

WHAT'S BEEN DONE BY THE GOVERNOR'S TASK FORCE ON CHEESE PRICING?

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- The Task Force held its final meeting December 5, 1996 and agreed on a number of recommendations that will be forwarded to the Governor.
- A subcommittee of five Task Force members agreed to meet to finalize the text of the recommendations for the report. Subcommittee members are Gary Anderson, Chair; Marsha Glenn, Ed Jesse, Gerald Jaeger, and Bob Wagner.
- Some of the recommendations include:

The US Department of Agriculture should no longer use the National Cheese Exchange price to determine the basic formula price (BFP) for manufacturing milk, and that the price of manufacturing milk under Federal Milk Marketing Orders should be based on supply and demand of milk.

The Task Force will suggest that the US Department of Agriculture could accomplish this by first substituting the National Agricultural Statistics Service's reported national average cheese price for the National Cheese Exchange price in the BFP as soon as it is available and reliable (including mandatory reporting, if necessary for reliability); and weighting the product prices used in the BFP formula to reflect national production of cheddar cheese, nonfat dry milk and butter.

P who dictates

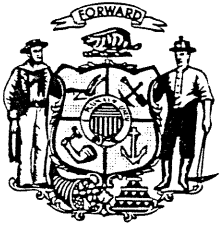
Furthermore, the US Department of Agriculture should find a permanent replacement for the BFP that does not include the National Cheese Exchange price. The Task Force has two suggestions for replacement: a "phased-in" milk futures contract that reflects national supply and demand conditions for manufacturing milk; or, a milk price based on a national survey of manufacturing milk prices, less performance premiums and over-order values.

The Task Force also agreed to recommend to the Governor that he recommend to the US Department of Agriculture to expand the weekly Wisconsin Assembly Point Price series to a statistically reliable and regional series that included spot cheese prices for major manufacturing areas. This improved weekly series could then be available as a possible alternative to the National Cheese Exchange price for referencing cheese contracted sales.

The Task Force will recommend that the Governor ask the Commodity Futures Trading Commission and the Federal Trade Commission to re-evaluate their regulatory authorities regarding the National Cheese Exchange.

The Task Force will also ask the Governor to make several recommendations to the board of the National Cheese Exchange. The Task Force wants the board to consider imposing a limit on the daily price movement of NCE prices; to include one or more public (non-NCE) members on its board; to keep the identities of buyers and sellers anonymous during trading; and, to implement more frequent trading sessions, once remote electronic access is in place in 1997.

- The subcommittee of the Task Force is scheduled to meet December 17, 1996. Once the text of the report is written by the subcommittee, it will be sent to all Task Force members for final approval. The full report will then be forwarded to the Governor by the January 1, 1997 deadline.
- Governor Thompson announced on November 7 that he will lead a delegation to Washington, DC after the first of the year to talk with federal officials and members of Congress regarding implementation of the Task Force's recommendations, opposition to the Northeast Interstate Dairy Compact, and consideration by the Clinton Administration of changes to the federal milk pricing system.



TOMMY G. THOMPSON

**Governor
State of Wisconsin**

File

December 9, 1996

The Honorable Dan Glickman, Secretary
United States Department of Agriculture
14th Street and Independence Avenue S.W.
Washington, D.C. 20250

Dear Secretary Glickman:

On behalf of Wisconsin's dairy industry, I urge you to hold hearings in Wisconsin on milk pricing reform. Furthermore, I would like the opportunity to bring a delegation to meet with you on this important issue.

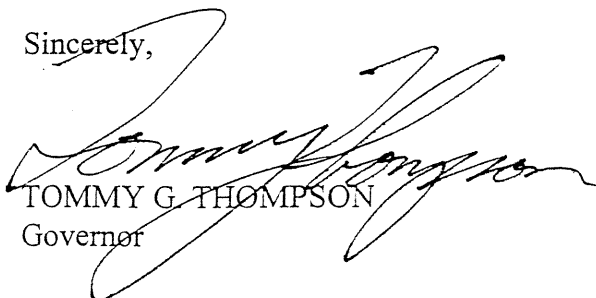
Many are concerned about the United States Department of Agriculture's use of the National Cheese Exchange to determine the basic formula price. I established the Task Force on Cheese Pricing to recommend improvements to the pricing of cheese for the benefit of the dairy industry and consumers. The Task Force is finalizing its recommendations and will submit its recommendations before January 1, 1997.

One of the most important recommendations to be included in the report is the United States Department of Agriculture should no longer use the National Cheese Exchange price to determine the basic formula price for manufacturing milk. Other recommendations are directed to the National Cheese Exchange; the United States Department of Agriculture; Commodities Futures Trading Commission; the Federal Trade Commission; Coffee, Sugar, and Cocoa Exchange; and the Chicago Mercantile Exchange. I look forward to sharing with you these ideas.

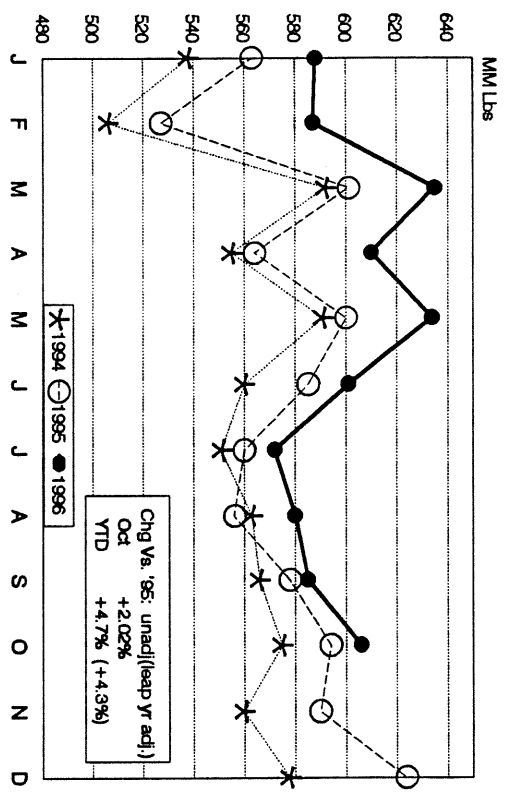
The dairy industry is vital to Wisconsin's economy and our role nation-wide is significant. I believe the views of Wisconsin's dairy industry will be helpful to you as dairy price reform is considered.

Thank you for your consideration of this matter.

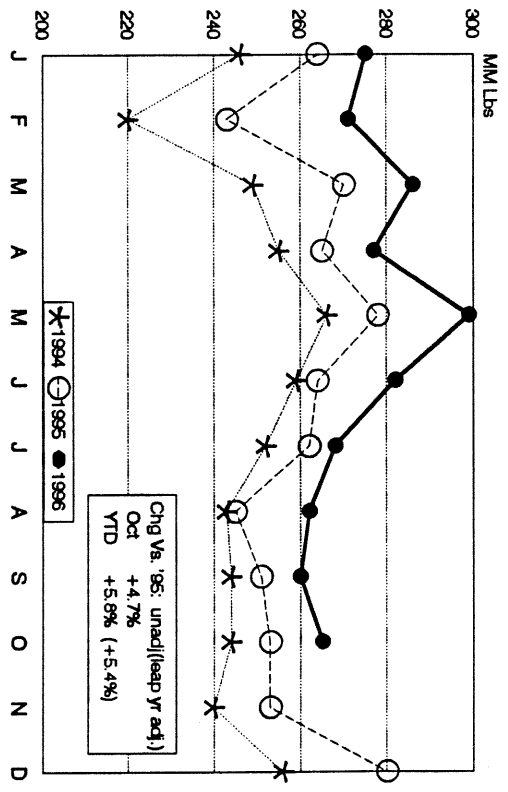
Sincerely,


TOMMY G. THOMPSON
Governor

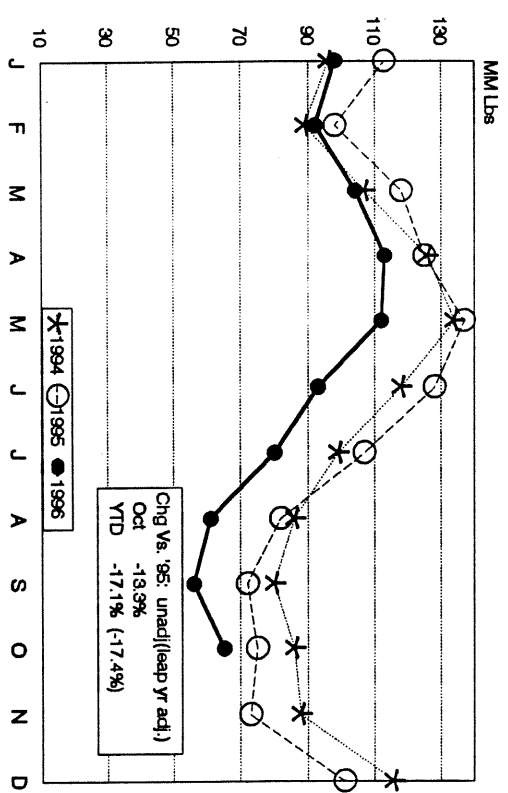
TOTAL CHEESE PRODUCTION



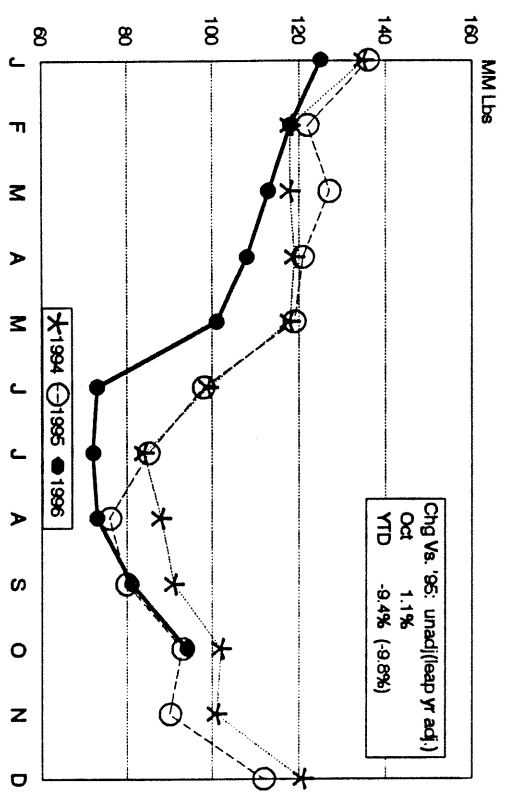
AMERICAN CHEESE PRODUCTION



NFDM PRODUCTION

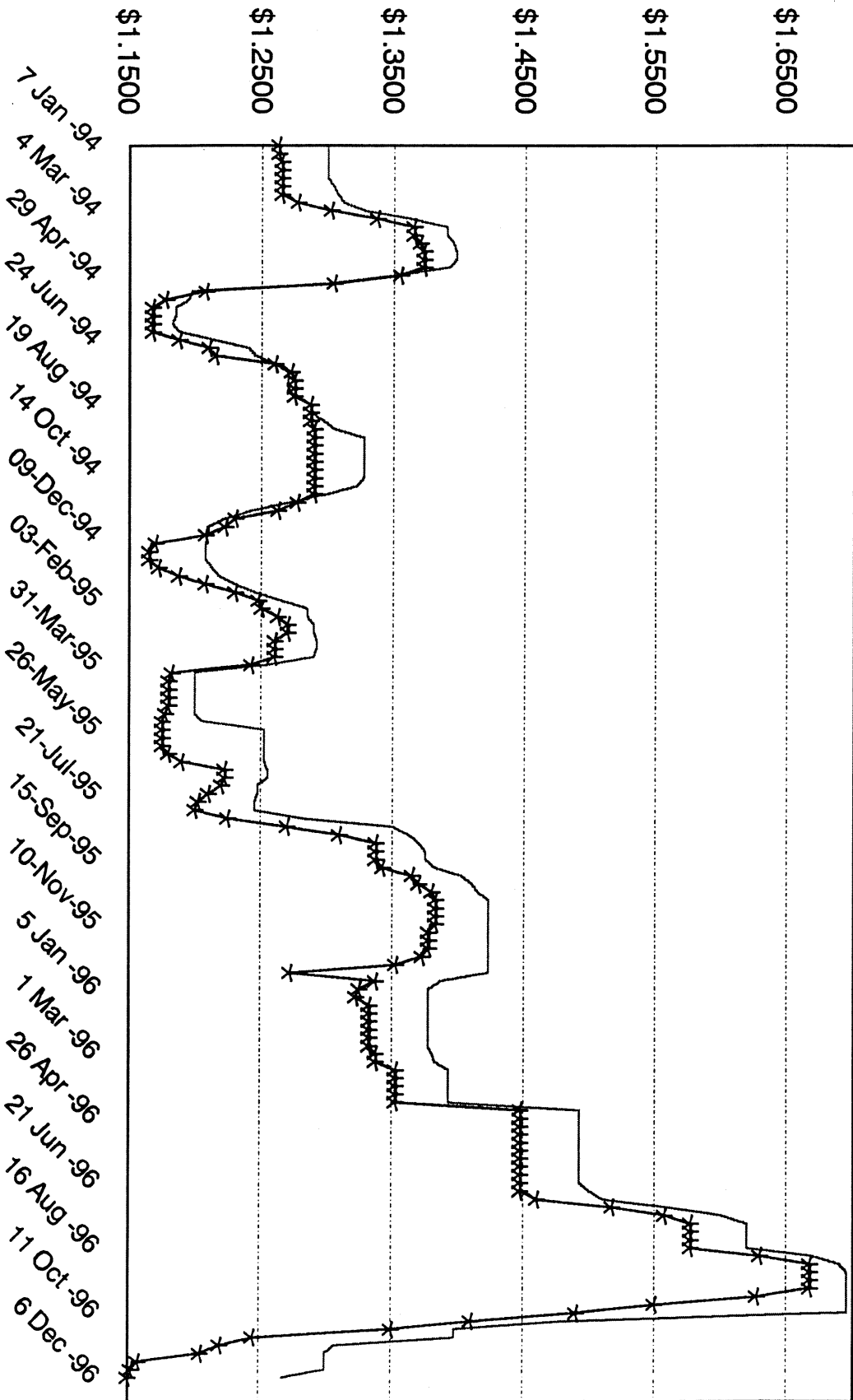


BUTTER PRODUCTION



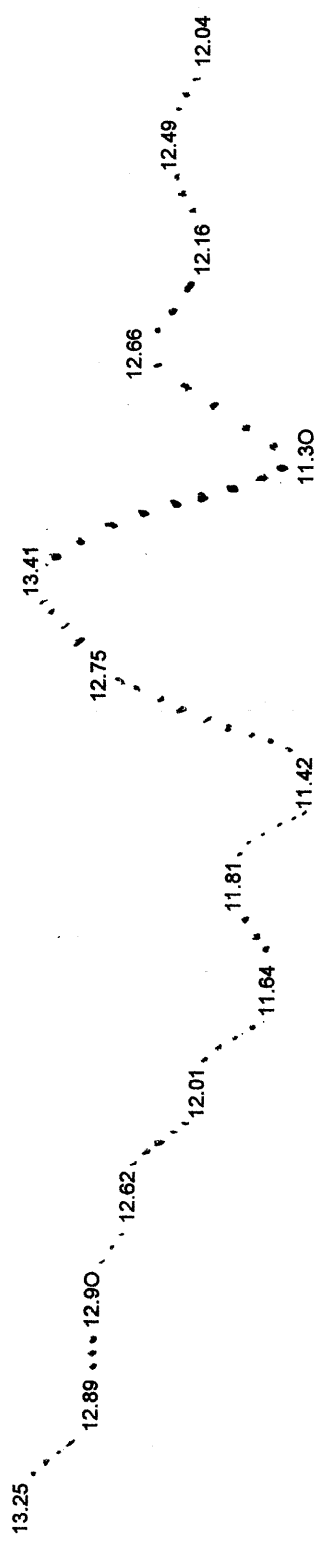
Current NCE Opinion as of Friday, December 6, 1996:

