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12/21/96

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(Notes & quotes, cont.)

only small amounts get north of the border. U.S. officials see Canada as a golden opportunity for dairy sales--Canadian officials see the tariffs as "protecting" their dairy industry. U.S. officials are mystified as to how the panel reached it's conclusions--Canadian officials see the same problems when it comes to getting their ag products into the U.S.

As always, it's protectionism when you can't get in, self-preservation when you build a wall. NAFTA and GATT talks will be reopened in 1999...don't look for any major moves until then, if then.

Northeast Dairy Compact plans will probably be halted--  
according to the U.S. District Court in D.C. The case against the establishment of the pricing proposal in which six New England states would raise fluid milk prices above the Federal Order price. The case, brought by the Milk Industry Foundation (MIF) and supported by others. was based on arguments that Secretary Dan Glickman did not have "compelling public interest" when he ok'd the N.E. Dairy compact, although he could do so under the recent farm bill.

The court did not grant an injunction against the compact--no injury has yet occurred but, indicated "an almost certain likelihood of success" in the future. