

LET'S LOOK BEFORE WE LEAP ON PRICING CHANGES

EVERYBODY'S so darned mad and frustrated about the basic formula price and the National Cheese Exchange that it seems obvious there must be a change. But the more we learn, the less we're convinced that scrapping the current system will improve the situation.

We need to ask, "Is the system broke, or is our industry still learning to handle low (and eventually disappearing) price supports?" Most people predict much less price volatility this year and beyond. We may never see a repeat of 1996. Here's why:

Higher supports in the past provided a price level below which cheese, butter, and powder prices could not fall. This floor prevented big price drops. On the upside, there was the government's inventory and sell-back provision. If commodity prices edged up to more than 10 percent above support, the CCC would put product back on the market, eliminating big price jumps.

Now there are no government stocks for marketers of dairy products to purchase. All supplies must come from the marketplace. And what a thin line there is between plenty and panic.

Sluggish milk production, uncertainty about the corn and bean crops, and reasonably strong demand for dairy products also were part of 1996's unique mix. The price volatility that resulted won't soon be forgotten.

But our memories can become selective. Certainly, the \$3.13 per hundredweight crash in the Hoard's Dairyman Farm milk price between our October and December checks stands out more than the gradual \$3.28 rise between March and October.

Now, will getting rid of the basic formula price, with its lock-step tie to cash cheese prices, improve the situation? Few people we talk to are convinced.

DON'T SHUT DOWN THE NATIONAL CHEESE EXCHANGE

A BILL wending its way through both houses of the Wisconsin legislature would force the National Cheese Exchange to find a new home in a different state or to close. As this is being written, Wisconsin Governor Tommy Thompson is in Washington, D.C., visiting Secretary of Agriculture Dan Glickman; topic of discussion is removing the influence of NCE on the basic formula price.

The article on page 129 of this issue spells out the influence NCE has on U.S. milk pricing. It has a tremendous effect, in addition to being used to update the Minnesota-Wisconsin price in order to establish the basic formula price. No milk or cheese price in the country can be separated from the Cheese Exchange.

Despite being a poor farm milk price discovery mechanism, the influence of the Exchange would be sorely missed by cheese buyers and sellers and calculators of the BFP. Something close akin to the NCE will develop somewhere else. Admittedly,

Alternatives include a survey of cheese price transactions from across the country and various economic formulas. All of these options have problems of their own, not the least of which is that they are, in fact, themselves tied to National Cheese Exchange prices. Perhaps as much as 90 percent of cheese sold in the U.S. is based on the cash price at Green Bay, plus or minus some amount. So basing milk prices on transaction prices doesn't get us away from the National Cheese Exchange.

Besides, there's concern that transaction prices may not be reliable without close (and costly) government audit. Sellers will want to report "high" buyers, "low" use of end-product prices to establish base milk prices has many of the same problems.

We've neither heard nor seen compelling evidence that any of the alternative pricing mechanisms will result in less price volatility or put a more representative value on milk. Some people would like to see the futures markets play a role. Unfortunately, the dairy industry (and the need ed speculators) have not embraced futures trading. Hopefully, futures will grow into a more effective dairy marketing tool.

The National Cheese Exchange is considering electronic trading which could do two things. This change has potential to boost trading volume and, perhaps, result in more trading opportunities which could cut down session-to-session price swings. Frankly, one reason there hasn't been more exchange volume is because of the negative publicity heaped on co-ops and companies that trade.

All we're asking is that the industry "look before it leaps" when making milk pricing changes. Before we scrap the system we have now, let's make sure that a replacement is an improvement.

the Cheese Exchange, as we know it, has outlived its usefulness. However, the industry, especially dairy farmers, can't afford to get rid of it before there is something else in place.



112 Years ago . . .

Mr. Goodrich took a census of 100 of those patrons, and among them there were men who made \$2.08 for every dollar they spent in feed, and there were men who lost 30 and 40 cents for every dollar they spent in feed.

W.A. Hoard
Founder, 1885

COST-OF-PRODUCTION WON'T WORK

DON'T bet the pen of high producers that U.S. milk will ever be priced off the farm by cost-of-production, plus a reasonable profit.

We realize the title and the first sentence of this Editorial Comment will irritate a tremendous number of people. Many of the e-mails, faxes, phone calls and letters we've received recently are promoting USDA's cost-of-production figures as a place to begin when pricing milk at the farm. It is a popular concept now and viewed by many as the route to high milk prices and the answer to dairy farms ill.

There are a number of reasons why the idea won't happen:

1. **Politics:** In order to use cost-of-production to price milk, it would take a national effort. Everyone must be in the program, or it will not be effective. Because dairy farmers won't get together and develop a program on their own, the only one hope of success — national legislation. Frankly, your representatives in Washington are sick of dairy, and necessary legislation to allow such a pricing mechanism has no chance.

2. **Supply control:** For cost-of-production to work, you must control output. Why? No matter what price level you choose, there will be a number of dairy operators who can produce milk at significantly less cost and will do so. If the price is as high as some suggested to us, it will be tremendously profitable for some operators; they will expand. Also, there is significant opposition to supply control from within the industry and outside; politics again.

3. **Cost and profit level:** USDA does publish annual cost-of-production figures for six areas of the U.S. and an average for the entire U.S. What do you use, total variable cash expense (\$10.83 for 1995 versus \$11.35 for 1994) or total economic costs (\$15.97 for 1995 versus \$16.49 for 1994)? Do you tailor by region? What reasonable profit do you build into the figure?

4. **Withhold milk:** Without legislation to curtail supplies, the only bargaining chip for high prices is milk withholding. On the farm, especially with milk, there is a huge problem: All costs of production continue during a withholding action. You get zero income when milk runs down the drain, but feed and other milk production costs continue; not so when labor strikes.

5. **Prohibit entry:** With cost-of-production as a basis for pricing milk, do you enhance the price from where it would be with the current system, supply and demand? From the material we've received, most would say, "yes." We asked one caller, "We can make a lot of money with \$18 to \$20 milk. If you get the milk price up there, how are you going to keep us from getting into the dairy business?" In short, how do you keep others out of the business in order to manage supplies — two tier, self help, quotas, licenses?

Hoard's Dairyman Feb. 25, 1997

Wausau Meeting
3-11-97

Hank Van Dyke
Box 127
New Richmond, WI
54017

Copy of
SB2

STATE OF WISCONSIN

To Ben

Date 2/26 Time 11:09

WHILE YOU WERE OUT


M Hank Van Dyke
~~at~~ President - Holstein
assoc

Phone _____

Telephoned	Please Call	<input checked="" type="checkbox"/>
Called to See You	Rush	<input type="checkbox"/>
Returned Your Call	Will Call Again	<input type="checkbox"/>

Message SB2

715-246-6806 (Dor
ville)

after 7:30 PM
 715-246-5454 (Home)
Party Receiving Call

715-246-5557 (Ben)

They have a note coming up + wants to get
accmate into on SB2.

Lawyer



**WISCONSIN
FARMERS
UNION**



MEMO

To: All State Representatives
From: David H. Nispel
Subject: SB-2, National Cheese Exchange
Date: January 27, 1997

The members of the Wisconsin Farmers Union (WFU) respectfully urge you to support SB-2 when it is considered in the Assembly. On Tuesday, January 28th, the full Senate will debate SB-2 on the floor. This bill, which has bi-partisan support in both the Senate and Assembly, is a significant part in the total effort to reform the National Cheese Exchange (NCE) and the milk pricing system. We wanted to inform you about the Senate vote at this time.

On Tuesday, January 21st, the Senate Committee on Agriculture and Environmental Resources voted 5-0 to report the bill to the full Senate. The Committee heard over 4 hours of testimony from more than 25 speakers. The bill was approved in the form of a committee substitute amendment.

The NCE must be changed now. The members of the WFU believe that without immediate action, and without ongoing pressure on both the State and federal levels, the NCE will continue to hold hostage dairy farmers milk checks and livelihoods. This legislation will prohibit the "trading against interest" practice which exists on the NCE. This trading practice exists when someone offers to sell cheese on the exchange at a price lower than he or she could receive off the exchange, or offers to buy cheese on the exchange at a price higher than he or she would pay off the exchange. This trading practice is deadly for Wisconsin's dairy farmers, and is a major factor in the decline in milk prices.

SB-2 represents a significant step in the total process of changing the cheese exchange and the way in which milk prices are determined in this country. We recognize that other action also must be taken, and we are working on that with our national office, members of the Wisconsin congressional delegation, and other agricultural groups.

Wisconsin's dairy farmers do not need another study of this issue. Also, a resolution asking the USDA to change the milk pricing system, while a good idea, will not accomplish anything other than sending more paper to Washington. We urge you to support SB-2 when it comes to the floor for a vote. Thank you very much.

Dairy Talk

Cheese conspiracies and other fantasies

■ How could this happen? How could cheese prices nose-dive 21.5¢ one bleak week in October, and then just keep right on going?

There has to be a rat buried under this manure pile somewhere, tunneling away until the whole thing collapses, right? Maybe. But probably not.

I had the opportunity to spend an afternoon cruising USDA's databases via the Internet over the holidays. And a funny thing happened on the way to my conspiracy theory.

It might not have seemed so back in October, and maybe it's Monday morning quarterbacking now, but USDA's numbers tell a fairly compelling supply-demand story that was unfolding this past summer and fall.

The market crash occurred Oct. 18. This came three days after September milk production numbers were released by USDA.

Nationally, milk production was still down 1% from year-earlier levels. With

this reduced production, everyone assumed that production was tight. And that suggested something very sinister in the cheese markets three days later.

But you have to look a bit further—at the pattern of production that was emerging:

- Wisconsin milk production was still down 2%, but more importantly, it was clearly on the rebound from June and July (down 6%) and August (down 4%).

- California was up 3% in September, recovering from August's 1% dip and dispelling fears of a summer heat-stress disaster that was being widely and wildly reported.

- Idaho was up 14%, continuing on the 12% gains of June and July, and a 13% jump in August.

- Only Minnesota, the last remaining cheese production giant, was off 1%. But here in the Gopher State, July and August production

had held steady, and a 1% drop was nothing to get concerned about.

Then, on the cheese-production side, August numbers (available Oct. 2), showed continued strength. Total U.S. cheese production was up 6% over year-earlier numbers; American cheese production was up 8%. Again, both cate-

gories were coming off a strong summer. Total cheese production was up 6% in both June and July; American cheese production was up 8% in July and 9% in June.

When you add up all of this, then compare it to cheese sales this fall (up just 3%), you can come to only one conclusion: There was a heck of a lot of cheese around, production was back on track—and \$1.70/lb cheese prices just weren't going to be sustainable.

The next question is whether markets have dropped too far. Most agree that they have.

But, remember that everyone, and I mean everyone, wanted to do away with the dairy price support program and the budget assessments last year. Get rid of them, at any cost, was the battle cry.

Well, that bill is now due. It's called volatility. Prices can soar to record highs, and plunge at break-neck speed.

I almost wish there was a conspiracy at the National Cheese Exchange. We'd simply arrest the bums, throw 'em in jail, and go back to \$1.70 cheese prices.

If only it were that simple.



Jim Dickrell

Jim Dickrell
Editor

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Testimony of the

WISCONSIN FARM BUREAU FEDERATION

on **Senate Bill 2** before the
Senate Committee On Agriculture And Environmental Resources
January 21, 1997

Chairperson Clausing and Committee Members, Hello.

I am Dave Daniels, a dairy farmer from Kenosha and Chairman of the Wisconsin Farm Bureau Dairy Advisory Committee. On behalf of the Wisconsin Farm Bureau, wish to testify for information only on Senate Bill 2.

Wisconsin Farm Bureau policy states, "Milk should not be priced by the sale of cheese at the National Cheese Exchange in Green Bay." Farm Bureau members firmly believe that the United States Department of Agriculture should not use the National Cheese Exchange as a price discovery mechanism for determining dairy farmer milk prices. Farm Bureau members recognize that this is a national issue that needs to be addressed through federal order reform. The Wisconsin Farm Bureau, along with numerous other dairy interests as part of the Upper Midwest Dairy Coalition, are working together to achieve changes in milk pricing that is of concern to every Wisconsin dairy farmer.

While we appreciate efforts to improve Wisconsin's dairy industry, Senate Bill 2, as currently drafted, actually could harm Wisconsin dairy farmers. To illustrate, farmer owned cooperatives would be prevented from purchasing cheese on the exchange at a higher price if cheese could be purchased off the exchange a lower price. Recently three major farmer owned dairy cooperatives discussed forming a joint purchasing effort to purchase cheese for sale on the National Cheese Exchange with the intent to enhance farmer income. Senate Bill 2 would then open these cooperatives up to potential lawsuit for trading against interest. This would not be in the best interest of Wisconsin dairy farmers.

Farm Bureau would support legislation that prohibits price manipulation and is willing to work with you in drafting appropriate legislation that will accomplish this goal.

It is the position of the Wisconsin Farm Bureau that regulatory oversight of the National Cheese Exchange should be done at the Federal level. Over the last three farm bills, the Wisconsin Farm Bureau has requested Congress and the USDA to change our federal dairy pricing system. Farm Bureau welcomes the support of dairy producers to make this happen.

Thank you for the opportunity to testify. I will gladly answer any questions.



State Senator

Alice Clausing



**TESTIMONY IN FAVOR OF SENATE BILL 2
(NATIONAL CHEESE EXCHANGE BILL)
BY SENATOR ALICE CLAUSING
JANUARY 21, 1997**

SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENTAL RESOURCES

I appreciate the committee members' willingness to meet on such short notice to consider Senate Bill 2.

The dairy industry annually records almost \$3 billion dollars in milk receipts providing tens of thousands of jobs in processing, servicing, education, and marketing. Dairying is a part of our past and continues to be an industry woven into the fabric of our culture.

Despite our economic reliance on the dairy industry, there is a crisis in America's Dairyland. We are losing over 2,000 family dairy farms a year - that's more than three a day! Prices of supplies needed to produce milk have sky-rocketed while milk prices received by family farms have remained at levels paid to them over fifteen years ago.

This problem was exacerbated by a huge drop in the price of cheese on the National Cheese Exchange (NCE) this fall. Since the pricing formula for raw milk is based on the price of block cheddar prices set at the NCE, the price farmers received for their milk also tumbled. Since October, milk prices tumbled almost 25% in line with dropping cheese prices paid for cheese at the NCE. For every 10-cent fall in cheese, milk prices sink by about \$1. Dairy farmers have seen their incomes slashed by about \$2,200 per month, which equates to a pay cut of about 20%. How long can they be subjected to this?

Now is clearly the time for action. Our U.S. Senators have worked with the U.S. Secretary of Agriculture to speed up federal government purchases of cheese. Federal officials are considering creating and expanding other cash and futures markets for cheese that would produce alternate trading opportunities. Our state's Cheese Task Force has recommended that the USDA make several changes in the determining factors for the Basic Formula Price and that the Federal Trade Commission and Commodity Futures Trading Commission re-evaluate their regulatory authority over the NCE. These are long-term solutions which may take months or years to change, but they do not address the urgency of the problem.

This is not enough. The state needs to do whatever is within its power at this time to ensure that our farmers have an opportunity to receive a fair price for their life's work. We can



start by reforming the NCE. The NCE is the forum and the stage to manipulate cheese and milk prices.

The price of milk is tied closely to the price of cheese as established by trade on the NCE. A study conducted by the UW-Madison Department of Agricultural Economics found that four companies accounted for 88% of all sales on the NCE during the time period studied. These are some of the nation's leading buyers of cheese in transactions off the exchange. The concentration of major cheese traders provides them with the opportunity to drive down prices by SELLING cheese instead of buying as they normally would. Thus, the study indicates that, as currently organized, the NCE appears to facilitate market manipulation -perhaps at least partially explaining the 30% drop in cheese prices since late September.

The state has the power to address this problem. Under a section of our state statutes called the "Little FTC Act" (ss 100.20), Wisconsin has the authority to ensure fair trading practices. These statutes mirror and complement federal anti-trust laws. In addition, DATCP is given broad authority under state statutes to ensure the orderly marketing of agricultural products through the administrative rule-making. In fact, DATCP drafted legislation to strengthen Wisconsin's cheese trading standards, but the plan was rejected by the Governor's Cheese Task Force.

Senate Bill 2 is a legislative proposal patterned after DATCP's proposed rule. SB 2 prohibits anyone from engaging in actions on or off the NCE with the intent to manipulate artificially the price of milk or cheese. It also prohibits a practice called trading against interest, which covers activities like:

- selling cheese on the NCE at a price less than what could have been received off the exchange,
- buying cheese on the NCE at a price higher than the purchase price that could have been received off the exchange,
- acting primarily as a seller of cheese on the NCE while acting primarily as a buyer off the NCE, and
- acting primarily as a buyer of cheese on the NCE while acting primarily as a seller off the NCE.

My plan will further strengthen DATCP's enforcement capabilities in relation to trading on the NCE. This is one of the few opportunities the state has to control these unfair trade practices, and we should act quickly to prevent further manipulation of prices on the NCE, which occurs at the expense of our dairy farmers.

The historic price drop from earlier this fall will cost the dairy state \$55 million in losses. Considering that each dollar circulates from five to seven times in the economy, Wisconsin's rural economy stands to lose over \$385 million each month these lower prices are in effect. That is the cost to our farmers and our state of doing nothing to change unfair trade practices.

This bill is the hammer that will force changes to the status quo. Violators of this law are subject to court injunctions, civil forfeitures, and criminal penalties. Persons suffering

monetary loss may also sue the violator directly and recover double damages, costs, and fees.

I do not want to see snowmobile trails closed. I do not want to see a milk strike. I certainly do not want to see family farmers forced out of business because they can not get a fair price for their product. I want to see action. SB 2 is the vehicle to ensure that Wisconsin farmers are not the victims of a system that condones unfair trading and price manipulation.

Members of the NCE have nothing to fear with the passage of SB 2 as long as they are not trading against interest. SB 2 only applies to trading practices which manipulate the market. NCE - if the shoe fits, put it on.

I thank you in advance for your attention to this matter, and I encourage your swift approval of SB 2.

SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENTAL RESOURCES

SENATE

RECORD OF COMMITTEE PROCEEDINGS

Senate Bill 2

AN ACT relating to regulation of various trading practices on the National Cheese Exchange (Introduced by Senators Clausing, Rude, Decker, Shibilski, Plache, Moen, Burke, Schultz, Wineke, Jauch, Risser, Potter, Grobschmidt, Chvala, co-sponsored by Representatives Springer, Albers, Musser, Reynolds, Skindrud, Dueholm, Baumgart, Otte, Plouff, Bock, Hasenohrl, Ourada, Boyle, Black, Vander Loop, R. Young, Baldwin, and Linton)

January 15, 1997

Referred to committee on Agriculture and Environmental Resources.

January 21, 1997

PUBLIC HEARING HELD

Present: Senators Clausing, Shibilski, Wirch, Lasee, and Zien

Absent: None

Appearances for the bill:

Senator Alice Clausing, 10th Senate District
Darin Von Ruden, dairy farmer
John Kinsman, Family Farm Defenders
Eugene Larson, dairy farmer
David Abt, dairy farmer
Francis Goodman, American Raw Milk Pricing Association
Madeline Flogel, dairy farmer
John Hemmersbach, dairy farmer
Mark Kastel, Farm Policy Consultant
Susan Strom, dairy farmer
Bill Pfaff, Association of Wisconsin Snowmobile Clubs
Morris Nelson, Association of Wisconsin Snowmobile Clubs
Steve Honish, dairy farmer
James Uebersetzg, Wisconsin Farmers Union
Gregory Blaska, Wisconsin Farmers Union
Janet Piraino, U.S. Senator Russ Feingold
Christopher Dodge, Midwest Equipment Dealers Assoc.
Bill Brey, President, Wisconsin Farmers Union

Appearances for information only:

Dave Daniels, Wisconsin Farm Bureau

Appearances against the bill:

Alan Tracy, Secretary, Department of Agriculture, Trade,
and Consumer Protection

John Umhoefer, Wisconsin Cheese Makers Association

Brad Legreid, Wisconsin Dairy Products Association

Will Hughes, Wisconsin Federation of Cooperatives

Jim Bird, National Milk Producers Federation

Jim Sartori, National Cheese Institute

Joan Behr, Foremost Farms USA

Bill Brooks, Mid-American Dairymen, Inc.

Richard Wagner, Weyawega Milk Products, Inc.

Deborah Van Dyk, Schreiber Cheese/Marathon Cheese

Dennis Kasaboski, Alto Dairy

Terry Nagle, Land O' Lakes

Bryan Smith, Borden Foods

Registrations for the bill:

Bill Wenzel, Wisconsin Rural Development Center

Ron Statz, National Farmers Organization

David Nispel, Wisconsin Farmers Union

Representative Bob Dueholm, 28th Assembly District

Senator Brian Rude, 32nd Senate District

Representative Cliff Otte, 27th Assembly District

Andy Janssen, Representative Tom Springer

Registrations against the bill:

James Buchen, Wisconsin Manufacturers and Commerce

Chris Tackett, Wisconsin Merchants Federation

Nicholas Jordan, Beatrice Cheese

John Fridirici, Grande Cheese Company

January 21, 1997

EXECUTIVE SESSION

Present: Senators Clausing, Shibilski, Wirch, Lasee, and
Zien

Absent: None

Moved by Senator Shibilski, seconded by Senator Wirch,
that Senate Substitute Amendment 1 be introduced and
adopted by the Senate Committee on Agriculture and
Environmental Resources

Ayes: (5) Senators Clausing, Shibilski, Wirch, Lasee, and
Zien

Noes: (0)

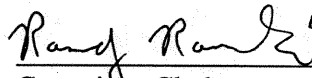
Motion carried: Senate Substitute Amendment 1 adopted

Moved by Senator Shibilski, seconded by Senator Lasee,
that Senate Bill 2 be recommended for passage

Ayes: (5) Senators Clausing, Shibilski, Wirch, Lasee, and
Zien

Noes: (0)

Motion carried: Senate Bill 2 passed as amended

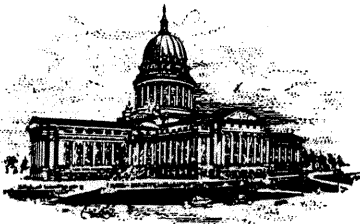


Committee Clerk



Substantive arguments against SB 2

- The problem isn't that SB 2 will drive the National Cheese Exchange out of state. The problem is that SB 2 is a law being advocated by people who don't like free markets and don't understand free markets. So when prices come down – as they do on all free markets, just as they go up – even if they come down after the year of the highest milk prices in history, those people want to regulate free markets in an effort to keep prices high, even if they would be artificially high.
- If this bill is such a good idea, how come there is no other law like it anywhere in the United States? How come no other exchange is subject to such a law? How come the only exchange that would ever be subject to a law anything like it is the single exchange in Wisconsin?
- Why should it be illegal for a coop that's primarily a seller of cheese off the cheese exchange to be primarily a buyer on? Why should trading that would be perfectly lawful on any other exchange in the United States -- or as far as we know, the world -- be illegal on one exchange in Wisconsin? Because someone decided to call it "trading against interest"?
- How is a buyer of cheese on the exchange supposed to know whether it could buy cheese for less off the exchange at about the same time? Is it supposed to call every possible seller to find out whether they have cheese to sell and for how much? Does a seller have to call every possible buyer? Who are all the possible sellers and buyers? Why should we make coops and cheese companies do this? That's what a centralized exchange like the NCE is for, to make it possible to find a buyer or seller without having to make endless rounds of phone calls to people who may or may not want to sell cheese, or may or may not want to buy it.



Wisconsin State Assembly

P.O. BOX 8952 • MADISON, WI 53708

For Immediate Release – February 26, 1997

Contact: Sandy Chalmers (608) 266-7746; Kim Markham (608) 266-5831

ASSEMBLY REPUBLICANS RAIL AGAINST MANIPULATION OF STATE'S DAIRY FARMERS

*Assembly Speaker says politics, not helping dairy farmers,
is behind Clausen/Springer proposal*

MADISON -- Assembly Speaker Ben Brancel (R-Endeavor) and a number of Assembly legislators today questioned the motives of politicians giving false hope to struggling dairy farmers.

"If dairy farmers could be helped by state regulation of the National Cheese Exchange, we would take immediate action," Brancel said. "But the bottom line is that the federal government—not state government—have responsibility for setting milk prices."

Speaker Brancel pointed out that there have been a number of attempts made to push USDA Secretary Dan Glickman to act quickly to decouple the Basic Formula Price for milk from prices set by the Cheese Exchange.

Representative Al Ott, Chair of the Assembly Agriculture Committee, said one of the first actions of the legislative session was to ask Secretary Glickman for quick action to help Wisconsin dairy farmers and to request that federal regulators take a careful look at Cheese Exchange trading practices.

--more--

add 1

"It's unfortunate that dairy farmers are being given false hopes about an immediate solution to the milk-price problem," Ott said. "Unfortunately, imposing politically motivated state regulations on the Cheese Exchange here will only chase the Cheese Exchange around the country, and that won't help dairy farmers."

"We must maintain the focus on pressuring the USDA to take action to help Wisconsin's dairy farmers," Representative Sheila Harsdorf, a dairy farmer from River Falls, said. "To help Wisconsin's dairy farmers, the federal government must eliminate using the Cheese Exchange to establish the Basic Formula Price, must regulate the National Cheese Exchange wherever it is located, and must reform federal milk-marketing orders "

Representative Scott Jensen (R-Waukesha), co-Chair of the Joint Finance Committee, said, "The Cheese Exchange bill won't help a single dairy farmer in Wisconsin. This bill is a cruel hoax, and that's why the state's largest farm organizations do not support it."

According to committee hearing records on the Cheese Exchange bill, the following groups did not support the bill: Wisconsin Federation of Cooperatives, Wisconsin Farm Bureau Federation, and the National Milk Producers Federation.

Representative David Ward (R-Fort Atkinson), an active dairy farmer, said that he's felt the pinch of declining milk prices. "Federal agricultural officials need to take a long, hard look at how milk prices are set," he said. "There is no connection between increasing state regulation of the Cheese Exchange and federal milk prices."



WISCONSIN LEGISLATURE

P.O. Box 7882 • Madison, WI 53707-7882

For immediate release

For further information: Alice Clausing at 608-266-7745 or Tom Springer 608-266-1182

FARMERS, CONSUMERS DENOUNCE ASSEMBLY INACTION

(Madison) "We have a crisis in America's Dairyland! We are losing three to five farmers a day, and the Governor and Assembly leaders are doing nothing to help save the people who feed us," said Senator Alice Clausing, author of the Fair Milk Price bill, Senate Bill 2. Clausing's bill prohibits unfair trading practices on the National Cheese Exchange (NCE), which has been accused of manipulating cheese prices, affecting the price farmers receive for their milk.

After swift passage in the Senate, the Fair Milk Price Bill has hit a brick wall in the Assembly, where Republican leaders have referred the bill to the Joint Finance Committee to die from inaction.

Representative Tom Springer (D-Mosinee), co-sponsor of the Fair Milk Price bill, denounced Assembly inaction. "Two years ago, Assembly Republicans touted their rural agenda. Now, when farmers need them the most, where are they?"

Westby dairy farmer Darin Von Ruden also blasted Governor Thompson and Assembly Republicans for their inaction on the Fair Milk Price bill. "Governor Thompson, Assembly Speaker Ben Brancel, and Joint Finance Committee Co-Chair Scott Jensen are siding with the agri-business lobbyists that are robbing hard working dairy families and shutting them down. Without action in the State Assembly, our hope to put an end to the hanky-panky on the NCE is dead!"

"As you all know, Governor Thompson has provided national leadership on welfare reform and spearheaded a new Milwaukee Brewers stadium," said Clausing. "Where is the Governor's dynamic leadership to help farmers and our number one \$3 billion dairy industry? Money is power, and dairy farmers have a long row to hoe when competing against corporate interests like Phillip Morris."

The legislators stress that the state has the authority under its "Little FTC Act" (ss. 100.20) to regulate unfair trading practices. A UW-Madison study completed last year indicates that the NCE provides large cheese corporations with a forum to manipulate the market for milk and cheese. The Fair Milk Price bill prohibits any individual or corporation from undertaking a systematic pattern or practice of intentionally manipulating the price of milk or cheese.

"Our Governor consistently preaches bringing control to the states," said Clausing, "But, when it comes to promoting fair milk pricing and helping our farmers, he wants the federal government to solve our problems. We have the hammer to force the issue at the federal level, but the Governor is hog tied by corporate cheese interests."

-MORE-

Cheese corporations and industry representatives who oppose the bill say that it will not accomplish anything because the NCE will move out of state if it is subjected to state regulations.

"The perceived risk is that the Cheese Exchange might leave Wisconsin ... Let them go," said Mark Kastel, independent farm policy analyst out of LaFarge. "We are talking about losing 1 ½ full-time employees in Green Bay on the NCE vs. losing 1,500 dairy farmers a year. The Governor's sitting on his hands. It's time to send him a wake-up call!"

Joining Clausen and Springer to urge Assembly action on the Fair Milk Price bill were a host of farmers, farm organizations, small business leaders, and consumers.

-END-

Substantive arguments against SB 2

- The problem isn't that SB 2 will drive the National Cheese Exchange out of state. The problem is that SB 2 is a law being advocated by people who don't like free markets and don't understand free markets. So when prices come down – as they do on all free markets, just as they go up – even if they come down after the year of the highest milk prices in history, those people want to regulate free markets in an effort to keep prices high, even if they would be artificially high.
- If this bill is such a good idea, how come there is no other law like it anywhere in the United States? How come no other exchange is subject to such a law? How come the only exchange that would ever be subject to a law anything like it is the single exchange in Wisconsin?
- Why should it be illegal for a coop that's primarily a seller of cheese off the cheese exchange to be primarily a buyer on? Why should trading that would be perfectly lawful on any other exchange in the United States -- or as far as we know, the world -- be illegal on one exchange in Wisconsin? Because someone decided to call it "trading against interest"?
- How is a buyer of cheese on the exchange supposed to know whether it could buy cheese for less off the exchange at about the same time? Is it supposed to call every possible seller to find out whether they have cheese to sell and for how much? Does a seller have to call every possible buyer? Who are all the possible sellers and buyers? Why should we make coops and cheese companies do this? That's what a centralized exchange like the NCE is for, to make it possible to find a buyer or seller without having to make endless rounds of phone calls to people who may or may not want to sell cheese, or may or may not want to buy it.

Are Grocers Getting Fat by Overcharging for Milk?

By SCOTT KILMAN

Staff Reporter of The Wall Street Journal

On the Wisconsin dairy farm owned by Darin Von Ruden, the value of milk has plunged since October. But at the nearby Hansen's IGA grocery, no comparable decline has occurred in the retail price of milk.

This infuriates Mr. Von Ruden. He and other dairy farmers throughout the country believe the grocery industry is gouging consumers. Joining scattered protests across the Farm Belt, Mr. Von Ruden and about 60 neighboring farmers last month dumped or donated tens of thousands of gallons of their milk.

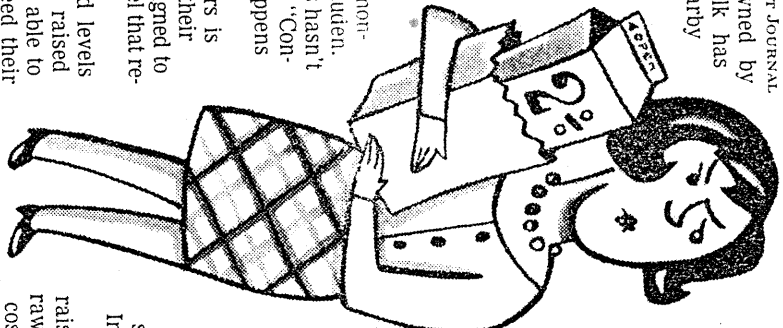
"We're thinking about more demonstrations," says 29-year-old Mr. Von Ruden. Conceding that the issue of milk prices hasn't caught fire with the public, he adds: "Consumers in the city don't know what happens on the farm."

What particularly irks dairy farmers is that they spent \$70 million last year on their "Got Milk?" advertising campaign designed to shore up U.S. consumption. Farmers feel that retailers are reaping most of the benefit.

Raw-milk prices jumped to record levels last summer, when a grain shortage raised fears that dairy farmers wouldn't be able to find enough corn and soybeans to feed their cows. Then, surprisingly large harvests in the fall ended the grain crisis, and the price of raw milk sank 22%—to an even lower level than before the scare.

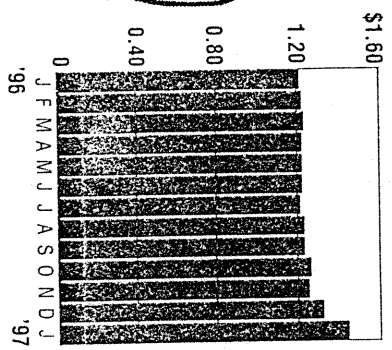
That decreased by billions of dollars the revenue of the nation's 127,000 dairy farmers. Mr. Von Ruden, who tends about 50 Holstein cows, put off plans to buy a personal computer for his business.

Few food companies or retailers have repeated the price increases they passed along to shoppers. Asked why, most assert that the retail price of dairy products is complicated and mysterious. The price of milk "is just one of many factors" influencing the store price of dairy products, says a



Rising Retail Profit

The difference between the raw milk cost and the retail price of milk in dollars per gallon in the New York area



Source: New York State Department of Agriculture and Markets

spokeswoman for Marsh Supermarkets Inc., an Indianapolis-based grocery chain.

It was simple enough last year, when retailers raised prices to compensate for the rising cost of raw milk. Raw milk represents roughly half the cost of making bottled milk, and milk products are the biggest expense of manufacturing cheese and butter. The government's Consumer Price Index for dairy products leapt 10.1% in 1996, the biggest price jump anywhere in the supermarket.

Bakers and millers aren't always quick to pass along their savings to consumers when crop costs recede. But grain is a much smaller part of the cost of making most baked goods than milk is of most dairy products.

Ice cream prices climbed 9.9% last year. Ben & Jerry's Homemade Inc. raised prices by a dime a pint. Haagen-Dazs, which is owned by Grand Metropolitan PLC, raised prices by 20 cents. Prices aren't retreating now because



"there are a lot more components" to ice cream than raw milk, says a Haagen-Dazs spokeswoman, adding: "We generally don't comment on pricing."

According to the most recent surveys by the U.S. Bureau of Labor Statistics, the average retail price of a gallon of whole milk eased just 0.7% in December to \$2.73. The average retail price of a pound of American processed cheese slipped just 1.6% to \$3.59 a pound.

Store surveys in January by some state governments found relatively little price-cutting. The retail price of a gallon of milk in a plastic jug sold in New York City last month was \$2.72 a gallon, according to that state's Department of Agriculture and Markets, down just 4.2% from its November peak. The last time retail milk prices reached so lethargically to such a big price drop at the farm level was 1990, an experience that prompted the New York Legislature to pass a law specifically banning price-gouging on milk.

"We're seeing retail prices lag behind again," says Charles Huf, a top official in New York State's agriculture department. "We're going to be watching this closely."

The problem is chronic. According to a recent study by the U.S. Department of Agriculture, it takes more than a year for the full impact of a decline in raw-milk prices to reach consumers. And the dairy industry has become a frequent target for antitrust investigations.

Economists and Wall Street analysts say grocers, who generate about 6% of their sales from dairy products, are taking advantage of lower raw-milk costs to sweeten their bottom lines. "It's margin-building time again," says John Urbanchuk, an economist at AUS Consultants Inc., a Moorestown, N.J., economic forecasting firm.

America's increasingly urbanized shoppers don't know enough to complain because few have any connection to the farm anymore. "Consumers nowadays only

Please Turn to Page B13, Column 1

MEDICINE

Debating a New Way to Prevent Strokes

By RON WINSLOW

Staff Reporter of The Wall Street Journal

A tiny device called a stent has revolu-

TELEVISION

TV Study Tips, Lectures Win

Chinese Viewers

Aide

by

Reporter
high-rank-
official in
lying to a
investigating

Jackson, who re-
lative direc-
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market in 1996, right on the heels of Unilever PLC's Mentadent, with 11.4%, Procter & Gamble Co.'s Crest lends with a 27.4% share; Colgate holds about 18.9%. "We are not going to overtake Crest and Colgate anytime soon, [but] we have been sneaking up," says Rich McWilliams, Aquafresh brand manager.

Aquafresh's strategy was based on consumer research that showed whitening products accounted for just 5% of tubes sold each year, even though 15% of toothpaste users considered it a key benefit. Consumers were worried about the long-term impact on teeth from using whiteners every day and fretted over their high prices, about \$7 for a tube.

Do Grocers Overcharge for Milk?

Continued From Page B1

notice when their prices go up," says Jim Kneatsey, president of Cambridge Financial Management Inc., which advises food companies.

Of course, farmers wouldn't be making an issue of retail prices — or rallying on behalf of the consumer — if their own milk checks were fat. One reason dairy farmers are being paid less by cheesemakers and milk bottlers can be traced to an organization called the National Cheese Exchange in Green Bay, Wis. Oddly, the price of raw milk nationally is influenced to a large extent by a handful of cheese manufacturers who gather for roughly a half-hour each Friday morning to swap cheddar cheese at the Exchange.

Those trades, which are tabulated on chalkboards, represent a tiny fraction of cheese manufactured in the country. But the bids at these sessions ultimately show up in milk prices. For one thing, the USDA began using them two years ago to update its monthly survey, which is used as the benchmark for what dairy farmers in different regions are paid.

Trading at the National Cheese Exchange is dominated by cheese grants such as Kraft Foods Inc., a unit of Philip Morris Cos. Dairy farmers complain that

taking no chances: Consumers buying the new Colgate toothpaste at Giant Eagle Markets Co., a Pittsburgh grocery chain, get a two-for-one coupon on Aquafresh. Whitening for their next shopping trip.

Even P&G is planning a Crest whitening toothpaste in 1997, backed by an \$80 million ad budget for all Crest toothpaste, according to people familiar with the company.

And analysts note that Aquafresh, along with other brands, faces a major threat from Colgate's Total, due out later this year. Awaiting clearance by the Food and Drug Administration, Total uses triclosan, an antibacterial substance that offers long-lasting protection against gin-

it's in Kraft's interest to trade on the exchange in a way that drives down the price of raw milk, and thus its cost of making cheese. Studies of exchange activities by state and federal authorities haven't proved anything nefarious. But the Wisconsin Legislature, egged on by farmer constituents, is expected to pass a bill that would greatly increase state regulation of the exchange.

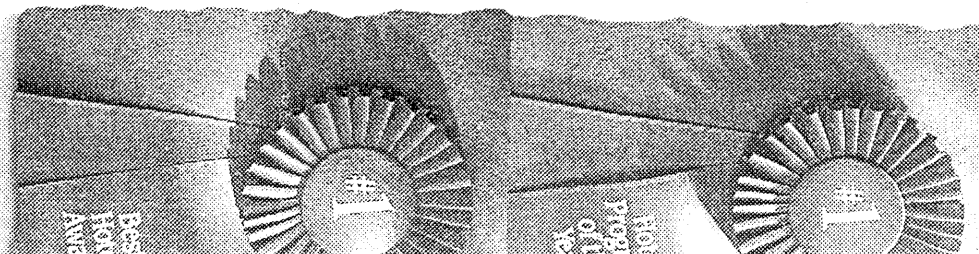
As a result, the National Cheese Exchange is threatening to move out of Wisconsin. And the USDA is under pressure from Wisconsin politicians to drop the exchange from its price calculations.

"Milk," says Keith Collins, the USDA's top economist, "can give you a headache."

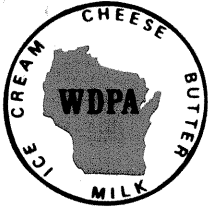
Halter Marine to Acquire Stake

GULFPORF, Miss. — Halter Marine Group Inc., a maker of small to midsize commercial boats and vessels, said it would acquire a 51% interest in Texas Drydock Inc., a specialist producer of energy-related marine equipment, for an undisclosed amount of cash. Texas Drydock operates six shipyards in southeast Texas and had \$73 million in revenue for its fiscal year ended Sept. 30, 1996.

Take it
from the farm



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Wisconsin Dairy Products Association, Inc.

TO: Wisconsin Assembly Agriculture Committee

FROM: Wisconsin Dairy Products Association
Brad Legreid, Executive Director

DATE: February 13, 1997

RE: Senate Bill 2

*File
w SB2*

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

MEMO: Wisconsin Assembly Agriculture Committee
February 13, 1997
Page 2

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 in rejecting Senate Bill 2.

BAL/mmp

Kim

letters to NCI and NCE

In follow up to last week's meeting, here are suggestions for letters to NCI and NCE.

For the time being I would skip correspondence with USDA, CFTC, FTC given the fact that the Governor + task force members just visited. Maybe Al should write to them later after we see a bit more on the follow up of these agencies.

As chair of the Wisconsin Assembly Committee on Agriculture, I am currently reviewing options for possible legislative actions regarding the National Cheese Exchange (NCE). While we in the Legislature are deeply concerned about the impacts of the NCE on milk prices, we want to consider our actions in the context of what others are doing to address concerns about how milk and cheese are priced.

I understand that the National Cheese Institute is taking steps to improve the cheese pricing mechanism. It would be helpful if you could answer the following questions related to your actions.

- 1) What is the National Cheese Institute doing to address issues related to the National Cheese Exchange, what are the objectives of these actions and what is the implementation timeline for these actions?
- 2) What is the NCI's position related to obtaining appropriate regulatory oversight over the NCE or a similar cash auction market for cheese? What steps are you taking to ensure that appropriate regulatory oversight is obtained?
- 3) What is NCI's position related to removing the NCE opinion price from the milk pricing formulas used by the USDA in federal milk marketing orders?

I would appreciate your prompt response to these questions so that I can have the information as we consider our legislative role here in Wisconsin.

Sincerely,

Al Ott

Addressee: Linwood Tipon, , CEO, National Cheese Institute, 1250 H St. NW, Suite **7**
900, Washington, D.C. 20005

**For Immediate Release
February 14, 1997**

**Rep. Al Ott
(608) 266-5831
(414) 989-1240**

FEDERAL ACTION ON MILK PRICE IN LINE WITH STATE ACTION

Madison...Face to face meetings in Washington between a Wisconsin delegation led by Governor Tommy Thompson and federal officials earlier this month are resulting in action at the federal level to take a look at the current system for setting milk prices, according to State Representative Al Ott (R-Forest Junction).

A resolution was recently passed by the United States Senate asking United States Department of Agriculture Secretary Daniel Glickman to replace the National Cheese Exchange as a factor in the formula used to set milk prices. About the same time as the delegation visited Washington, U.S. Senator Herb Kohl introduced a federal bill designed to give the Commodity Futures Trading Commission (CFTC) power to regulate the exchange.

"At the very least, the issue of volatile milk prices is finally getting some attention at the federal level," said Ott. "I am pleased they are looking at how milk is priced - a review every now and then is a good thing. However, if the NCE component of the basic formula price is taken out, I think we better make darn sure it is replaced with a better alternative."

Ott authored a resolution in the State Assembly which also calls on USDA to cease using the market activities of the exchange and to instead establish a broad-based formula which more accurately represents market conditions. The Assembly overwhelmingly passed the resolution and it now awaits action in the State Senate.

"My hope was that the resolution would start people talking and that the dairy industry as a whole would work to establish a formula that everyone can live with," said Ott. "There is no consensus of public confidence in the market right now and that is not good for the industry."

Ott was also the author of a second resolution asking the CFTC and the Federal Trade Commission to take another look at their regulatory authority over the NCE. Senator Kohl's bill follows along the same line. The State Assembly also passed this resolution of Ott's with broad bi-partisan support.

Ott also noted that the CFTC is scheduled to decide on February 27 whether or not to allow the trading of basic formula price milk contracts on the Coffee, Sugar and Cocoa Exchange.

"I think the more management opportunities that are available for Wisconsin farmers the better," said Ott.



February 12, 1997

Dear Representative:

One of your colleagues has been kind enough to send me a copy of Senator Clausen's "editorial" on the letter I sent to you regarding Senate Bill 2. I would have appreciated it if she had copied me directly. My letter was dated January 28, and I have attached a copy of it for your reference. I would like to briefly reply to her letter. Before doing so however, I should point out that Sargento Foods Inc. has **never** traded on the National Cheese Exchange and, like your constituent dairy farmers, we have many times been affected both positively and negatively by the trading that has occurred on this exchange.

The inference made by Senator Clausen that I might be implying that "the only trading that takes place on the exchange is done with the intent of manipulating the market" is of course not true. My point is that it is unclear how it will be determined whether or not someone is "trading against interest."

From my perspective, Senate Bill 2 is purely a "gesture" crafted for all the wrong political reasons so often associated with emotional legislation. I don't recall a similar bill being offered last spring when the cheese market experienced the rapid increase that took it to a historic high. I also question whether this bill would, in fact, allow that "politically more acceptable" result to occur.

There are clearly two viewpoints regarding the existence of manipulation at the National Cheese Exchange and, although we have never traded, I do not believe manipulation exists. I think the exchange provides a reflection of supply and demand. Quite simply, when supply is greater than demand, prices go down, and when demand is greater than supply, prices go up. Unfortunately for the dairy industry, and most other industries as well, the cost of production has nothing to do with demand for a product.

All that said, steps are being taken by the National Cheese Institute in cooperation with the National Cheese Exchange to review alternatives to or for the exchange. I suspect a recommendation will be forthcoming relatively soon that will address the valid concerns that many interested parties have towards improving upon the activities of the exchange. I think it is appropriate for Wisconsin's Legislature to wait for this review to be completed. If valid misgivings still exist, then legislating change would still be an option, but encouraging change at the federal level would certainly be more appropriate.

Thank you for taking the time to further review my perspective.