* Barrel: 1.1500lb. -- Block: \$ 1.2675/lb.



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
JAN	13.34	13.15	13.07	12.59	12.98	11.50	12.50	11.53	12.86	15.48	10.38	12.95	11.80	12.95	11.90
FEB	13.39	13.07	12.96	12.50	12.98	11.45	12.32	11.44	12.55	14.75	10.45	12.55	11.50	13.00	11.74
MAR	13.50	13.00	12.94	12.41	12.78	11.40	12.00	11.26	12.20	13.62	10.49	12.10	11.22	13.02	12.02
APRIL	13.45	12.88	12.87	12.39	12.50	11.40	11.70	11.00	11.72	13.02	10.31	11.81	11.45	13.17	12.07
MAY	13.36	12.80	12.87	12.39	12.10	11.33	11.55	10.82	11.68	13.08	10.31	12.15	12.10	13.05	11.55
JUNE	13.22	12.73	12.83	12.40	11.90	11.33	11.50	10.76	11.74	13.43	10.56	12.70	12.94	12.00	11.50
JULY	13.07	12.73	12.85	12.40	11.64	11.33	11.53	10.76	11.90	13.85	10.86	13.16	12.45	11.74	11.55
AUG	13.12	12.73	12.85	12.45	11.47	11.39	11.59	10.93	12.27	14.01	11.47	13.21	12.15	11.60	11.45
SEPT	13.12	12.78	12.85	12.65	11.40	11.79	11.72	11.43	12.89	13.67	12.00	13.21	11.90	12.10	11.83
OCT	13.15	12.86	12.90	12.93	11.40	12.00	11.87	11.84	13.50	13.15	12.48	12.95	12.50	12.37	12.50
NOV	13.15	13.00	12.90	13.15	11.45	12.23	11.83	12.46	14.50	11.47	13.10	12.73	12.85	12.52	13.00
DEC	13.15	13.00	12.90	13.13	11.50	12.47	11.68	12.76	15.15	11.40	13.15	12.35	13.05	12.30	13.40

AVG

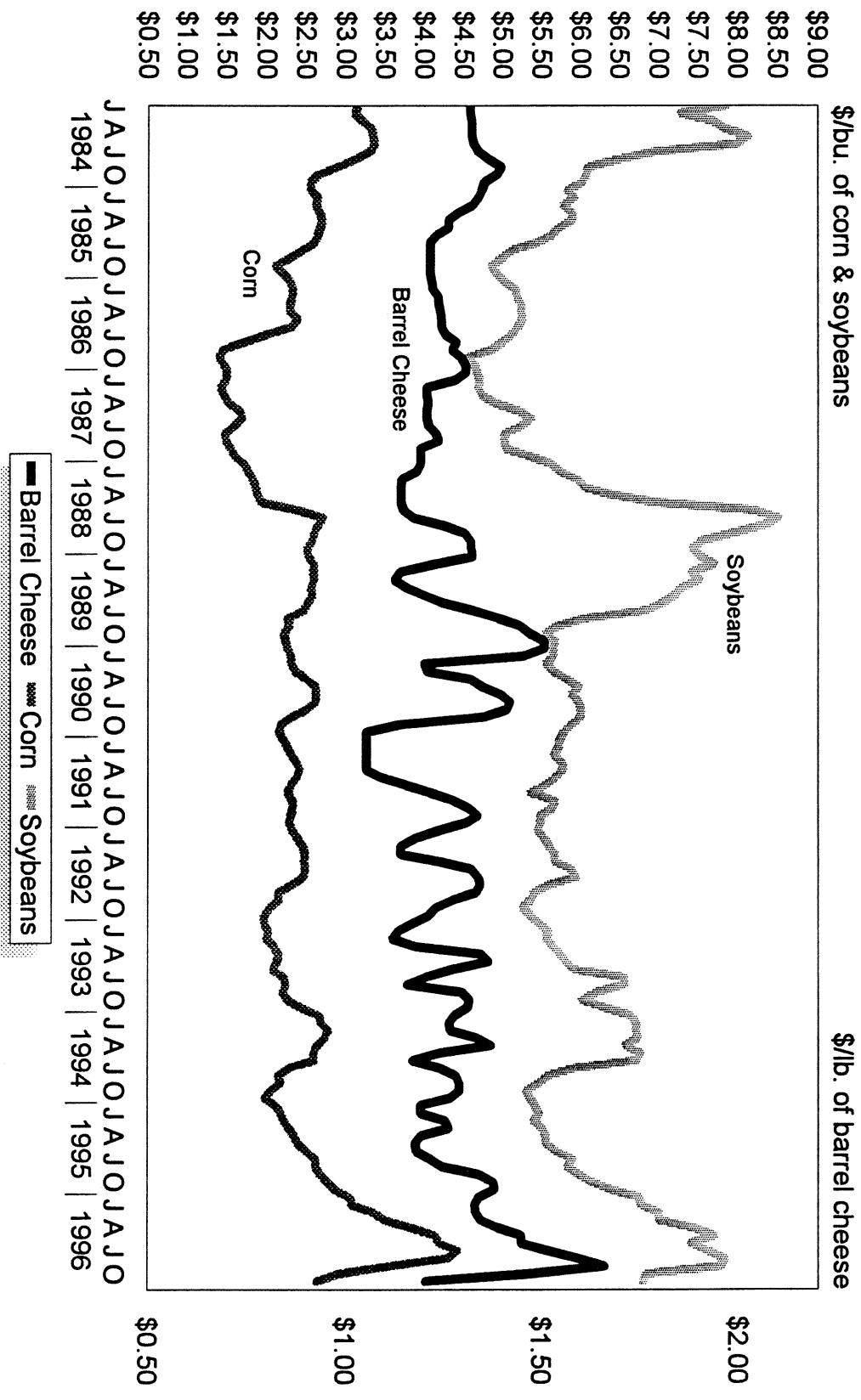


	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
AVG.	13.25	12.89	12.90	12.62	12.01	11.64	11.81	11.42	12.75	13.41	11.30	12.66	12.16	12.49	12.04
3% INFL.	13.25	13.65	14.06	14.48	14.91	15.36	15.82	16.29	16.78	17.28	17.80	18.33	18.88	19.45	20.03

100 pounds of milk is equivalent to 12 gallons of milk
or 10 pounds of cheese.

BASE PRICE FOR 3.5
GRADE A MILK PER
HUNDRED WEIGHT BEATRICE CHEESE COMPANY

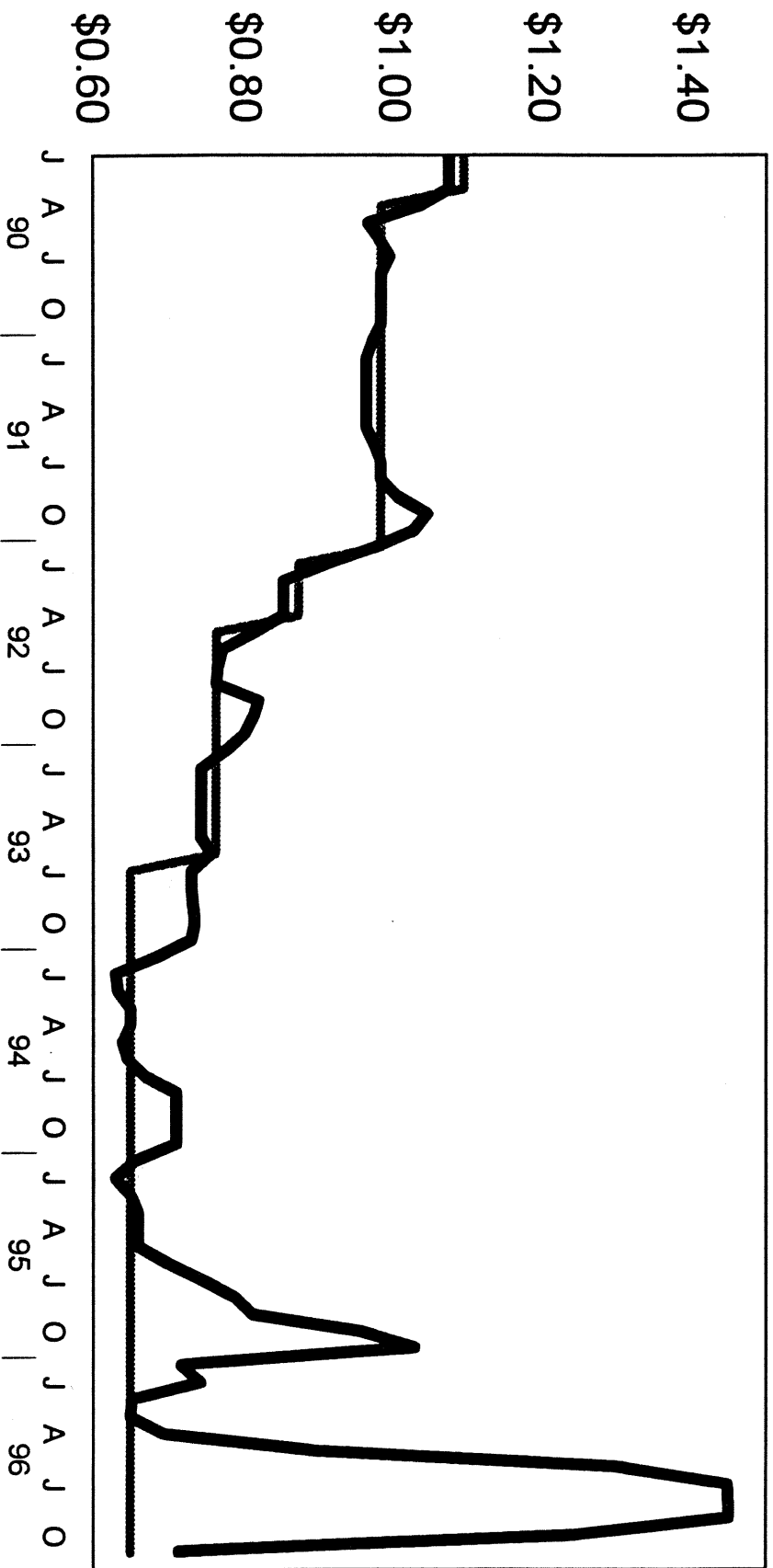
Historical Price Movements of Barrel Cheese, Corn and Soybeans



Source: NCE Opinion; USDA, Agricultural Prices.

Historically, the price of butter has been relatively stable, driven by the high support price while in the last few years market forces have resulted in greater price volatility.

Butter Prices



Source: USDA, Dairy Market News

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



AGRICULTURE HIGHLIGHTS

December 10, 1996

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

Record Drop in Milk Prices

The November average milk price in Wisconsin is expected to drop by \$2.52 to \$13.30 per hundredweight (cwt.), the largest monthly price drop on record. Milk prices in Wisconsin steadily increased since February, climbing to an all-time high of \$16.69 per cwt. in September. October's price decrease was 87 cents, followed by November's historic dive.

Since over 85 percent of Wisconsin's milk goes into cheese production, fluctuations in milk prices correspond to ups and downs in cheese prices. From October 18th through November 22nd, the value of cheese, as determined at the National Cheese Exchange, fell 39.50 cents per pound.

In Wisconsin and the nation, milk production was below year ago levels since March and remained down 2 percent in October. Throughout that time, high prices for cheese combined with good demand for cheese diverted available milk into cheese production. Even though less milk was produced than last year, cheese production was above a year ago. A build up of cheese inventory caused prices to suddenly fall during October.

Milk prices nationally are expected to fall by 90 cents to \$15.20 per cwt. States with high Class I usage are still seeing price increases. States like Wisconsin with mostly manufacturing use will see large price declines as well.

