.

Direct appointment of the Secretary was proposed to streamline state government and make the Ag Secretary responsive to the Governor through cabinet-style government.

Recent actions by DATCP lead me to believe that the Department and its Secretary have become insulated from the very people they are charged with assisting. First, DATCP opposed the Fair Milk Price bill, to prohibit trading against interest on the National Cheese Exchange. This same idea was proposed several months earlier by DATCP.

Then, when the Senate was deliberating on the Fair Milk Price bill, DATCP prepared a severely inflated fiscal estimate that temporarily delayed passage of the bill. Not until the Senate requested an alternate fiscal estimate from the non-partisan Legislative Fiscal Bureau could the Senate proceed with its deliberation on SB 2. The Fiscal Bureau's estimate of the cost of SB 2 was about one-tenth of the cost estimated by DATCP.

LRB 2336/1 allows the citizen-controlled Agriculture Board to appoint the DATCP Secretary. This will ensure that the DATCP Secretary, will once, again be directly responsive to farmers. If you are interested in co-sponsoring LRB 2336/1, please contact my office at 6-7745 by Monday, February 24th.

Analysis by the Legislative Reference Bureau

Under current law, the secretary of agriculture, trade and consumer protection is appointed by the governor, with the approval of the senate. Under this bill, the secretary of agriculture, trade and consumer protection is appointed by the board of agriculture, trade and consumer protection.

State Capitol, P.O. Box 7882, Madison, WI 53707-7882
1-800-862-1092 Toll-Free ■ 608-266-7745 Madison ■ 715-232-1390 Menomonie

WHEELER NEWS SERVICE - 5:00 P.M. REPORT - FRIDAY, FEBRUARY 21, 1997

For your files

HERE ARE THE HEADLINES:
SENATORS PLEASED WITH U-S-D-A ACTION...
GUILTY PLEA ENTERED ON DRUG CHARGES...
SUSPECT IN ROBBERY BOUND OVER...
MAN KILLED IN INDUSTRIAL ACCIDENT IDENTIFIED...

THE DETAILS:
A MOVE BY U-S AGRICULTURE SECRETARY DAN GLICKMAN TO HELP BOOST MILK PRICES IS RECEIVING PRAISE FROM WISCONSIN'S TWO U-S SENATORS. GLICKMAN HAS ANNOUNCED A PLAN TO BUY 700-THOUSAND POUNDS OF CHEESE EACH MONTH FOR USE IN A FEDERAL LOW-INCOME NUTRITION ASSISTANCE PROGRAM. SENATORS RUSS FEINGOLD AND HERB KOHL CALL IT A WIN-WIN SITUATION. THEY SAY THE PURCHASE WILL TIGHTEN CHEESE SUPPLIES AND HELP BOLSTER FARMERS' MILK PRICES. AT THE SAME TIME.. HUNDREDS OF THOUSANDS OF LOW-INCOME PEOPLE WILL GET ACCESS TO CHEESE AS PART OF THEIR BALANCED DIET.

WISCONSIN'S CONGRESSIONAL DELEGATION HAS BEEN ASKING GLICKMAN FOR MONTHS TO TAKE ACTION TO ADDRESS LOW MILK PRICES.

-2/21-

AN EAGLE RIVER MAN TODAY PLEADED GUILTY TO CHARGES OF CONSPIRACY TO DISTRIBUTE COCAINE AND SUBMITTING A FALSE INCOME TAX RETURN. 52-YEAR-OLD STEPHEN PSZENICZKA HAD BEEN ACCUSED IN A MADISON FEDERAL COURT OF BUYING COCAINE IN MILWAUKEE FOR DISTRIBUTION IN EAGLE RIVER. HE NOW FACES A MAXIMUM LIFE SENTENCE.. AND A FOUR- MILLION DOLLAR FINE.

(Thanks to WRLO/WATK in Antigo, for this story.)

-2/21-

A MAN SUSPECTED OF INVOLVEMENT IN A RHINELANDER ARMED ROBBERY HAS BEEN BOUND OVER FOR ARRAIGNMENT. 18-YEAR-OLD BURDETTE SHAVER OF GLEASON AT FIRST APPEARED TO BE A CUSTOMER WHEN A MASKED GUNMAN CAME INTO THE ROBBED GAS STATION. BUT PROSECUTORS THINK HE WAS ACTUALLY PART OF THE PLAN. ARRAIGNMENT IS SCHEDULED FOR MARCH TENTH. SHAVER REMAINS IN ONEIDA COUNTY JAIL.