Cordially,

Louis P. Gentine
Chairman and CEO

cc: Governor Tommy Thompson
Senator Alice Clausen

SARGENTO FOODS INC., One Persnickety Place, Plymouth, WI 53073 Phone: (414)893-8484



29 January 1997

Dear Representative:

I am writing to voice opposition to Wisconsin Senate Bill 2. Elimination of trading on the National Cheese Exchange would severely impair the cheese industry, since thousands of daily transactions and existing marketing contracts are pegged to the price reflected on the Exchange. Senate Bill 2 would essentially freeze prices at the last price reflected on the Exchange prior to the Bill's implementation, rather than allow supply and demand to move the price when appropriate. Effectively eliminating the Exchange would also have major consequences for non-cheese companies, since the National Cheese Exchange prices are the primary component for setting the Basic Formula Price under Federal Milk Marketing Orders as well as the California State Milk Pricing Order.

While we agree that improvements can be made, there are better alternatives for improving the system than premature elimination of trading on the National Cheese Exchange. Options include: oversight of trading on the National Cheese Exchange by a federal agency; anonymous electronic trading; establishment of more frequent and longer periods of time for trading on the Exchange; and combining cash and futures on one exchange.

The National Cheese Institute is currently working with the National Cheese Exchange to develop alternatives and evaluate their merits. They are exploring the affiliation of the National Cheese Exchange with an existing commodity exchanges outside of the state of Wisconsin, and requesting proposals from the Chicago Mercantile Exchange, the Coffee, Sugar & Cocoa Exchange, and the Chicago Board of Trade for their advice on the best way to establish an affiliation, as well as other means of assuring a cash market for cheese.

Please be prudent and allow for a better alternative to be brought forth before taking premature action on elimination of trading on the National Cheese Exchange. Vote against Senate Bill 2! I would appreciate learning your position on this important issue.

Sargento Foods Inc. is a national leading marketer of retail and foodservice cheese, snacks, appetizers and ingredients products. Sargento is headquartered in Plymouth Wisconsin, with facilities in Elkhart Lake, Hilbert, Fond du Lac and Kiel, Wisconsin, with employment of 960.

Cordially,
Louis P. Gentine
Chairman and CEO

1997 Session

FISCAL ESTIMATE

DOA-2048 (R 10/94)

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB or Bill No. / Adm. Rule No.

SB2

Amendment No. (If Applicable)

Subject

Proposed Act to regulate the trading practices on the National Cheese Exchange and to grant rule-making authority.

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

Increase Costs - May be possible to Absorb Within Agency's Budget Yes No

Decrease Costs

Local: No local government costs

1. Increase Costs
 Permissive Mandatory
 2. Decrease Costs
 Permissive Mandatory

3. Increase Revenues
 Permissive Mandatory
 4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Unit Affected:

- Towns Villages Cities
 Counties Others _____
 School Districts WTCS Districts

Fund Source Affected

- GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations
20.115(1)(a)

Assumptions Used in Arriving at Fiscal Estimate

The proposed Act prohibits a buyer or a seller from specific practices on the National Cheese Exchange (NCE). These prohibited practices include engaging in individual or collective action relating to the buying or selling of cheese with the intention of manipulating the market price of cheese or milk. The practice of "trading against interest" is also prohibited by the proposed Act.

In order to enforce this Act, it is estimated that staff will need to monitor all trading activity on the NCE for possible violations of the Act. It is estimated that staffing requirements to enforce the Act will consist of three FTE Agriculture Auditors, two FTE Trade Practice Analysts, one FTE Senior Attorney, and one FTE Program Assistant. The staff requirements are for the continuous monitoring of cheese market transactions (including on site monitoring of the NCE), conducting investigations of alleged violations, investigative report preparations, formal administrative enforcement actions against violators, court enforcement proceedings against violators, and other administrative duties.

Two FTE Trade Practices Analysts, knowledgeable of the industry, would be required to observe weekly trading activity on the NCE; review trader's reports; compile and summarize weekly, monthly and quarterly trading activities on the futures markets for cheese, butter and other dairy products; compile and summarize activities on the spot markets for cheese, butter and other dairy products, and on the NCE. They will also identify suspected plans or actions to artificially manipulate the market price of milk or cheese. Annual hours associated with this activity are estimated at 2,120 hours.

The Trade Practices Analysts will coordinate their activities with three FTE Agriculture Auditors to conduct investigations of alleged violations. The Trade Practices Analysts and three Agriculture Auditors will identify specific company level information needed for detailed investigations. The Analysts and Auditors will conduct financial and statistical analyses and detailed audits of transactions culminating in reports and recommendations for further legal actions. Annual hours estimated for this activity are 8,290 hours.

continued

Long - Range Fiscal Implications

None

Agency/prepared by: (Name & Phone No.)

Authorized Signature/Telephone No.

Date

DATCP
Paul Dingee (608) 224-4925

Barbara Knapp (608) 224-4746

1/27/97

Fiscal Estimate Assumptions Continued

Bill #SB2

The investigations will require the assistance of one FTE Attorney. It is anticipated that two concurrent investigations will occur per year. The Attorney will assist staff in conducting investigations, preparing formal administrative and court actions and assisting the Department of Justice. The department, based in part on its experience relating to the NCE investigation, anticipates a number of legal issues such as trade secrets and litigation. The Attorney will be required to prepare a case sufficient to meet standards of proof for antitrust case filings. Such cases are anticipated to be highly complex and need to be well documented for acceptance by the Wisconsin Department of Justice. Annual hours for this activity are 2,120.

One FTE Program Assistant is required to organize meetings, perform word processing tasks, coordinate schedules, maintain extensive data and files, and data entry and report preparation.

Staffing estimates are somewhat analogous to the staff requirements used in the collaborative study of the NCE released in 1996 by the University of Wisconsin's Department of Agriculture Economics and the Department of Agriculture, Trade and Consumer Protection. To prepare that study required the use of two FTE Professors, one FTE Program Assistant and two FTE Research Scientists from the University. In addition, part-time assistance was provided by the Department for attorneys, economists and other support staff. Costs for that study were in excess of \$600,000 over a four year period.

Permanent positions salaries are recapped as:

one Attorney	\$62,400
two Trade Practices Analysts	\$67,800
three Agriculture Auditors	\$92,200
one Program Assistant	<u>\$21,100</u>
Total	\$243,500

The projected on-going for salaries, fringes and supplies and services are \$411,400 per year. One-time costs are projected at \$18,200 for computers and other office equipment.

FISCAL ESTIMATE WORKSHEET

1997 SESSION

Detailed Estimate of Annual Fiscal Effect
DOA-2047 (R10/94)

ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB or Bill No/Adm.Rule No. Amondment No.
SB2

Subject Proposed Act to regulate the trading practices on the National Cheese Exchange and to grant rule-making authority.		
I. One-time Cost or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): \$18,200 computers, office equipment		
II. Annualized Cost:	Annualized Fiscal Impact on State funds from:	
A. State Costs by Category	Increased Costs	Decreased Costs
State Operations - Salaries and Fringes	\$ 335,100	\$ -
(FTE Position Changes)	(7 FTE)	(- FTE)
State Operations - Other Costs	76,300	-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	\$ 411,400	\$ -
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$ 411,400	\$ -
FED		-
PRO/PRS		-
SEG/SEG-S		-
III. State Revenues - <small>Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</small>	Increased Costs	Decreased Costs
GPR Taxes	\$	\$ -
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ -

NET ANNUALIZED FISCAL IMPACT

	<u>STATE</u>	<u>LOCAL</u>
NET CHANGE IN COSTS	\$ <u>411,400</u>	\$ _____
NET CHANGE IN REVENUES	\$ _____	\$ _____

Agency Prepared by: (Name & Phone No.) DATCP Paul Dingec (608) 224-4925	Authorized Signature/Telephone No. Barbara Knapp (608) 224-4746	Date 1/24/97
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Estimated Activities of Two Trade Practices Analysts