Milk Prices 1/

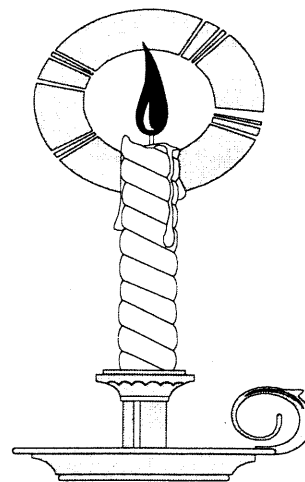
Selected states	October 1995		October 1996		November 1996	
	Average test	Price per cwt.	Average test	Price per cwt.	Average test	Average per cwt.
	Percent	Dollars	Percent	Dollars	Percent	Dollars
Milk for all uses						
Wisconsin	3.88	13.99	3.86	15.82	3.91	13.30
Minnesota	3.83	13.84	3.82	15.35	3.85	13.20
New York	3.71	13.40	3.74	16.30	3.75	16.40
California	3.63	12.54	3.71	15.38	3.81	13.70
United States	3.72	13.40	3.74	16.10	3.81	15.20
Wisconsin utilization						
Grade A milk	3.88	14.04	3.85	15.88	XXX	XXX
Grade B milk	3.97	13.46	3.95	15.16	XXX	XXX

1/Preliminary average buying prices received for milk of average test. They differ from basic buying prices which are for 3.5% milk.

Upcoming Releases

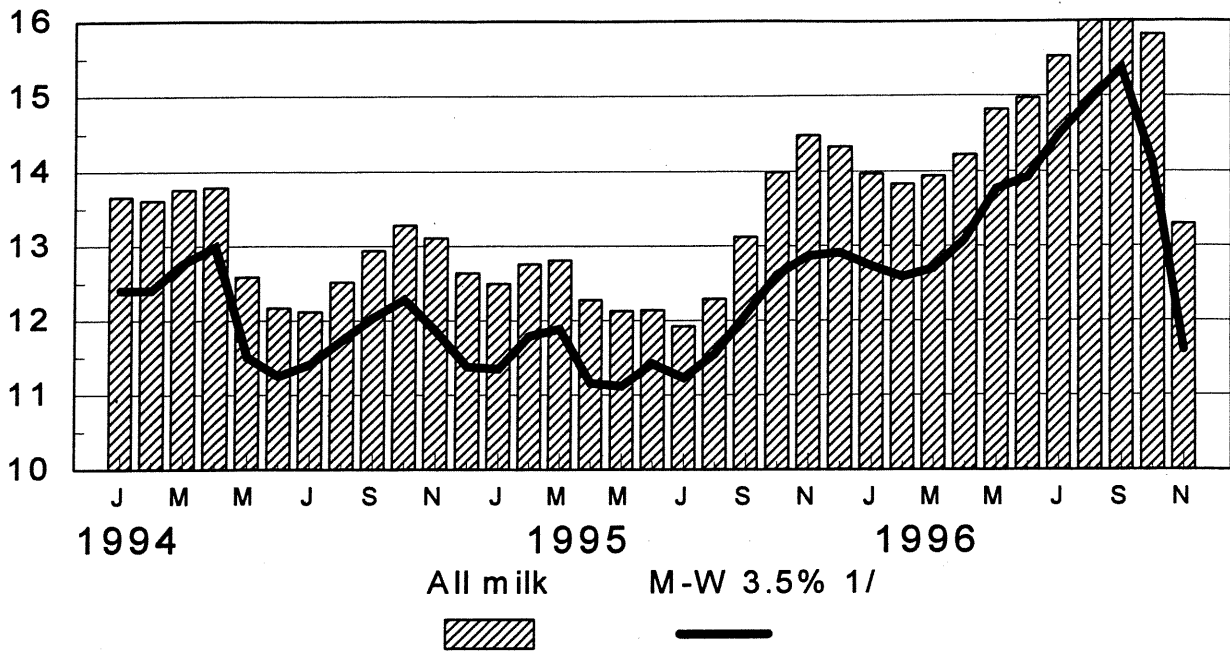
- Dec. 12 Crop Production
- 13 Milk Production
- 20 Cattle on Feed
- 27 Hogs & Pigs
- 30 Agricultural Prices

*Happy
Holidays*



WISCONSIN MILK PRICES

Dollars per hundredweight



1/Basic Formula Price starting May 1995.

WISCONSIN MILK PRICES

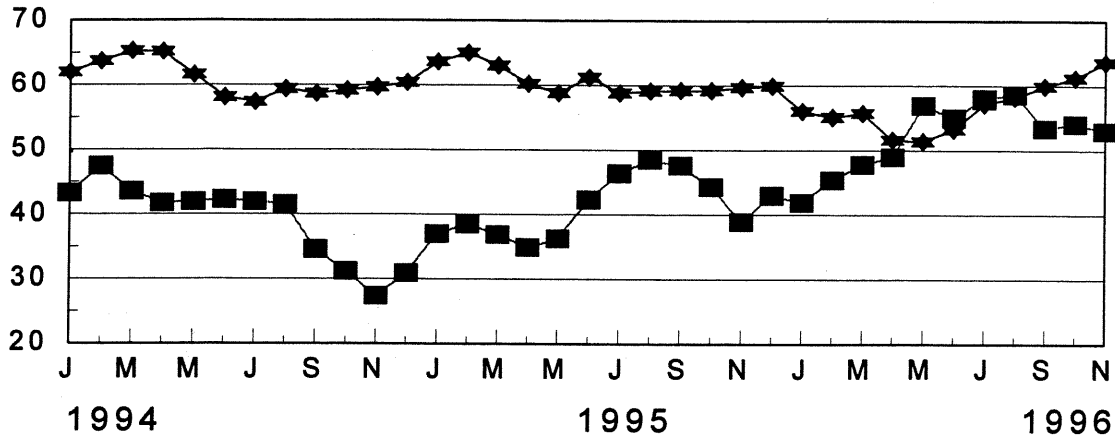
Month	All Milk			M-W 3.5%		
	1994	1995	1996	1994	1995	1996
	Dollars per cwt.					
January	13.66	12.50	13.97	12.41	11.35	12.73 1/
February	13.61	12.76	13.83	12.41	11.79	12.59 1/
March	13.76	12.81	13.94	12.77	11.89	12.70 1/
April	13.79	12.28	14.22	12.99	11.16	13.09 1/
May	12.59	12.13	14.82	11.51	11.12 1/	13.77 1/
June	12.17	12.14	14.97	11.25	11.42 1/	13.92 1/
July	12.12	11.92	15.53	11.41	11.23 1/	14.49 1/
August	12.52	12.29	16.02	11.73	11.55 1/	14.94 1/
September	12.94	13.12	16.69	12.04	12.08 1/	15.37 1/
October	13.28	13.99	15.82	12.29	12.61 1/	14.13 1/
November	13.11	14.48	13.30	11.86	12.87 1/	11.61 1/
December	12.64	14.33		11.38	12.91 1/	

1/Basic Formula Price.

WISCONSIN LIVESTOCK PRICES

Prices Received by Farmers, 1994-96

Dollars per hundredweight



Steers & Heifers Barrows & Gilts

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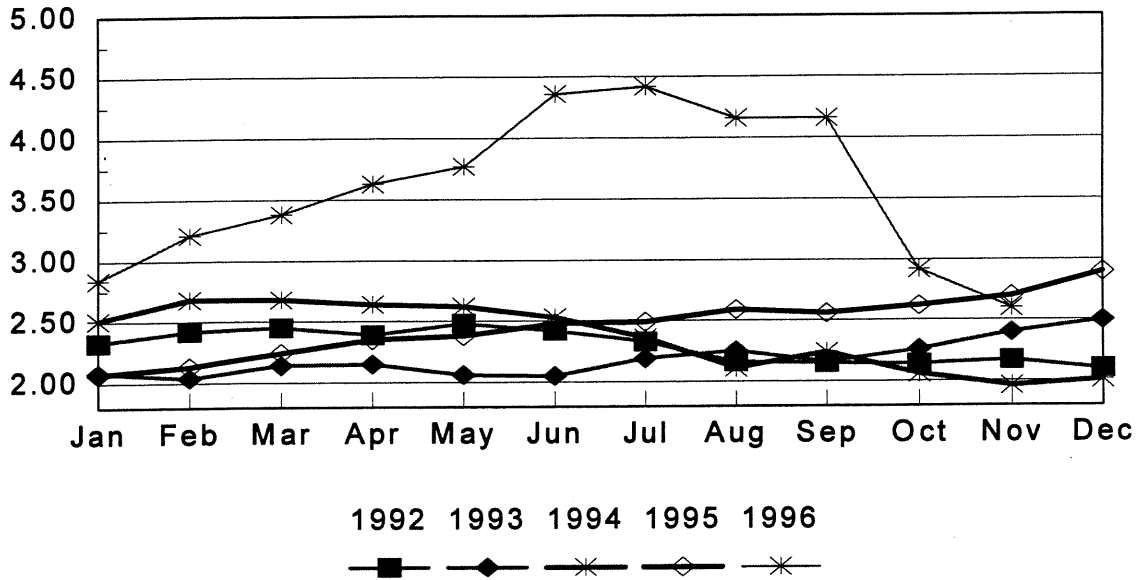
WISCONSIN LIVESTOCK PRICES, 1994-96												
Dollars per hundredweight												
Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
STEERS AND HEIFERS												
1994	62.00	63.70	65.30	65.20	61.60	58.10	57.40	59.40	58.70	59.20	59.70	60.40
1995	63.60	65.00	63.00	60.20	58.80	61.20	58.80	59.10	59.20	59.20	59.70	59.90
1996	56.00	55.10	55.70	51.60	51.40	53.20	57.10	58.20	59.90	61.20	63.60*	
BARROWS AND GILTS												
1994	43.30	48.50	43.60	41.80	42.00	42.30	42.00	41.60	34.60	31.20	27.40	30.90
1995	37.00	38.50	36.90	34.90	36.30	42.30	46.40	48.50	47.60	44.30	38.90	43.00
1996	41.90	45.40	47.80	49.00	56.90	55.00	58.00	58.60	53.40	54.10	53.00*	

*Mid-month price.

WISCONSIN CORN PRICES

Prices Received by Farmers, 1992-96

Dollars per bushel

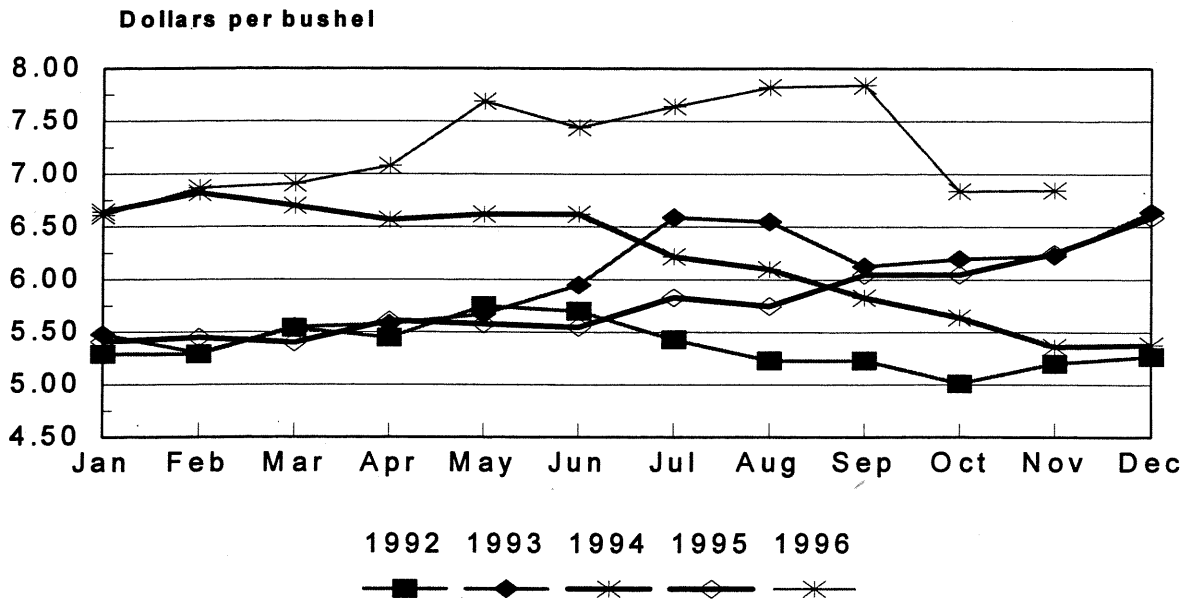


WISCONSIN CORN PRICES, 1992-96												
Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Dollars per bushel												
1992	2.33	2.42	2.45	2.39	2.48	2.42	2.33	2.16	2.15	2.14	2.17	2.10
1993	2.08	2.04	2.14	2.15	2.06	2.05	2.19	2.25	2.16	2.26	2.40	2.50
1994	2.51	2.68	2.68	2.64	2.62	2.53	2.36	2.11	2.24	2.06	1.96	2.01
1995	2.07	2.13	2.24	2.35	2.38	2.48	2.49	2.59	2.56	2.62	2.70	2.90
1996	2.84	3.21	3.38	3.63	3.77	4.36	4.42	4.16	4.16	2.92	2.60*	

*Mid-month price.

WISCONSIN SOYBEAN PRICES

Prices Received by Farmers, 1992-96



WISCONSIN SOYBEAN PRICES, 1992-96												
Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Dollars per bushel												
1992	5.29	5.29	5.54	5.45	5.75	5.70	5.43	5.23	5.23	5.01	5.20	5.27
1993	5.48	5.30	5.55	5.58	5.67	5.95	6.59	6.55	6.13	6.20	6.23	6.64
1994	6.64	6.82	6.70	6.57	6.62	6.62	6.22	6.10	5.83	5.64	5.36	5.38
1995	5.41	5.45	5.40	5.61	5.58	5.55	5.83	5.75	6.05	6.05	6.25	6.59
1996	6.61	6.87	6.91	7.08	7.69	7.44	7.64	7.82	7.84	6.84	6.85*	

*Mid-month price.