(Thanks to John Burton, WHDG in Rhinelander, for this story.)

-2/21-

A MAN KILLED IN AN INDUSTRIAL ACCIDENT IN JUNEAU COUNTY LAST NIGHT HAS BEEN IDENTIFIED AS A 26-YEAR-OLD ELROY MAN. MICHAEL GEYER (guy-er) WAS KILLED WHEN HE GOT CAUGHT IN A PLASTICS INJECTION MOLDING MACHINE AT TAILOR MADE PRODUCTS IN ELROY. AUTHORITIES SAY GEYER WAS CHECKING ON THE MACHINE WHEN PART OF IT FELL ON TOP OF HIM. THE INVESTIGATION IS CONTINUING.

(Thanks to Jackie O'Brien, WRJC in Mauston, for this story.)

(END)

Wisconsin Dairy Products Association, Inc.

TO: Wisconsin Assembly Agriculture Committee

FROM: Wisconsin Dairy Products Association
Brad Legreid, Executive Director

DATE: February 19, 1997

RE: Senate Bill 2

On behalf of the Wisconsin Dairy Products Association, I would like to register our association's strong opposition to Senate Bill 2, a bill which would attempt to regulate trading practices on the National Cheese Exchange (NCE).

A few weeks ago, the Senate Ag Committee heard testimony from over thirty individuals, with two sides being clearly drawn up. On one side was an unprecedented unified dairy industry strongly opposed to SB2. Almost every major dairy trade association in Wisconsin, plus National Milk Producers Federation and National Cheese Institute, spoke against the bill. In addition, these associations, along with a large collection of cooperative and proprietary dairy plants, had signed a resolution opposing this proposed legislation. For many long-time dairy observers, it was rare to see such a unified show of support from the industry.

The problem with SB2 is that it's misguided. The bill is being viewed by some as a panacea to their financial problems. Because the industry has been on a pricing rollercoaster ride for the past year, there is a misperception that the NCE is the culprit and the best way to improve prices is by chasing the NCE to another state. The NCE is being used as a scapegoat for a myriad of problems in dairyland. The reality is that the NCE is not the root of the problem, it's only one symptom of an unfair dairy policy that needs a major overhaul.

It is true that it has been extremely difficult for many producers the past couple months when prices dropped rapidly. However, we must remember that dairy plants also took a beating during the rise and fall of milk prices in 1996. And, we also have to keep in mind that 1996 produced record highs for milk prices and 1997 is predicted to bring in the second highest prices in history.

If SB2 would be enacted into law, it would drive the NCE out of Wisconsin since there would be few companies willing to trade at the NCE for fear of criminal prosecution. That's because the bill states that if a company is engaged in trading activity on the Exchange, it must document that the price it sells cheese for on the Exchange is comparable to prices at that time off the Exchange. This mandate is completely unrealistic since it would be impossible for a large, national company with hundreds of outlets throughout the country to be able to obtain all potential selling prices at a specific time. The reporting requirements would be a nightmare. The bill would also make it difficult for companies to sell or buy spot loads of cheese at the Exchange due to the bill's "trading against interest" focus. For instance, if Company A is normally a buyer,

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but has a surplus of cheese it wishes to sell, it could be viewed as acting illegally. In the same vein, if Company B is normally a seller, but just picked up a new account and needs to purchase extra cheese, it too could be viewed in an unfair manner.

The bottom line is that companies would not participate at the NCE if this bill is passed for fear of criminal prosecution of their normally-accepted and fair business practices. This would force the NCE to move, but would accomplish nothing more than to give Wisconsin's dairy industry another black eye. Companies would continue trading at the NCE in Chicago, New York or elsewhere and the NCE would still be tied to the Basic Formula Price (BFP). Since it's extremely important that the dairy industry have a functioning, credible cash market, the industry would continue to participate in the NCE even if it's relocated. That's because dairy plants can no longer sell excess cheese to the government or buy it back from Uncle Sam. It needs a trading place like the NCE to maintain an appropriate inventory level. Moving the NCE will not automatically lead to higher milk prices - those prices will come from the natural workings of the free marketplace.