Activities	Estimated Percentage	Estimated Annual Hours*
Continuous monitoring of cheese market transactions (including on-site monitoring at NCE)	10%	424
Review of trades reports on transactions	10%	424
Compilation of various weekly, monthly and quarterly trading activity reports	10%	424
Review and analyses of futures markets transactions and analyses of spot markets transactions	5%	212
Identify and report on suspected activities or plans to artificially manipulate market prices for milk and cheese	15%	636
Assist auditors in detailed investigations of suspect activities or plans to artificially manipulate the markets	30%	1272
Assist auditors in the preparation of reports on investigation findings and conclusions	15%	636
Assist in administrative and court proceedings	5%	212
Totals	100%	4240

* Hours include allocated fringes

Estimated Activities of Three Agriculture Auditors

Activities	Estimated Percentage	Estimated Annual Hours*
Preliminary investigative field work Including: Reviewing reports on suspected activities or plans to artificially manipulate market prices from Trade Practices Analysts. Developing company specific audit programs	15%	925.5
Investigative field work (including completion of audit programs and financial analyses)	65%	4010.5
Prepare reports on investigation findings and conclusions	15%	925.5
Assist in administrative and court proceedings	5%	308.5
Totals	100%	6170

* Hours include allocated fringes

Estimated Activities of One Program Assistant

Activities	Estimated Percentage	Estimated Annual Hours*
Perform duties for Attorney, three Auditors, and two Trade Practices Analysts, including:		
Word Processing	10%	189
Trading data entry	20%	378
Field audit and maintenance of records	30%	567
Report preparation	10%	189
Scheduling and case file management	30%	567
Total	100%	1890

* Hours include allocated fringes

Estimated Activities of one Attorney

Activities	Estimated Percentage	Estimated Annual Hours*
Review of reports of alleged illegal activities from Analysts and Auditors	5%	106
Case file preparation for administrative or court actions that meet equivalent to FTC "standards of proof" for cases forwarded to District Attorneys and Department of Justice	85%	1802
Issue subpoenas and assist staff in investigations for case development	10%	212
Total	100%	2120

* Hours include allocated fringes

1997 Session

FISCAL ESTIMATE

DOA-2048 (R 10/94)

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB or Bill No. / Adm. Rule No.

SB2

Amendment No. (If Applicable)

Subject

Proposed Act to regulate the trading practices on the National Cheese Exchange and to grant rule-making authority.

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

Increase Costs - May be possible to Absorb Within Agency's Budget Yes No

Decrease Costs

Local: No local government costs

1. Increase Costs
 Permissive Mandatory
 2. Decrease Costs
 Permissive Mandatory

3. Increase Revenues
 Permissive Mandatory
 4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Unit Affected:

- Towns Villages Cities
 Counties Others _____
 School Districts WTCS Districts

Fund Source Affected

- GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations
20.115(1)(a)

Assumptions Used in Arriving at Fiscal Estimate

The proposed Act prohibits a buyer or a seller from specific practices on the National Cheese Exchange (NCE). These prohibited practices include engaging in individual or collective action relating to the buying or selling of cheese with the intention of manipulating the market price of cheese or milk. The practice of "trading against interest" is also prohibited by the proposed Act.

In order to enforce this Act, it is estimated that staff will need to monitor all trading activity on the NCE for possible violations of the Act. It is estimated that staffing requirements to enforce the Act will consist of three FTE Agriculture Auditors, two FTE Trade Practice Analysts, one FTE Senior Attorney, and one FTE Program Assistant. The staff requirements are for the continuous monitoring of cheese market transactions (including on site monitoring of the NCE), conducting investigations of alleged violations, investigative report preparations, formal administrative enforcement actions against violators, court enforcement proceedings against violators, and other administrative duties.

Two FTE Trade Practices Analysts, knowledgeable of the industry, would be required to observe weekly trading activity on the NCE; review trader's reports; compile and summarize weekly, monthly and quarterly trading activities on the futures markets for cheese, butter and other dairy products; compile and summarize activities on the spot markets for cheese, butter and other dairy products, and on the NCE. They will also identify suspected plans or actions to artificially manipulate the market price of milk or cheese. Annual hours associated with this activity are estimated at 2,120 hours.

The Trade Practices Analysts will coordinate their activities with three FTE Agriculture Auditors to conduct investigations of alleged violations. The Trade Practices Analysts and three Agriculture Auditors will identify specific company level information needed for detailed investigations. The Analysts and Auditors will conduct financial and statistical analyses and detailed audits of transactions culminating in reports and recommendations for further legal actions. Annual hours estimated for this activity are 8,290 hours.

continued

Long - Range Fiscal Implications

None

Agency/prepared by: (Name & Phone No.)

Authorized Signature/Telephone No.

Date

DATCP
Paul Dingee (608) 224-4925

Barbara Knapp (608) 224-4746

1/27/97

Fiscal Estimate Assumptions Continued

Bill #SB2

The investigations will require the assistance of one FTE Attorney. It is anticipated that two concurrent investigations will occur per year. The Attorney will assist staff in conducting investigations, preparing formal administrative and court actions and assisting the Department of Justice. The department, based in part on its experience relating to the NCE investigation, anticipates a number of legal issues such as trade secrets and litigation. The Attorney will be required to prepare a case sufficient to meet standards of proof for antitrust case filings. Such cases are anticipated to be highly complex and need to be well documented for acceptance by the Wisconsin Department of Justice. Annual hours for this activity are 2,120.

One FTE Program Assistant is required to organize meetings, perform word processing tasks, coordinate schedules, maintain extensive data and files, and data entry and report preparation.

Staffing estimates are somewhat analogous to the staff requirements used in the collaborative study of the NCE released in 1996 by the University of Wisconsin's Department of Agriculture Economics and the Department of Agriculture, Trade and Consumer Protection. To prepare that study required the use of two FTE Professors, one FTE Program Assistant and two FTE Research Scientists from the University. In addition, part-time assistance was provided by the Department for attorneys, economists and other support staff. Costs for that study were in excess of \$600,000 over a four year period.

Permanent positions salaries are recapped as:

one Attorney	\$62,400
two Trade Practices Analysts	\$67,800
three Agriculture Auditors	\$92,200
one Program Assistant	\$21,100
Total	\$243,500

The projected on-going for salaries, fringes and supplies and services are \$411,400 per year. One-time costs are projected at \$18,200 for computers and other office equipment.

FISCAL ESTIMATE WORKSHEET

1997 SESSION

Detailed Estimate of Annual Fiscal Effect
DOA-2047 (R10/94)

ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB or Bill No/Adm.Rule No. Amondment No.
SB2

Subject Proposed Act to regulate the trading practices on the National Cheese Exchange and to grant rule-making authority.		
I. One-time Cost or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): \$18,200 computers, office equipment		
II. Annualized Cost:		Annualized Fiscal Impact on State funds from:
A. State Costs by Category	Increased Costs	Decreased Costs
State Operations - Salaries and Fringes	\$ 335,100	\$ -
(FTE Position Changes)	(7 FTE)	(- FTE)
State Operations - Other Costs	76,300	-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	\$ 411,400	\$ -
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$ 411,400	\$ -
FED		-
PRO/PRS		-
SEG/SEG-S		-
III. State Revenues - <small>Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</small>	Increased Costs	Decreased Costs
GPR Taxes	\$	\$ -
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ -

NET ANNUALIZED FISCAL IMPACT

	<u>STATE</u>	<u>LOCAL</u>
NET CHANGE IN COSTS	\$ <u>411,400</u>	\$ _____
NET CHANGE IN REVENUES	\$ _____	\$ _____

Agency Prepared by: (Name & Phone No.) DATCP Paul Dingee (608) 224-4925	Authorized Signature/Telephone No. Barbara Knapp (608) 224-4746	Date 1/24/97
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