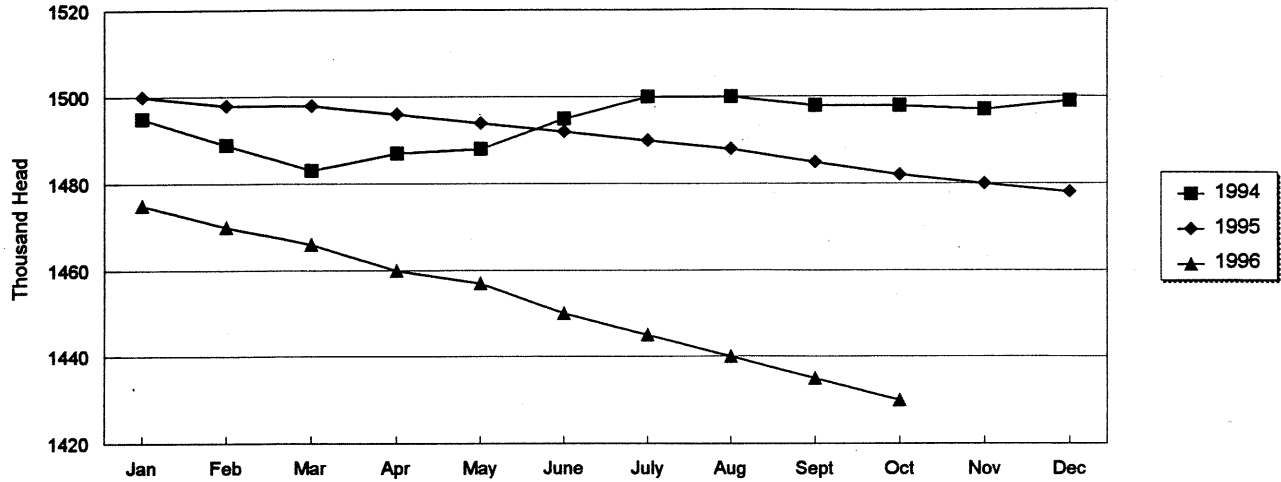
MILK PRODUCTION

Year and month	WISCONSIN				UNITED STATES			
	Cow numbers	Production per cow	Total milk	Change from year ago	Cow numbers	Production per cow	Total milk	Change from year ago
	Thousand	Pounds	Mil. Lbs.	Percent	Thousand	Pounds	Mil. Lbs	Percent
ANNUAL								
1992	1,618	14,737	23,844	n.c.	9,688	15,570	150,847	+2
1993	1,543	14,805	22,844	-4	9,589	15,704	150,582	n.c.
1994	1,494	15,001	22,412	-2	9,500	16,175	153,664	+2
1995	1,490	15,397	22,942	+2	9,461	16,451	155,644	+1
1996								
								22 MONTHLY STATES
Jan.	1,475	1,290	1,903	n.c.	8,026	1,406	11,285	n.c.
Feb.	1,470	1,215	1,786	+2 1/	8,010	1,338	10,719	+3 1/
Mar.	1,466	1,325	1,942	-1	7,998	1,459	11,671	n.c.
Apr.	1,460	1,295	1,891	-2	7,988	1,434	11,451	n.c.
May	1,457	1,345	1,960	-6	7,987	1,470	11,740	-2
June	1,450	1,305	1,892	-6	7,984	1,387	11,075	-3
July	1,445	1,325	1,915	-5	7,977	1,397	11,142	-2
Aug.	1,440	1,310	1,886	-2	7,969	1,377	10,970	-1
Sept.	1,435	1,255	1,801	-3	7,957	1,337	10,640	-1
Oct.	1,430	1,270	1,816	-2	7,952	1,373	10,915	-1
Nov.								
Dec.								

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

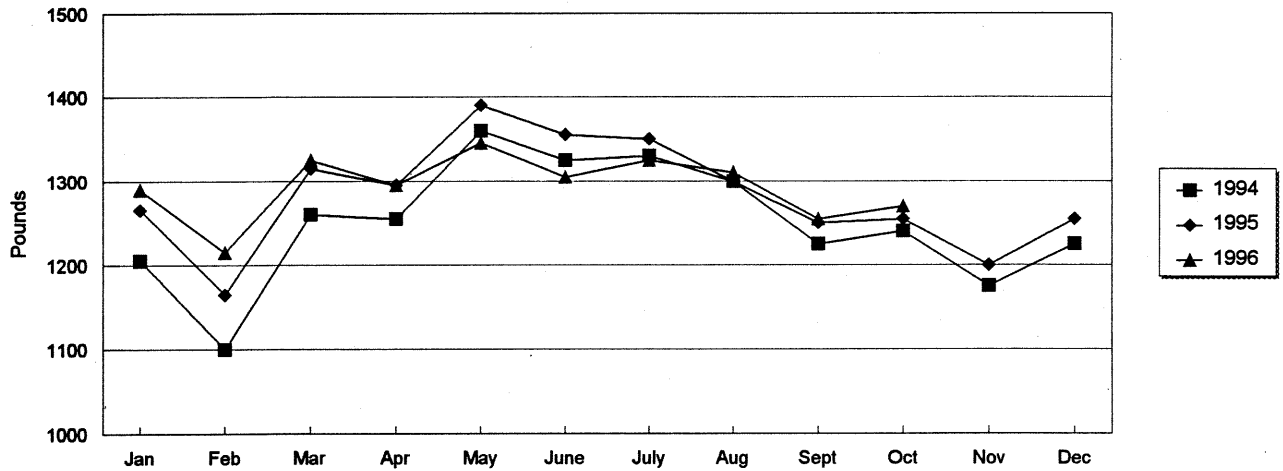
Milk Cows

Wisconsin, 1994-96



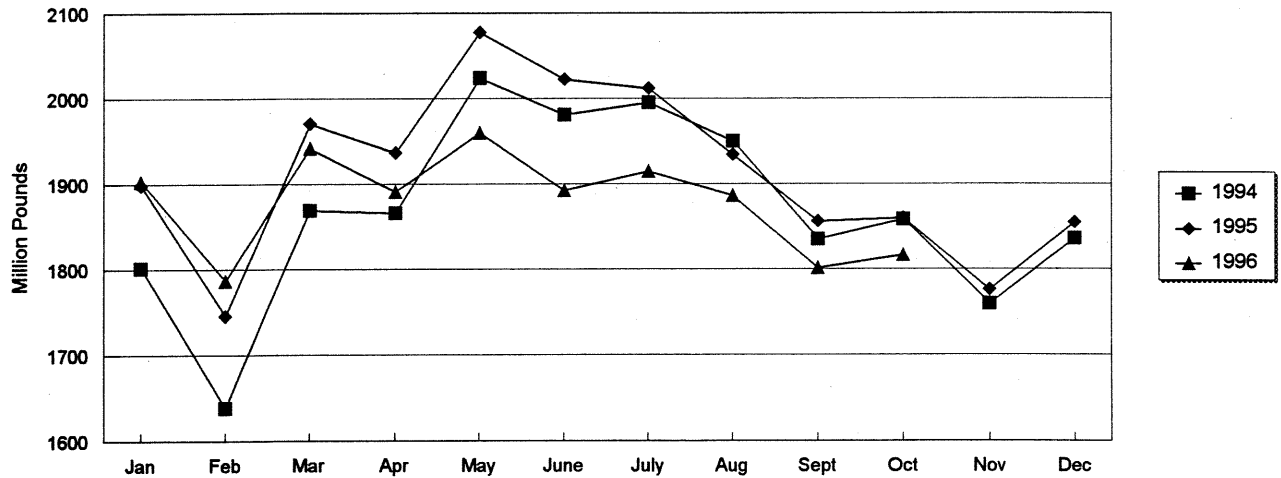
Milk Production Per Cow

Wisconsin, 1994-96



Milk Production

Wisconsin, 1994-96



BLIMLING AND ASSOCIATES

Ph. (608) 839-5565

Roger W. Blimling

4566 Kennedy Road
Cottage Grove, WI 53527

Futures Markets and Their Relation to Dairy Commodities

presented to

The Wisconsin State Assembly Agriculture Committee

by

Roger Blimling

December 12, 1996

Representative Ott, Members of the committee, and guests. Thank you for the opportunity to address the committee on the topic of the Dairy Futures Markets. My name is Roger Blimling. I am the owner of Blimling and Associates, a grain and dairy marketing, consulting, and research firm and the owner of Roger W. Blimling Inc., a futures brokerage company. I have been involved in the dairy futures markets since their beginning in 1993. In 1994, Blimling and Associates in conjunction with Alto Dairy received an Agriculture Development and Diversification grant from the Wisconsin Department of Agriculture Trade and Consumer Protection for the development and implementation of a milk forward contracting program.

My decision to incorporate dairy into my business four years ago was based on a strong belief that futures-based risk management works. It works for producers. It works for processors. It works for consumers. My belief is rooted in experience. For almost fifteen years I have used the grain futures markets every day. For the first decade of my career when I was in the grain industry, I relied on the markets to manage price risk of grain. For the past five years my companies have worked with the markets to help grain and dairy clients manage risk and better market their products.

Around the time the Coffee, Sugar & Cocoa Exchange was preparing to launch its Cheddar cheese and nonfat dry milk futures contracts in 1993, my grain clients with dairy operations were wondering. They wondered why they could lock in prices for their corn or soybeans in advance but had no method to price their milk in a similar fashion. In fact, their milk price was determined the month after the product was shipped. In short, they wanted a way to gain a measure of control over the price of their milk.

Though not stated as such, my clients' frustrations were with price discovery and price volatility. The dairy futures markets provide a reliable solution to both of these problems.

Price Discovery

The existing milk pricing system discovers the current price for milk by means of the monthly calculation of the BFP. There is no mechanism within this system to establish a "future" price. Through the dairy futures markets, prices for dairy products are established, or discovered, as much as a year in advance. Other commodities, such as grains, use the futures markets to discover the current prices as well.

Futures markets provide an excellent "survey" price on a daily basis. A broad range of "opinions" are focused on one central location. Producers, processors, merchants and speculators gather to value a particular commodity. Because access is theoretically unlimited, each has a role in the pricing decision. Yet, strict position limit rules and vigilant monitoring ensure no single firm has control of the marketplace. Once buyer and seller agree on a transaction, the price is instantly available around the world.

Today, it is possible to envision a system where the current base price of milk or cheese or butter is determined in the futures market, with local prices adjusted to meet local supply/demand balances. The value of milk at the farm is ultimately determined by the value of the products which are made from that milk, bottled milk, cheese, nonfat, butter, etc, just as the value of soybeans is determined by the value of the two products that are

made from it, soybean meal and soybean oil. The system works for soybeans, corn, wheat, hogs, cattle, oats, natural gas, crude oil and unleaded gasoline, to name a few. There is no reason that it wouldn't work for the dairy industry, too. Some have said that dairy is different from other commodities, and it needs a federal market order system; thus, a price discovery system used in other commodities is not appropriate for the dairy industry. I do think that it is important to understand the difference between how a price is discovered and how that price is used in policy.

Risk Management

Price volatility is a given in a free market system. It cannot be controlled. Drought, floods, overproduction, changing consumer tastes – all can happen suddenly; all can impact price. We have been moving toward a free market system for the dairy industry for about a decade. With the passage of the 1996 Federal Agriculture Improvement and Reform Act, all existing dairy price support programs will be terminated at the end of 1999. With this in mind, managing price volatility becomes more important.

Using futures and options trading, industry participants can establish sale prices and purchases prices weeks, months, even years in advance. One need not look any further than the past few months for a dramatic example of the potential value of futures based risk management.

According to USDA, on September 30, there were 364 million pounds of American cheese in storage. By December 1, that cheese had lost around \$141 million in value. On September 30, there were 21 million pounds of butter inventories. By December 1, almost \$17 million of that butter's value disappeared. United States milk production was worth approximately \$500 million less in November than in September. Those losses will negatively impact the bottom line of dairy farmers, their cooperatives, and processors holding inventories. For many, the losses may be devastating.

This summer, however, as prices were reaching their peak, milk production and product inventories could have been protected by futures contract sales. In fact, it was done, though on a limited scale. Some of our dairy clients sold February milk futures at between \$15.00 and \$16.00/cwt. and December and February cheese in excess of \$1.50/lb. Today, February milk is pricing at around \$12.00. December and February cheese are around \$1.25/lb. At the time these hedges were established, it was unknown whether these prices would be above or below what the markets would be later in the year, but it did represent good returns on investment for the clients' operations. The existence of the dairy futures markets provided the clients the means to make sound business decisions.

Dairy processors and consumers could have used the markets earlier in the year to protect themselves against the run-up in price. In May, someone planning for fall raw material needs could have bought August and October milk futures at around \$12.00. Held into the summer, those contracts would have produced profits which offset the higher cost of milk.

Futures markets are not magical. They don't guarantee higher prices for milk. They don't eliminate price volatility. They are not going to cure all of the ailments afflicting the dairy

industry. And, they are not for everyone all of the time. However, futures markets are a tool that, from time to time, can be used to secure attractive prices.

There is a small – but growing – collection of producers, processors, cash brokers, and end users using the markets in an effort to enhance their operations. The requests for information, education and training are increasing from all sectors of the dairy industry as people see the opportunities.

At Blimling and Associates, we are currently working with six dairy cooperatives around the country who are offering forward contracting opportunities to their farmer members or who are preparing to do so. For years, grain farmers have been able to sell product on a forward contract basis to the local elevator. Today, they can lock in a price for next year's crop. The elevator uses the futures market to hedge the risk it assumes in giving the farmer a fixed price. We have taken this model and applied it to the dairy cooperative. The cooperative offers a flat price for milk. The farmer-member can elect to contract future production at that price. The cooperative manages the corresponding risk. Alto Dairy was a pioneer in this effort, developing its fixed price forward contracting program in 1994. Before too long, we anticipate that many, if not all, dairy cooperatives and milk buyers will offer similar services to their milk suppliers.

Dairy producers will not always have contracted milk at higher prices than what the market would have ultimately given them. But the program has, at long last, given participating producers a hand in the pricing process. Participating farmers have the ability to become more proactive. They have the tools to set their milk prices in advance if they so choose.

Conclusion

There is ample evidence that futures markets work for both price discovery and risk management of agricultural commodities. I also believe the dairy futures markets work well. And the more they are used, the better they will work.