Wisconsin Dairy Products Association is strongly opposed to this legislation since the issue of cheese and milk pricing is a national, not state, issue. Any recommendations for modifying the NCE should come from the federal level. USDA is in the process of implementing major changes to the federal order system. As mandated by last year's Farm Bill, USDA will be drawing up new federal milk marketing regions and making revisions to the rules regulating the pricing of milk and dairy products. USDA will be giving serious consideration to the possibility of eliminating the Basic Formula Price which currently is the benchmark for establishing monthly prices. Since the National Cheese Exchange is part of the formula used to figure the monthly BFP, USDA will be carefully scrutinizing whether or not the National Cheese Exchange prices are a viable and realistic part of the pricing equation. USDA Secretary Dan Glickman has authorized USDA to conduct a 60 day public comment period to receive input on the NCE. In addition, a number of bills pertaining to the NCE have been introduced, with congressional hearings beginning this week.

It is extremely important that Wisconsin does not hinder national efforts to modify and reform a problem that has national ramifications. Therefore, the Wisconsin Dairy Products Association respectfully requests your support on rejecting Senate Bill 2.

BAL/mmp

MEMORANDUM

March 3, 1997

TO: Assembly Republican Legislators and Staff

FROM: John Liethen, ARC

RE: Commodity Futures Trading Commission Oversight of the National Cheese Exchange

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The following is a brief explanation of the CFTC decision to designate a cash settled milk futures contract at the Coffee, Sugar, and Cocoa Exchange and its impact on the National Cheese Exchange.

Commodity Futures Trading Commission and the National Cheese Exchange

Executive Summary

On February 27, 1997, the Commodity Futures Trading Commission (CFTC) designated a new milk futures contract at the Coffee, Sugar and Cocoa Exchange in New York. This action gives the CFTC the authority to oversee the actions of the National Cheese Exchange to prevent price manipulation. The CFTC now has the authority to investigate traders and trading behavior at the National Cheese Exchange and can pursue both civil and criminal remedies for anti-competitive behavior. Although the state could still regulate the National Cheese Exchange by passing Senate Bill 2 into law, such action now appears to be unnecessary and redundant with the recent decision by the CFTC.

Background

The Coffee, Sugar, and Cocoa Exchange (CSCE) is a commodity market located in New York which trades in futures and options. On November 14, 1996, the CSCE applied to the Commodity Futures and Trading Commission (CFTC) to designate a cash settled milk futures contract based on the Basic Formula Price determined by the US Department of Agriculture (USDA). Currently, there are two existing futures markets for milk at the CSCE and at the Chicago Merchantile Exchange. However, these milk futures are physical delivery futures as opposed to cash settled. When a "cash settled" futures contract comes due, cash is exchanged between the accounts of the buyer and the seller. In a "physical delivery" contract, the actual commodity or a receipt for the commodity is exchanged for cash. Under the Commodity Futures Trading Commission Act of 1974, the CFTC is given the authority to designate new commodity futures markets and regulate such markets to protect the public from price manipulation. On February 27, 1997, the CFTC gave approval to the CSCE milk futures contract based on the BFP.

What does a BFP futures market have to do with the NCE?

As stated in a January 28, 1997 memo on the "National Cheese Exchange and Dairy Prices," the price of cheese traded at the National Cheese Exchange (the Exchange) has a profound influence on the BFP as determined by the USDA. With recent CFTC approval, CSCE traders will be able to buy and sell futures based on the BFP for each month. While the CFTC maintains that it still does not have the statutory authority to regulate the trading activity at the Exchange, the new BFP futures market creates a situation in which the CFTC will have oversight of the Exchange because of its influence on the BFP.

The CFTC has the authority to regulate all futures markets. If there is an allegation of manipulation of the BFP settlement price, the CFTC can investigate the impetus of manipulation. Because of the correlation between the Exchange price and the BFP, the CFTC would be allowed to investigate the activities of the Exchange. The CFTC has the authority to demand that the

Exchange produce trading activity records or that an individual trader or any agent for a trader produce trading records. If the CFTC finds that price manipulation has occurred, it can then proceed to criminal and or civil remedies. The CFTC can issue a cease and desist order to prevent price manipulation. In addition, a court can provide a criminal penalty of no more than $1 million in fines and no more than five years in prison, or a civil forfeiture of $100,000 per violation or triple the monetary gain that was made because of the anti-competitive behavior.