Some point to the fact that the dairy futures markets are not heavily traded as a sign that there is something wrong with them. I believe the markets are not heavily traded because up to now dairy producers and manufacturers had no reason to know how futures markets worked, the benefits of them, and how they could be used and are just now learning about them. There are no apparent structural deficiencies. The delivery systems work, and the futures markets track the cash markets. We have been able to enter and exit positions without too much difficulty.

In my opinion, all that stands between the dairy industry and a successful dairy futures market is education and comfort. While we have put a lot of time and energy into the education effort, there is still more to do. It is an entirely new concept to most in the dairy industry. Thus, there is bound to be fear of the unknown.

I am confident that, because the markets work and because a need for them exists, they will become more and more a part of the ordinary workings of the dairy industry.

made from it, soybean meal and soybean oil. The system works for soybeans, corn, wheat, hogs, cattle, oats, natural gas, crude oil and unleaded gasoline, to name a few. There is no reason that it wouldn't work for the dairy industry, too. Some have said that dairy is different from other commodities, and it needs a federal market order system; thus, a price discovery system used in other commodities is not appropriate for the dairy industry. I do think that it is important to understand the difference between how a price is discovered and how that price is used in policy.

Risk Management

Price volatility is a given in a free market system. It cannot be controlled. Drought, floods, overproduction, changing consumer tastes – all can happen suddenly; all can impact price. We have been moving toward a free market system for the dairy industry for about a decade. With the passage of the 1996 Federal Agriculture Improvement and Reform Act, all existing dairy price support programs will be terminated at the end of 1999. With this in mind, managing price volatility becomes more important.

Using futures and options trading, industry participants can establish sale prices and purchases prices weeks, months, even years in advance. One need not look any further than the past few months for a dramatic example of the potential value of futures based risk management.

According to USDA, on September 30, there were 364 million pounds of American cheese in storage. By December 1, that cheese had lost around \$141 million in value. On September 30, there were 21 million pounds of butter inventories. By December 1, almost \$17 million of that butter's value disappeared. United States milk production was worth approximately \$500 million less in November than in September. Those losses will negatively impact the bottom line of dairy farmers, their cooperatives, and processors holding inventories. For many, the losses may be devastating.

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**Assembly Agriculture Committee Briefing
December 12, 1996**

Will Hughes, Wisconsin Federation of Cooperatives

Northeast Interstate Dairy Compact

The Wisconsin Federation of Cooperatives, and many other groups in the Upper Midwest, have consistently opposed the concept of the Northeast Interstate Dairy Compact, and its various legislative transformations, since it was first floated to Congress in 1993. We worked to defeat its passage in the Farm Bill, to reduce some of its teeth in final hours of the House-Senate Conference Committee, and since, its passage, to try to convince USDA that there was no compelling public interest on which to authorize its implementation.

Representative Gunderson, Senators Kohl and Feingold, and the rest of Wisconsin's Congressional delegation worked hard to stop the Northeast Compact. Now it's up to the courts to determine its fate.

The Northeast Compact should be opposed for several reasons:

1) The Compact will allow dairy farmers in these states to establish prices over the federal milk marketing order prices for Class I milk, creating another isolated area of privilege and adding to the inequities of the current milk pricing system. In the Upper Midwest, we gain over-order prices through efforts of dairy cooperatives. In New England they want government to serve this function. To the extent these Compact prices are enforced on outside milk, economic barriers are created for other states' milk that might be sold there. Setting up domestic trade barriers is not good policy most would argue. Finally, these Compact enhanced prices will to some degree add to milk supplies and lower prices for manufacturing milk that other farmers receive.

2) Although the Compact applies only to the six New England states of Vermont, Maine, Massachusetts, New Hampshire, Rhode Island and Connecticut, producing about 2.9 percent of the nation's milk, the direct

impacts of the Compact will not be large in the three years it can be in effect. But, once created, other states will likely join this Compact, or create other Compacts, thereby defeating any attempts by federal authorities to establish a rational, national federal milk pricing program.

3) Once created, it is also likely that attempts will be made legislatively to extend the Compact's life.

4) Finally, the Compact very likely lessens the seriousness of the Northeast to consider major federal milk marketing order reforms because they have an alternative for however long they can make it last-- three years or longer.

Based on the legislation, the Compact could raise fluid milk prices from \$2.50 to \$3 per hundredweight from average 1995-96 price levels. Again, as with federal milk marketing orders, the issue with the Compact is over how dairy farmers in the U.S. are allowed to equitably share in a national milk marketing system. If you would like Wisconsin dairy farmers to be treated equitably by government pricing, the artificial process of the Northeast Interstate Dairy Compact is the wrong way to go. We think the approach to reform government pricing should be through federal milk orders, not Compacts.



State of Wisconsin
Tommy G. Thompson, Governor

Department of Agriculture, Trade and Consumer Protection

Alan T. Tracy, Secretary

2811 Agriculture Drive
Madison, Wisconsin 53704-6777

PO Box 8911
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PRESENTATION OF WILLIAM L. OEMICHEN ON THE NORTHEAST INTERSTATE DAIRY COMPACT

December 12, 1996

TO THE WISCONSIN ASSEMBLY AGRICULTURE COMMITTEE

I appreciate the invitation to discuss the Northeast Interstate Dairy Compact today with the Assembly Agriculture Committee. I will review the early history of the Compact, the Compact provisions, the Congressional debate over the Compact, Secretary Glickman's Compact decision, The Compact court challenge, and the U.S. District Court decision. Will Hughes from the Wisconsin Federation of Cooperatives has already reviewed the public debate over the Compact for you.

I. EARLY HISTORY OF THE DAIRY COMPACT

In 1993, the six New England states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont joined together in an effort to create a dairy compact which would allow those states to raise the minimum milk prices paid to their dairy producers for milk that would be bottled (Class I milk). The minimum prices would be higher than the minimum Class I milk prices guaranteed by the Federal Milk Marketing Order system. These six states then requested Congress give assent to a Compact under Article I, Section 10, Clause 3 of the United States Constitution.

The New England Compact effort began in 1988 when Vermont raised the issue of creating a Compact with the five other states. By 1993, the legislatures of all six states had approved the formation of the Northeast Interstate Dairy Compact and all six state governors had signed resolutions supporting its creation.

The New England states sought the approval from Congress because the United States Supreme Court in West Lynn Creamery, Inc. v. Healy, 114 S. Ct. 2205 (1994), had struck down the ability of individual states to enact a state pricing regulation which restricted interstate commerce to the point of violating the Interstate Commerce Clause. Massachusetts, Minnesota and New Jersey are three states that had attempted to enact such laws.

II. THE COMPACT PROVISIONS

The Compact resolutions passed by each state called for the creation of a Commission with three to five members from each state. At least one farmer and one consumer representative was to be sent from each state.

Under the Compact, the Commission's main responsibility was to establish an "over-order" price to producers above the Federal Milk Marketing Order system's established minimum Class I price. A \$1.50/cwt. maximum price was established. All milk purchasers ("handlers") would be assessed a premium which would be used to pay the Commission's expenses and to pay the New England dairy producers the higher "over-order" premium price.

III. THE CONGRESSIONAL DEBATE

The Compact states first proposed the Compact in the 103rd Congress (1993) by having a bill introduced in the Senate and House. The bill did not pass either house, but passed the Senate and House Judiciary Committees. The House Judiciary Committee attached significant amendments and the bill did not advance. A number of Midwestern senators placed a "hold" on the Compact bill so it could not be brought to the Senate Floor for debate.

The Compact states then introduced a similar bill in the 104th Congress (1995) and worked to incorporate the Compact into the Federal Agriculture Improvement and Reform Act of 1996 (the "1995 Farm Bill"). The House passed the bill with no Compact provisions. However, the Senate first adopted a bill giving assent to the Compact and then later took a second vote and defeated the Compact.

Both the Senate and House sent their version of the 1995 Farm Bill to a conference committee with no Compact provision attached. However, the Committee voted to include the Compact towards the very end of the committee's deliberations. Unfortunately, no record exists of the discussion.

The Farm Bill was sent to the President with most of the original Compact provisions. However, a new provision was added delegating approval of the Compact to the Secretary of Agriculture provided he found a "compelling public interest [for the Compact] in the Compact Region."

IV. SECRETARY GLICKMAN'S COMPACT DECISION

Despite the active lobbying by the governors of most Midwestern states, dairy interests in the Midwestern states and national consumer groups, Secretary Glickman decided on August 28, 1996 to authorize the Compact because he found the "compelling public interest." The Secretary's decision was apparently based on a finding that 95% of the comments the Department of Agriculture received were in favor of the Compact. Significantly, the Secretary pointed out a number of concerns he had about the Compact in an accompanying press release: (1) he did not want the Compact to restrict in any way the ability of producers to ship milk into the Compact region, (2) he did not want the Compact to adversely effect producer income in non-Compact states, (3) he wanted the Compact to be flexible and responsive to changing supply, demand and price conditions in the market, (4) and he did not want the Compact to adversely effect consumers, particularly low income consumers.

The Compact states then began creating their Commission and preparing pricing regulations.

V. THE COMPACT COURT CHALLENGE

The Milk Industry Foundation ("MIF"), a trade association of milk processors, filed for an injunction in the U.S. District Court for the District of Columbia to the Secretary's authorization of the Compact, Milk Industry Foundation v. Daniel R. Glickman, Court File No. 96-2027. This injunction request was joined by Wisconsin, Minnesota, North Dakota and South Dakota, as well as by the senators from Wisconsin and Minnesota, many dairy Midwestern dairy organizations, and national consumer organizations.

The MIF challenge was based on two primary claims: (1) the delegation of Compact approval authority by the Congress to the Secretary was unconstitutional, and (2) the Secretary decision violated the Administrative Procedures Act because it was arbitrary and capricious.

VI. THE U.S. DISTRICT COURT DECISION

The case was assigned to the Honorable Judge Paul L. Friedman and he held oral argument on the injunction request earlier this fall. Extensive briefs were filed by MIF, Wisconsin, Minnesota, North Dakota and South Dakota, the Compact states and the United States Department of Agriculture.

Compact Presentation
December 12, 1996
Page Four

Judge Friedman issued his decision on December 11, 1996. He held that he would not issue the requested injunction because he would have the opportunity to resolve the issue prior to the Compact Commissioner implementing its pricing regulations. He also held the Secretary's decision was likely constitutional.

However, and significantly, the Court held the Secretary's decision likely violates the Administrative Procedures Act ("APA") because "the Secretary failed to articulate any coherent reasons or justification for his finding of a compelling public interest . . ." Indeed, the Court found that the Secretary had expressed more reasons to be opposed to the Compact than reasons to be in favor. The Court also found that a mere headcount of comments "hardly supports a finding of a compelling public interest."

The Court will hear additional arguments over the next several months before it issues its final decision. This decision will put a cloud on the implementation of the Compact. If the Court finally decides the Secretary's decision violates the APA, the Secretary will be required to issue a new decision based on the facts in the record. I greatly appreciate the opportunity to discuss this important issue with the members of the Assembly Agriculture Committee and invite you to call me at 608/224-4920 if you have any additional questions.

THE WISCONSIN DEPARTMENT OF AGRICULTURE,
TRADE AND CONSUMER PROTECTION

**EFFORTS TO SUPPORT AND IMPROVE
WISCONSIN'S DAIRY INDUSTRY**

Ongoing Efforts to Reform Federal Milk Pricing Policy. Repeated efforts to reform Federal Milk Marketing Orders, including:

- **USDA 1990 National Hearings.** Testimony by Governor Thompson and Secretary Tracy at the 1990 national hearings calling for a single national milk marketing order;
- Presentation in 1993 to the US Secretary of Agriculture by the Wisconsin Department of Agriculture, Trade and Consumer Protection (WDATCP) requesting the U.S.D.A. to reform marketing orders;
- **Minnesota Milk Producer Lawsuit.** Wisconsin state funding of \$50,000 for support of the ongoing Minnesota Milk Producers' lawsuit against USDA challenging the legality of the current federal milk marketing order system.
- **1995-96 Farm Bill Efforts.** A variety of efforts, including: Testifying before Congressional committees on federal order reform; Initiating efforts of the National Governors Association and the National Association of State Departments of Agriculture to call for order reform in their proposals for the 1995-96 farm bill; Proposing order reform through Wisconsin's Congressional delegation; Financial support (\$10,000) and participation in the Upper Midwest Dairy Coalition, a group advancing federal order reform on behalf of Upper Midwest interests.
- **Elimination of budget related dairy assessments.** Governor Thompson and Secretary Tracy supported the elimination of the dairy producer assessments that Wisconsin dairy farmers pay to offset the federal budget deficit. The assessments were eliminated in the 1996 farm bill.
- **USDA Order Reform Process, 1996-1999.** The 1996 Farm Bill requires USDA to consolidate the number of federal milk marketing orders from 33 to 10-14 within three years and to reform the pricing structure of the federal order system. Wisconsin continues to participate in the Upper Midwest Dairy Coalition to advance Wisconsin's interests in federal order reform. DATCP has requested \$50,000 per year for support of the Coalition, as well as for support of other efforts concerning federal dairy policy, notably challenging implementation of the Northeast Interstate Dairy Compact.
- **Northeast Interstate Dairy Compact.** Joining in efforts to challenge the legality of the compact, which was approved by the USDA Secretary.

Other Efforts to improve dairy pricing

- The WDATCP and the University of Wisconsin-Madison completed an investigation into the purchase and sale of cheese on the National Cheese Exchange (NCE) in Green Bay. The investigation highlights concerns with the NCE as a cheese pricing mechanism. The report was referred to the Wisconsin and US Departments of Justice, the Commodity Futures Trading Commission and the Federal Trade Commission for their review.
- Governor Thompson appointed a task force to recommend ways to improve the cheese pricing system. The cheese pricing system also affects prices farmers are paid for their milk. The Task Force will make its recommendations to the Governor by January 1, 1997.
- Governor Thompson will lead a delegation of dairy producers to Washington, DC in February, 1997, to discuss federal milk pricing reform and to advance the recommendation of the Cheese Pricing Task Force to federal authorities.
- The WDATCP has funded a project that forward contracts milk prices using the futures market. Producers are able to lower their risks to market price volatility by forward contracting their milk sales.
- Futures contracts for milk and cheese have been established on two commodity futures exchanges. The Governor's Task Force will be recommending that the exchanges establish cash markets for cheese to improve the linkage between the cash and futures markets and the liquidity of the futures markets.

Dairy 2020 Initiative

- Governor Thompson launched Dairy 2020 in March, 1993, as a broad-based, industry effort to improve dairy farm profitability and to improve the competitiveness of Wisconsin's dairy industry. Dairy farmers, cooperatives, processors, and allied business industries are participating in the initiative. The 1995-97 state budget included over \$400,000 in funding for Dairy 2020 initiatives, including WDATCP's farm transition program.
- Activities that have been spurred by Dairy 2020 include: Establishing local Dairy 2020 Councils in various communities around the state, to address dairy issues at the local level and to develop programs and projects to address these issues (UW Extension); establishing the Farm Link Program which assists farmers with the planning and transitioning into or out of agriculture and which maintains a computerized data base to help match retiring and beginning farmers (DATCP); providing additional staff and resources to the UW's Center for Dairy Profitability (UW-Madison/UW-Extension); the Beginning Farmer Bond Program and the Farm Asset and Reinvestment Management (FARM) loan guarantee program (WHEDA); revamping and expanding the Rural Economic Development (RED) loan and grant program and providing financing to dairy related projects with other Dept. of Commerce programs (Dept. of Commerce); promotional efforts at the World Dairy Expo

and other efforts stressing the economic importance of dairying in Wisconsin; Dairy Leadership and Management development training (UW-Madison).

Efforts to reduce farm taxes, including:

- Increasing state aids for education from \$1.3 billion to \$2.5 billion over the period 1985-86 through 1994-95. Cost controls on schools, as well as increasing the state's share of local school costs by an additional \$1.2 billion in the 1995-97 biennium will result in the state bearing two-thirds of local school costs. As a result, the property tax burden for Wisconsin property owners such as farmers, will be substantially reduced.
- Phasing in a plan to assess agricultural land at its productive value as farmland rather than at its potential value as developed residential or commercial real estate. The change in assessment method will be phased-in over a ten year period and is expected to reduce aggregate agricultural land values for property tax purposes by one-third.
- Providing over \$40 million annually in property tax credits to farmers through The Farmland Preservation Program credit and the farmland tax relief credit.
- As of 1995, Wisconsin allows 100 percent of health insurance costs for self-employed persons, such as farmers, to be deducted from gross income in calculating state income tax liability.

Efforts to Diversify Agricultural Production and Products and to Assist Farmers

- WDATCP's Sustainable Agriculture Program has promoted and funded alternative production methods such as rotational grazing, and assisted in outreach and education efforts such as farmer-organized information networks for organic farming.
- WDATCP's Agriculture Development and Diversification (ADD) Program has promoted and funded projects such as sheep dairying and dairy products, development of specialty cheeses, and foreign market development for cheese and whey products.
- The Wisconsin Farm Center consolidates many of the direct services available to farmers at the WDATCP and provides legal information, employment and training, mediation and financial services and serves as an information clearinghouse to over 7,000 farmers annually. In addition, the Center houses the ADD program, the Sustainable Ag program, the Farm Link program and the Rural Electric Power Services program. Center staff are available on a toll free hotline, and can link farmers with 75 volunteer farm credit advisors, and 75 farm mediators throughout the state. In addition, the center has working relationships with nearly every state and federal agency to assist farmers with a variety of problems and concerns. The program has recently received public recognition awards from the USDA and UW Extension for its effective work.

State Rules and Regulations Concerning Dairy Producers

- **Dairy Producer Security Program.** This program is intended to give dairy farmers reasonable assurance that dairy plant operators are able to pay for the milk they procure. Wi. dairy security law is a national model. Many other states (such as Minn.) do not have a dairy security law. The operator of the plant must do one of the following:
 - Submit annual and quarterly financial statements which meet the requirements stipulated by State statute and Admin. rule;
 - File security with the department equal to 75% of maximum liability to producers.
 - Enter into a trusteeship, and obtain approval of the department.
- **Rule against Price Discrimination in Milk Procurement.** WDATCP has fought hard against price discrimination in the Wisconsin dairy industry. On October 1, 1996, the department adopted a rule to enforce s. 100.22, Wis. Stats., which prohibits discrimination in the price paid for milk if the discrimination injures producers or competition. Although controversial, it is intended to promote a level playing field among all dairy farmers, large or small.
- **Performance-Based Dairy Farm Inspections.** The frequency of inspection of grade A dairy farms is based on the sanitary conditions of the farm and the quality of milk produced. The frequency of farms inspections ranges from every 2 months to every twelve months, rather than a standard every six months. Producers exceeding quality and sanitary standards are inspected less frequently, while producers below standards are inspected more frequently.

Efforts to Expand Wisconsin Dairy Exports

- WDATCP promotes Wisconsin dairy products through agricultural trade shows and missions to sell Wisconsin products in Europe, Asia and South America. Wisconsin leads the US in dairy exports. Over \$172 million in dairy products were exported from Wisconsin in 1994, one-fourth of all US dairy product exports. In addition, over \$56 million in dairy genetics, including live animals, or three-fifths of total US dairy genetics exports are from Wisconsin.

WDATCP launched a Dairy Export Initiative in November, 1995. The initiative includes membership in the US dairy export council, dedicating one full-time staff person to assisting Wisconsin companies with dairy exporting, focusing export seminars and workshops on dairy exporting, and providing trade missions to promote Wisconsin dairy products.

UPDATED December, 1996

**Assembly Agriculture Committee Briefing
December 12, 1996**

Will Hughes, Wisconsin Federation of Cooperatives

Federal Dairy Pricing Reforms

The Wisconsin Federation of Cooperatives serves as the coordinator of the Upper Midwest Dairy Coalition. The Coalition formed during the process of developing the 1996 Farm Bill in order to effect federal dairy policy changes that would best serve dairy farmers and the dairy industry of Wisconsin and the Upper Midwest. Members of the Coalition include: dairy cooperatives, farm organizations, dairy associations and state agencies. During the Farm Bill, the Coalition employed a lobbyist and worked with the University of Wisconsin to generate economic analysis in support of the Coalition's efforts.

Now, the die has been cast in the Farm Bill as to what kinds of pricing reforms and federal milk order consolidation will be considered by the USDA and the timetable for the changes. The Coalition is continuing its efforts to develop consensus on what proposals and other input to provide to USDA. In addition, the Coalition will have to defend its positions, both with economic analysis and political support, against other region's positions which may not be in agreement with the Coalition's positions.

The Coalition's view is that the 1996 Farm Bill has set the stage for less, not more of a government role in milk pricing. The Coalition's proposals as input to USDA have been consistent with this direction.

The Coalition generally supports federal milk orders as being a benefit to dairy farmers and the dairy industry. The Coalition's focus in its proposals has been towards two objectives: 1) to make orders more equitable in how they distribute benefits to farmers and, 2) to make orders work more efficiently in facilitating milk to move to the highest, regulated use values--that is fluid milk. Because federal milk orders establish regulated prices for Grade A milk in manufacturing, and because we represent a major manufacturing area, the Coalition is also interested in seeing that major

competing areas where milk is manufactured do not also gain regulation-induced advantages. California is the best example of having an advantage of state regulation.

As in the Farm Bill, the Coalition is pushing to change the current geographic structure of Class I differentials (see the attached map) so that there is less regional differences in the benefits that dairy farmers receive from order pricing. The Coalition is also seeking a uniform national price for milk used in manufacturing so that there are fewer differences in raw milk costs to competing cheese manufacturers due to regulations (see attached graph of Wisconsin Grade A vs. BFP vs. California 4-b cheese milk costs). As you can imagine, there is a wide range of opinions across the dairy industry as to how to proceed with reform in these areas.

The Upper Midwest Dairy Coalition has proposed to USDA the following positions as to best reform the orders:

Class I Price Structure

Base Class I differentials on the distance in each market that the milk supply is located from the fluid milk demand areas. This provides a basis for establishing a Class I price level in each market based on the most efficiently located milk supply. The result would be to substantially reduce the regional differences in Class I differentials from the current Class I price structure, and combined with the use of transportation credits to help pay for Class I shipments, substantially improve the efficiency and effectiveness of federal milk marketing orders.

Basic Formula Price

Base the Basic Formula Price (the price mover for federal orders on all use categories) on what dairy plants actually pay for Grade A and Grade B milk used in manufacturing. This proposal is a variation on what is presently done in establishing the Basic Formula Price. Currently, the Basic Formula Price is based on what dairy plants pay for Grade B milk. The Coalition proposes to extend this measurement to Grade A milk and to other manufacturing areas where active competition exists for milk used in manufacturing. The Coalition believes this proposal gives the best measure of the market value of milk used in manufacturing.

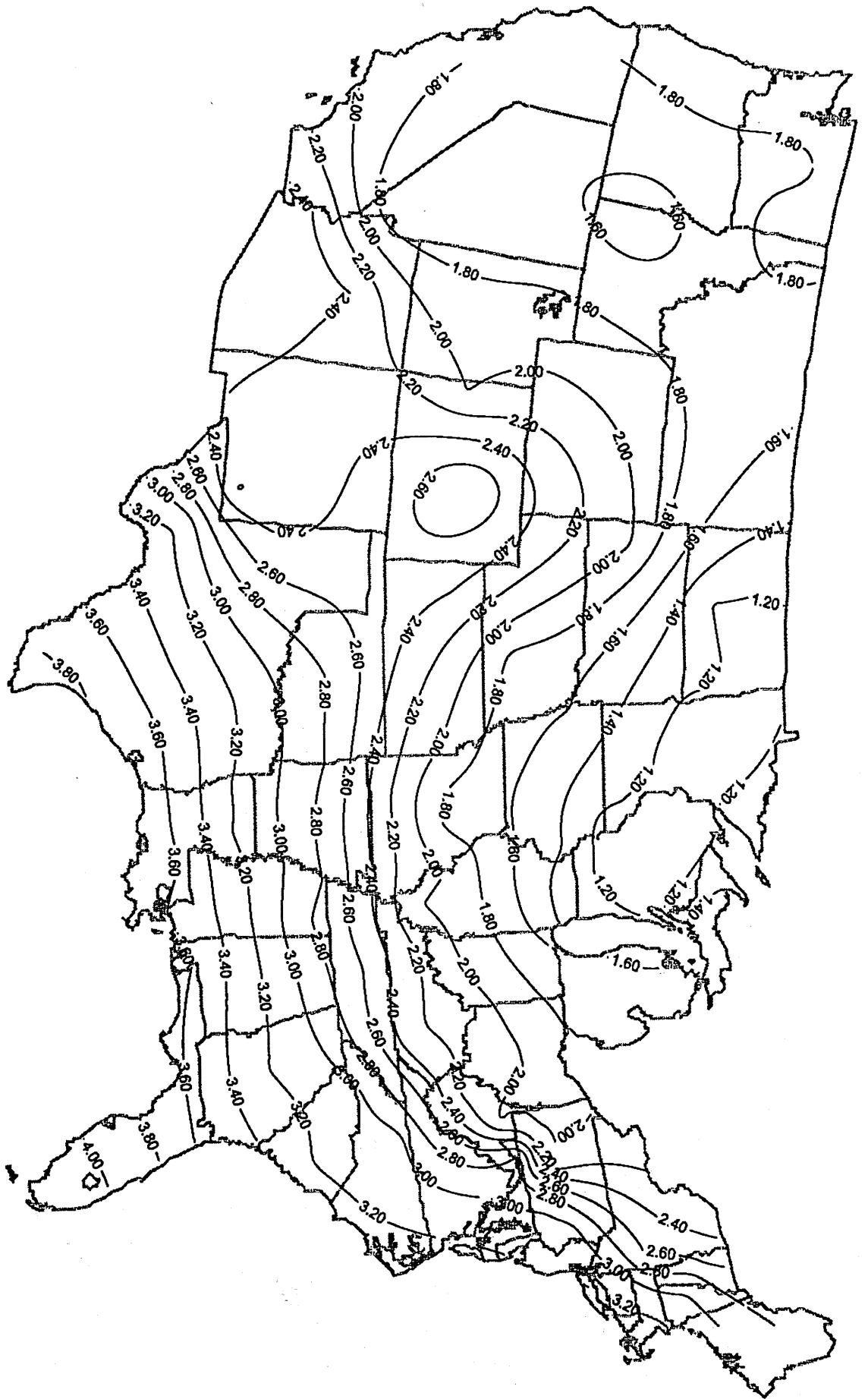
More Open Pooling

The Coalition also is proposing a series of recommendations to USDA that would reduce economic barriers associated with certain features of milk marketing orders, such as milk