As a settlement, the CFTC could also require the Exchange to adopt certain trading practices or require trading activity reporting by an individual member of the Exchange. In other words, although the CFTC may not, in fact, regulate the Exchange, a new BFP futures market provides the CFTC with oversight of the Exchange and can prevent price manipulation at the Exchange if it occurs.

<u>If milk futures already exist at the CSCE and the Chicago Merchantile Exchange, why did the CFTC not oversee the activity of the Exchange over the past few years?</u>

The existing milk futures at the CSCE and the Chicago Merchantile Exchange are not based on the BFP. It is the connection with the BFP by the new futures market which gives the CFTC the link which is necessary to ensure that the activity of the Exchange does not manipulate the BFP contract.

<u>What does CFTC oversight of the Exchange mean for milk prices? Will milk price volatility end?</u>

Whether indirect or direct regulation of the Exchange, any CFTC action against the Exchange *will not* push milk prices up. Milk prices will continue to be influenced by market supply and demand. Nevertheless, oversight by the CFTC and the potential for legal action against the Exchange or a trader *may reduce* some of the volatility producers saw during the fall of 1996. Even with regulation of any market, volatility cannot totally be avoided due to environmental, production, and demand factors which impact the price of milk. Volatility makes it difficult for farmers to budget and to plan for future production. Although the USDA is investigating the possibility of de-linking the price of cheese determined at the Exchange from the BFP, the Exchange price will continue to be used in the BFP formula until a decision is made, perhaps sometime this summer.

<u>What impact does this have on Senate Bill 2?</u>

Senate Bill 2 requires the Department of Agriculture, Trade, and Consumer Protection (DATCP) to prevent trading against interest and price manipulation at the Exchange. The Exchange will likely move from Green Bay if the Legislature and the Governor signs SB 2 into law. It appears that oversight by the CFTC of the Exchange through the new milk futures market would eliminate the necessity for state regulation, as it would be redundant and less effective.

Talking Points

- Thanks to the federal government's actions, Senate Bill 2 and any other attempt at state regulation of the NCE is now irrelevant.

- Assembly Republicans applaud the CFTC's intervention on behalf of Wisconsin's dairy farmers. In fact, we encouraged the CFTC to become involved with the NCE by unanimously passing AJR 14.

- CFTC's involvement with the NCE proves that we were right and the Senate Democrats were wrong. We stayed away from their political brinkmanship. Instead, Assembly Republicans developed and passed sound bipartisan public policy.

- While there was talk of manipulation at the NCE, the real manipulation was that of Senate Democrats using "Dairyscare" tactics on Wisconsin's farmers.

- The CFTC will now have the authority to oversee the activities of the National Cheese Exchange, to protect against price manipulation, and reduce the volatility of the market.

- A milk futures market provides the USDA with another option to replace the NCE, if necessary.

F O R   I M M E D I A T E   R E L E A S E

For more information or additional comment:
Contact State Representative Joe Schmoe at (608) 266-1234

SCHMOE APPLAUDS OVERSIGHT OF CHEESE EXCHANGE
Bipartisan public policy triumphs over Democrats' "Dairyscare"

RIVERBOTTOM – State Representative Joe Schmoe (R-Riverbottom) today applauded the Commodity Futures Trading Commission's (CFTC) decision to allow milk futures trading on the Coffee, Sugar and Cocoa Exchange.

The move will provide federal oversight of the National Cheese Exchange (NCE) and make any attempt at state regulation of the NCE irrelevant.

"The CFTC will now have the authority to protect Wisconsin's farmers and all consumers from price manipulation," Schmoe said. "The CFTC's authority will apply a chilling effect on any attempt to fix the market."

By approving the new cash-settled milk futures contract, the CFTC has the ability to protect against price manipulation by having the authority to investigate trading practices, assess civil and criminal penalties, and order traders to correct their trading behavior.

"The CFTC's involvement proves that Assembly Republicans were right and the Senate Democrats' 'Dairyscare' tactics were wrong," Schmoe said. "Good public policy has prevailed again."

The USDA is currently undergoing a process to determine whether the NCE price for cheese should be considered in the basic formula price under the federal milk marketing orders. The milk futures market provides the USDA with another option to replace the NCE, if necessary.

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