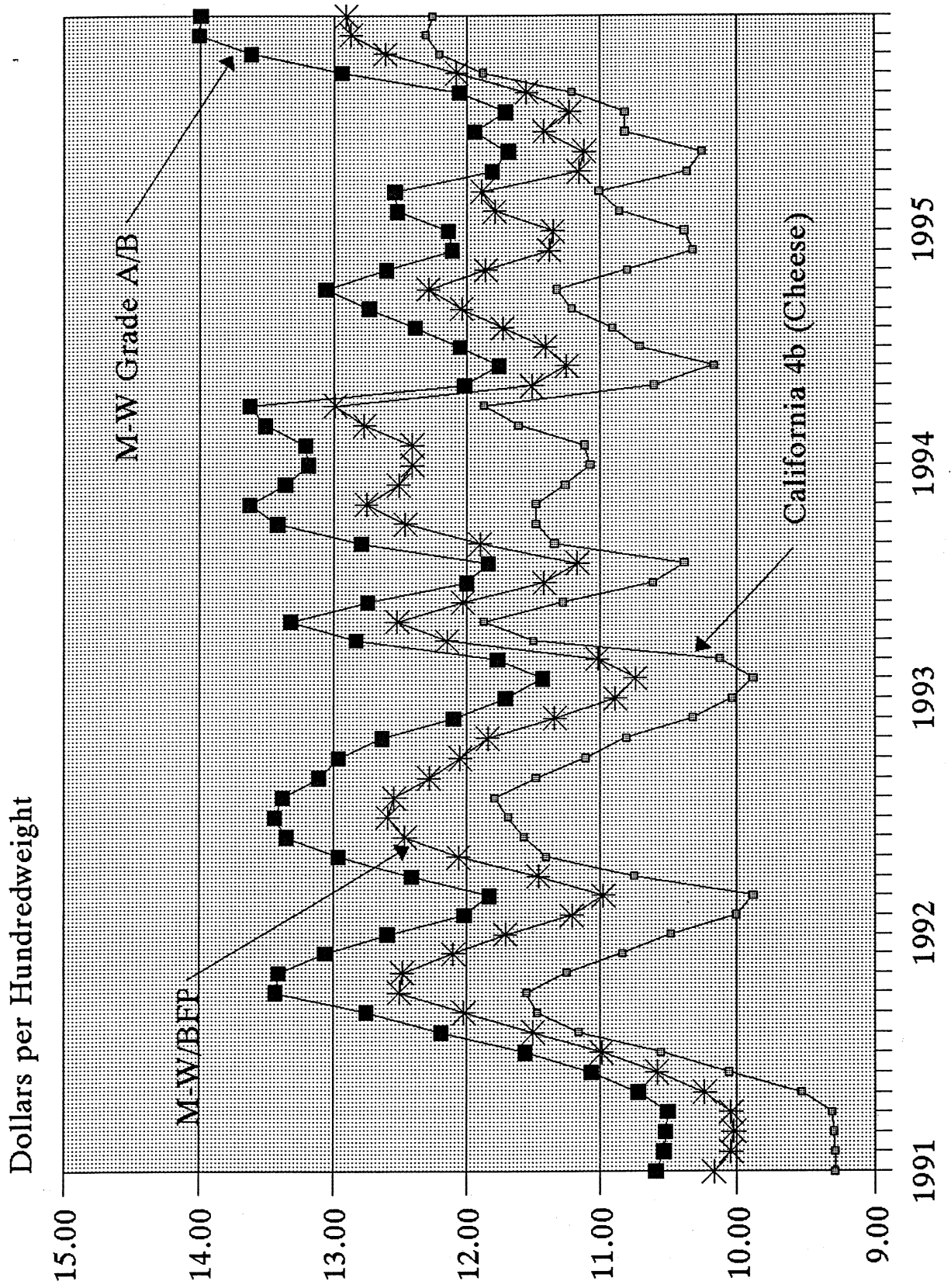
classification and allocation procedures, use of shipping requirements and location adjustments. Most important among these recommendations is to make it easier for dairy farmers and dairy plants to associate with any market that makes economic sense for them.

The Coalition has communicated these proposals to USDA and is in the process of doing additional economic analysis to support them. The Coalition also plans to retain professional legal and economic help to best achieve success in this effort. It is a collaborative effort and one that enjoys good support and commitment from the University of Wisconsin, the Department of Agriculture, Trade and Consumer Protection and from the dairy industry of the Upper Midwest.

Actual 1995 Federal Order Class I Differentials, \$/cwt.



Manufacturing Milk Price Series



Upper Midwest Dairy Coalition Federal Order Proposal Summary

Price Structure

- Each new federal order designates one or more bottler locations as Class I pricing points (e.g. Chicago, Miami, New York).
- Class I differentials are based on the distance that Grade A milk production is located from the bottler location pricing points to satisfy Class I needs plus reserves in shortest months (e.g. October).
- The minimum Class I differential reflects pricing for the most efficient location and priority movement of milk for Class I use.
- Differentials would be highest at the major bottler locations and fluid supply areas and lowest in the reserve supply areas.
- Flatter differentials; Southeast still higher differentials than Upper Midwest

Example: Chicago

Distance within which all Class I demand (plus reserves) is satisfied = 150 miles

Differential in reserve area = \$1.00 per hundredweight

Differential in fluid supply area = \$1.42

(\$1.00/cwt + (15-ten mile increments at 2.8 cents per cwt per 10 miles))

- Advantages: Provides guidelines and common method for establishing differentials; Focuses regulated Class I prices on most efficient milk movements and priority for Class I; Along with performance incentives (transportation credits and balancing credits) assures adequate supply of milk for fluid use; Method allows flexibility for each market to design its own pricing structure; Equitable to all producers and handlers. Also can use Cornell Model to simulate pricing points and supply areas.

Basic Formula Price

- Measure prices plants pay for Grade A and Grade B milk used in manufacturing; Minnesota and Wisconsin where active competition for milk exists; additional manufacturing areas possible.
- Adjust gross prices by removing the performance premiums for volume and quality, and other components, by removing the federal order pool draw, and by removing the effects of over-order distributions for Class I and Class II.

Page 2- Summary of Federal Order Proposals

- +\$.13 to .15 per hundredweight difference than Class III for 1995.
- Use method to collect and adjust prices that is used by Chicago Regional Market Administrator's Office.
- Advantages: Accurately reflects competitive environment in which milk is procured; Accurately reflects supply and demand for milk and dairy products nationally; Adjustments to remove payment performance premiums eliminate regional aspects of milk pricing; Adjustments to remove effects of federal order pool draw adequately eliminates effect of order regulations on pricing; Avoids use of complex, rigid product price formulas with yield and make allowance controversies; Easy to calculate and simple to understand.

Transportation Credits

- Pay transportation credits from the marketwide pool not to exceed 80 percent of actual costs to facilitate movement of milk to Class I bottlers for Class I use.
- Transportation credits constrained by distances within fluid supply area as defined in consolidation process. Alternatively, gradually reduce percentage credit with distance (e.g. 80% up to 200 miles, 60% 200-400 miles etc.)
- Replace location adjustments with transportation credits to give maximum flexibility to move Class I milk.
- Pay credits on direct shipped as well as plant shipped milk.
- Lift constraints whenever a call for milk is made in the call area.
- Advantages: More flexible than zoning and location adjustments; With appropriate constraints, provide disincentive for long distance, inefficient shipments; easy to administer.

Balancing Credits

- Pay up to 80 percent of fixed costs of efficient cheese plants on fluid shipments or seasonal balancing.
- Designed to make supply plants at least as well off as those plants not shipping milk.

Designated Pooling

- Replace shipping requirements with call provisions
- Supply plants may designate which market to pool

Classify sweetened condensed and condensed the same as nonfat

TV, VCR, overhead, screen - DOR
X X 8:30 - 1:00 pm 6-2309
(page staff) have page pick up
- Hank (Henrietta)

Send agenda to participants
*include Q+A

Thursday, Dec. 12th - 9 - Noon

Send agenda to all legislators

9:00 - 9:45 - ✓ Sec. Tracy - Task Force, volume premium rule
45 min ✓ Pete Knigge - California trip

9:45 - 10:45 - ✓ Eric Maine } Futures } new contract for Basic Formula Price
60 min ✓ Larry Lemmenes } } cash market for cheese (initiative to establish)
✓ Roger Blimling - trader

10:45 - 11:10
25 min

~~10:45 - 11:05~~ - ✓ Will Hughes } Federal Dairy Pricing Reform
20 min ✓ Bob Cropp

11:10 - 11:35
25 min

~~11:05 - 11:25~~ - ✓ Bill Demichen, Admin., Div. of Trade + Consumer Protection
20 min ✓ Will Hughes } NE Dairy Compact

11:35 - 12:00
25 min

~~11:30 - 12:00~~ ✓ John Behling } Dairy 2020
✓ Tim Johnson

*Send hearing notices to speakers w/ individual times

11-11-96 John may not be able to attend

THURS. Dec. 12, 96
9-NOON

Thursday, Dec. 12th - 9am-noon - 417 North (GAR Hall)

1. Task Force on Cheese Pricing

AI call

Bob Burris - Chairman 630-262-4152 or 630-262-4013
ED SE TRACY, ED JESSE, PETE KNIGGE

2. Futures Market

Chicago Bd of Trade

91 call

Tues after 10- before 2:30

John Norton - which exchange(s)?
224-4922
Janet Troy
Patricia Lipton (NY) - very good presenter

lead 30 min

? but do we want how to set up futures contract or more effects

owner Blimling + Assoc (Dairy + Grain Marketing firm)

? ask about a trader

414-376-2215 ext 185
Larry Lemmenes

Roger Blimling

Phil Plourde 839-5276

also Dairy

4566 Kennedy
cott. Grove Rd.
53527

3. Federal Dairy Pricing Reform

yes

11-11 left message for Will Hughes 258-4410

- ? include multiple component pricing. (Bob Cross) yes gifts

4. Northeast Dairy Compact

OK
Bill Omlen together
Will Hughes

ask Ed ? Ed Jesse or Bill Omlen (DATCP Div Adm of Trade + CP) - Alan suggested

UNCONFIRMED

5. DATCP - Sec. Tracy yes

6. Dairy 2020

11-11 left message for John Berling 6-7370
Chair of Board
yes
(Tim Johnson)

Schedule before 10am

- Effect of volume premium rule

- Trip to California - Pete Knigge - said yes

- most of the recent farmers that leave the industry this year are retiring (no one takes over) not b/c bankrupt

- part year actually best in this decade for average milk price

? ^{all} NICE doesn't need recommendations in good faith can state do anything voluntarily

Alan - they'd move

- asking CFTC + FTC to take another look at regulating exchange

- WJ doesn't regulate prices -

Eric Marine - Coffee, Sugar + Cocoa Exchange

* primary job is new product development

- ① Dairy Futures + Options
- Solution to Price Risk Mgt. } Financial tool, not a new delivery mechanism for milk
- ② 1993 Cheddar Cheese
" nonfat dry milk

Alan Shrago

- USDA
- Revised Trade Commission
- Fed Commodity Commission

} Gov's trip to Washington

Kraft - dominant seller
Prattice Cheese - dominant buyer } on exchange
* processors not always on same side

* farmers ship milk + don't know until next month what they'll get paid

? How more involved in pricing or let market work
↓
including cost of production moves toward more govt. involvement

~~Coffee, Sugar + Cocoa Exchange~~ set up futures markets for Cheese 4 yrs ago - ~~didn't~~ ^{didn't} go very well - set up for milk earlier this year - gone very well

C, S + C Exchange interested in setting up cash market

(Hope to have a BFP cash contract for milk in early 97)

- filed w/ CFTC
w/ Oct/early Nov

CFTC has asked for comment from USDA +
w/ + mid Aug Depts.

(www.cscce.com or 1-800-HEDEGIT)

Contract will reflect BFP as currently determined

- Options pilot program - \$10 mil - asked USDA to
subsidize

- cash market for cheese

- BFP milk contract

Roger Blimling + Larry Lemmeyer

R Hedging worries

L features "levels out" volatility - risk mgmt. tool

- makes handlers more comfortable w/ farmers' income
levels at least for 6-9 months

looking in price works for cheese - end users
(milk comm) as well

Bob Cropp

Reform in federal orders is not going to add a
great deal of price stability

2 committees looking at several
federal order reforms

- Butter/Powder/Cheese formula → to replace
- multiple component pricing BFP
(Texas A+M Comm - Cropp involved in)
have report out

NE Dairy Compact

- ruling 12-11-96 - judge said upper midwest
states would likely succeed - for more
reasons to be against compact than in
support of

- now set over for a briefing period (Jan/Feb)
- did not grant injunction b/c he will decide
before an assessment is granted in NE

Alan Tracy

Governor's Task Force on Cheese Pricing
List of Recommendations

I. Addressing the Link Between the NCE and Milk Prices:

The task force recommends that:

The US Department of Agriculture should no longer use the National Cheese Exchange price to determine the basic formula price (BFP) for manufacturing milk.

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

The USDA could accomplish this by:

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

and weighting the product prices used in the BFP formula to reflect national production of cheddar cheese, nonfat dry milk and butter.

And then:

Substituting the Coffee, Sugar and Cocoa Exchange's or the Chicago Mercantile Exchange's "BFP milk futures contract" for the BFP. A schedule could be developed that increases the weight assigned to the milk futures price proportional to the volume of milk futures contracts traded;

or,

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

or,

Move toward the deregulation of pricing within the Federal Milk Marketing Order System, including elimination of the BFP.

II. Relating to Improving Market Information:

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

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

III. Relating to Oversight of the NCE:

- Recommend that the Commodity Futures Trading Commission and the Federal Trade Commission re-evaluate their regulatory authorities regarding the National Cheese Exchange.

IV. Relating to Possible Alternative Price Discovery Mechanisms for Cheese:

- Recommend that the Coffee, Sugar and Cocoa Exchange and the Chicago Mercantile Exchange establish cash contracts for cheese.

V. Relating to Operating Rules of the National Cheese Exchange:

- Recommend to the NCE Board that they consider imposing a limit on the daily price movement of NCE prices.
- Recommend to the NCE board that they include one or more public members (non-NCE members) on the NCE board.
- Recommend to the NCE Board that the identities of buyers and sellers be anonymous during trading.
- Recommend to the NCE Board that they consider implementing more frequent electronic trading sessions for bulk cheese transactions, once remote electronic access is in place.
(Note: The NCE will implement remote access to current weekly trading sessions in 1997)

Chairman:
Agriculture Committee



Member:
Environment & Utilities
Government Operations
Natural Resources
Rural Affairs

Al Ott

State Representative • 3rd Assembly District

To: Assembly Agriculture Committee Members

From: Representative Al Ott, Chair

Date: December 13, 1996

Re: Letter to USDA Secretary Daniel Glickman

At the end of the Agriculture Committee briefing yesterday it was suggested that we, as a committee, send a letter to USDA Secretary Daniel Glickman urging that an alternative to the National Cheese Exchange price be found for determining the basic formula price for manufacturing milk. I have drafted the attached letter for this purpose.

In addition to the letter, which will be sent to Secretary Glickman as soon as possible, I have drafted a resolution which I will be introducing in the 1997-98 legislative session. You will receive a co-sponsorship memo and a copy of the resolution in your office.

Please contact my office at 6-5831 by **Noon on Monday, December 16, 1996** if you would like to sign onto the attached letter to Secretary Glickman.

December 16, 1996

The Honorable Daniel Glickman, Secretary
United States Department of Agriculture
14th Street and Independence Avenue S.W.
Washington, D.C. 20250

Dear Secretary Glickman:

As members of the Wisconsin State Assembly Committee on Agriculture and as legislators concerned about the price the farmers we represent are being paid for their milk, we are writing to urge you to cease using the National Cheese Exchange (NCE) price in determining the basic formula price for manufacturing milk.

As you may already know, Wisconsin's Governor Tommy Thompson established the Task Force on Cheese Pricing to recommend improvements on how cheese is priced. One of the recommendations that the Task Force has approved is that the NCE price should no longer be used to determine the basic formula price. We are very much in agreement with the Task Force on this issue.

We have heard from many farmers in this state who for various reasons do not feel that the price they receive for their milk should be linked to the prices of cheese on the NCE. It is the opinion of many that the NCE was never intended to be an indicator of the national supply of and demand for milk and that there are viable alternatives which could be established to determine the basic formula price. The NCE price results from trading that represents less than 2% of all bulk cheddar cheese sold nationally. A broad-based formula is needed to more accurately reflect market conditions.


We respectfully request that you initiate proceedings to replace the current formula used in determining the basic formula price. Wisconsin's dairy industry is vital to our economy and a more accurate formula is essential to keeping this industry alive and prosperous.

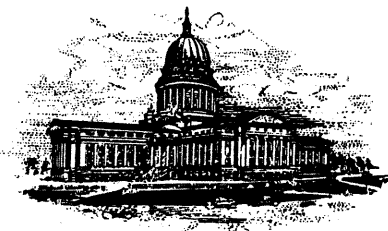
Thank you for your consideration of this matter.

Sincerely,

Ott
Ward
Hahn
Otte
Olsen
Aimsworth
Zukowski
Skindrud

Dueholm
Stromer
Springer
Reynolds
Balch


~~Reynolds~~
~~Stromer~~
~~Springer~~
Balch



Wisconsin State Assembly

P.O. BOX 8952 • MADISON, WI 53708

December 17, 1996

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United States Department of Agriculture
14th Street and Independence Avenue S.W.
Washington, D.C. 20250

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Thank you for your consideration of this matter.

Sincerely,

Al Ott
State Representative
3rd Assembly District

David Ward
State Representative
37th Assembly District

Eugene Hahn
State Representative
47th Assembly District

John Ainsworth
State Representative
6th Assembly District

Robert Zukowski
State Representative
69th Assembly District

Barbara Gronemus
State Representative
91st Assembly District

Robert Dueholm
State Representative
28th Assembly District

Al Baldus
State Representative
29th Assembly District

Clifford Otte
State Representative
27th Assembly District

Luther Olsen
State Representative
41st Assembly District

Richard Skindrud
State Representative
79th Assembly District

Martin Reynolds
State Representative
87th Assembly District

Thomas Springer
State Representative
86th Assembly District

Mike Wilder
State Representative
67th Assembly District

The Oncken >> Agri-Dairy Business Letter

For the marketer of goods, services and ideas for the agri-dairy industry.

December 21, 1996
Volume 13...Number 3
Issue #316

A LOOK AT THE CHANGING DAIRY WORLD

- ** Cheddar Cheese market continues down
- ** Milk production coming back
- ** A look at the basics of milk pricing
- ** First it was the bull and the cow, now...
- ** Notes & Quotes

CHEDDAR CHEESE MARKET STILL IN DECLINE

In spite of growing dairy producer (and agri-business) anger from falling milk prices, cheddar cheese prices at the National Cheese Exchange (NCE) in Green Bay continue their downward move that began in September.

On December 20, Cheddar Barrels were unchanged at \$1.1475 while 40# Blocks declined 5¢ to \$1.1925.

Summary of selected National Cheese Exchange activity...

Date	Type	Price opinion/lb.	Type	Price opinion/lb.
Aug. 30	Barrels	\$1.6675 (1996 high)	Blocks	\$1.6900
Sept. 6	Barrels	\$1.6650	Blocks	\$1.6950 (1996 high)
Nov. 27	Barrels	\$1.1525 - 1/2¢	Blocks	\$1.3000 unchanged
Dec. 6	Barrels	\$1.1500 - 1/4¢	Blocks	\$1.2675 - 3 3/4¢
Dec. 13	Barrels	\$1.1475 - 1/4¢	Blocks	\$1.2425 - 2 1/2¢
Dec. 20	Barrels	\$1.1475 unchanged	Blocks	\$1.1925 - 5¢

What next?

It appears that the cheese market could well be stabilizing. Barrels, after fractions of a cent moves in recent weeks were unchanged at \$1.1475. The wide difference between Barrels and Blocks has narrowed to 4 1/2¢--a normal gap.

My guesstimate--the cheese market has about bottomed and will now hold or begin creeping upward. Inventories are possibly stabilized, processors have realigned their production, fears of cheese shortages, then of over supply have been overcome. While milk production has come back, there is little fear of too much milk in the near to mid-future.

I suspect a rebound in cheese prices will happen as supply/demand proceeds to impact the market. (Yes, price does impact demand, a cheese firm that markets their own label tells me their sales declined 20%-30% as shelf prices increased.

(Cheese prices, cont.)

Hopefully this will bode well for the dairy producer and the agri-dairy marketer. (Note--I'm not "betting the farm" on my guesstimate of better times in dairying...but, that's how it looks from here, at this moment.)

MILK PRODUCTION COMING BACK

November milk production in the 22 leading dairy states was slightly above (0.2%) that of a year ago with 104,000 fewer cows producing 19 pounds more milk per cow.

In the top five dairy production states...California continues to increase their milk production with a +4% over a year ago, Wisconsin is just 0.6% behind last year and almost closing the gap over 1995, New York is running at -4%, Pennsylvania is -1% and #5 Minnesota is even.

In Wisconsin, reports of poor quality hay are common and good hay is in short supply and going at a high price.

MILK PRICES MAKE HEADLINES, FARMER UNREST CONTINUES...A PERSPECTIVE

Wisconsin newspapers, radio news programs and TV features continue to highlight the drop in cheddar cheese and milk prices. Dairy producers--big and small, good and not-so-good--are appearing on TV and in print articles telling how they have suffered income losses and probably won't be in business if mailbox prices go down anymore. My non-agriculture employed friends talk at length about how all farmers are broke and will be out of business shortly.

Let's pause and try to put the scenario into perspective.

Cheddar cheese prices--

1996 began with Cheddar Barrels priced at \$1.3250 per pound and 40# Blocks at \$1.3775 per pound. Over the next eight months in a gradual upward direction...

- ** Barrels rose to \$1.6675 on August 30... a plus 34 1/4¢ since 1/5/96
- ** Blocks rose to \$1.6950 on September 6.... a plus 31 3/4¢ since 1/5/96

Since the peak prices were reached in late August/early September...

- ** Barrels have declined from the \$1.6675 to \$1.1475...down 52¢ per #.
- ** Blocks have dropped from the \$1.6950 to \$1.1925...down 50 1/4¢ per #

Result to date, cutting out the ups and downs over the year, Barrels are down 17 3/4 from January 5, Blocks are down 18 1/2¢.

Basic Formula Price (BFP) for milk--

This basic price for milk at 3.5% butterfat is arrived at monthly and made public on the 5th of the following month by the National Ag Statistics Service of the USDA.

The BFP is based on milk used for manufacturing purposes in Minnesota and Wisconsin (the old M/W series) with the addition of a butter/powder/cheese price. The product pricing formula was added in to the data in May of 1995--the purpose was to have a better basic milk pricing system than offered by the M/W.

The new BFP specifically added the following to arrive at the BFP
--AA and A butter prices from the Chicago Mercantile Exchange
--40# Cheddar Block cheese from the National Cheese Exchange
--non-fat and dry buttermilk prices

So--the current BFP is made up of the old M/W plus the product price formulas.

Problems--

While the BFP was intended to be a "better" indicator of basic milk price, it seemingly hasn't turned out that way and there has been unhappiness ever it was installed in May of 1995.

** The seriousness of the debate depends on the situation...rising and falling cheese and butter prices (working as a part of the BFP formula) have done as intended--moved the BFP milk price. The rapid decline in cheese and butter prices brought the discussion to a high level because the BFP--and producer milk prices--is in a steep decline.

** The fast swing in cheese and butter prices have meant fast swings in milk price to producers.

What is the producer milk price?

Many of the stories tell of \$4 per hundred decreases in individual farm milk prices. (That comes from the record high BFP of \$15.37 in September minus the \$11.61 of November--actually \$3.76.)

Yes, it will approximately happen over months--but hasn't really happened yet. Most recent producer checks issued by several dairy processors that I called are running from \$13.50-\$13.80. One medium size cheese plant added this, "our gross payroll average in September was \$16.60, in November it was \$13.80... a \$2.80 per hundred difference. For the first eleven months of 1996, the average is at \$14.95 per hundred."

However, the 1996 BFP will be a record high!

During the first 11 months of the year, the BFP has a \$13.58 per hundred average. If December's BFP drops to \$11.00 (a guess), the average will be \$13.36 per hundred, an all-time record basic milk price--the highest previous basic milk price (under the old M/W) was the \$12.57 of 1981--and \$1.53 above the \$11.83 of 1995.

It's the big moves that disrupt--

producer and processor operations. Part of it is the producer happiness in record prices followed by the anguish of major declines. "It's hard to manage", a member of the staff of a mid-size dairy processor summarized, "it's frustrating and competition for milk continues high."

Needless to say, dairy producers reactions vary widely.

(Milk prices, cont.)

Producer unrest--

is very evident in the formation of several "grassroots" groups demanding action (from someone) to ensure higher milk prices. Threats of closing land to snowmobiles and deer hunters were heard, and enforced. Calls for milk dumping get louder and letters to the editor get more more threatening.

Meanwhile, other producers see the long term--

and milk pricing as something that can't be judged on a month or two. Certainly these folks don't understand or like the perceived influence of the NCE on milk pricing--but admit to not having a better suggestion--and acknowledge the supply and demand is really the prime mover and must be considered. Many also admit to having had a good year financially and tend to discount the highs and lows.

Agri-marketers are seeing less sales from some producers--some increased sales to those trying to lower their taxes by buying ahead. For sure, they are hearing strong language from many farmers. Unfortunately, there is a growing bitterness--some going beyond milk pricing--as emotions take over.

Finally, the facts are not black and white or all good or bad... that's why this long treatise is aimed at providing you with the what's of now.

FIRST IT WAS THE BULL AND COW, THEN...TECHNOLOGY

I sat in on an interesting seminar recently at ABS Global--the DeForest based artificial insemination company--that dealt with in vitro fertilization of cattle. It was a bit technical for my non-technical mind but the technology is such that it could impact the dairy production business widely.

It's the genetics--

--First, cows in the pasture ran with bulls, with yearly calves the result. Or, the neighbor's bull was walked down the road to the cow or jumped the fence into the adjoining field.

--In the early 1940's artificial insemination became a viable way to get cows with calf to the bull of choice. It meant that offspring could be genetically improved at a rapid pace as superior bulls were use.

--Then came embryo transplants in which the cow's eggs were fertilized by A.I., removed from the cow and transplanted into donor cows. For a decade or more frozen embryos have been commercially marketed worldwide.

--Now, in vitro fertilization (IVF) is on the scene and the genetics of cattle breeding can be defined even further.

--In simple words...the eggs (oocytes) are removed from the cow non-surgically, matured under glass for a term of hours, fertilized individually to the bulls of choice, cultured for 6-8 days, then frozen or implanted into recipients (donor cows). The technology is complicated and is changing rapidly as research continues, however it is practical and commercially available now.

(Dairy technology, cont.)

Why would a dairy producer be interested in IVF?

For several reasons...

--a cow could produce 6-8 embryos per month, 2-3 times more than possible from regular embryo flushing and a far cry from the one calf per year with the bull or A.I.

--pregnant cows can be collected

--ovaries from down or dead cows can be collected within 6-8 hours after removal from the cow and the eggs used

--sometimes normal flushing won't work

--the owner may want numbers of bulls to fill A.I. contracts

There are at least three firms offering IVF commercially..ABS Global at Deforest, the far-flung A.I. company, has been involved for two years, Trans Ova Genetics of Sioux Center, Iowa, the nation's leader in IVF has been been a leading embryo marketer and in IVF for four years and EmTrans, located in Pennsylvania.

Mark Johnson, Customer Representative of Trans Ova says, "IVF is a tool in dairy and beef management, our business is 30% dairy and 70% beef.

David Wagner, ABS Global, Manager, Embryo Products, suggests "we can do various manipulations including DNA analysis, sex the embryo and a wide variety of analysis that will be appealing to the owner.

It's not for everyone, yet, but as Wagner foresees, "IVF will have great worldwide impact on the cattle population."

Just note it...you'll hear more.

NOTES & QUOTES

To the surprise of no one--

Secretary of Agriculture Dan Glickman has been reappointed to his position by President Clinton. From the beginning, Glickman expressed his desire to stay on. All in all, he seems to have done a masterful job in a tough position and I'd guess he has rather strong support across party and farm lines.

Assembly Agriculture Committee Chairman Al Ott has been reappointed--
for another term by Wisconsin Assembly speaker-elect Ben Brancel.

This bodes well for agriculture what with Ott's long years of involvement in the dairy community. Ott lives in very small town Forest Junction, located in Calumet county just south of Green Bay in northeast Wisconsin. He's one of those too-rare politicians who has an ag background, understands what farming, business and people are about and listens and learns before he talks. He and Brancel (a farmer himself) will form a solid foundation for ag issue discussions in Wisconsin government.

Canada/U.S. border wars continue--

as Canadian tariffs on U.S. dairy products were upheld by a NAFTA panel. Because of the high tariffs (in the 300% range) on U.S. dairy products,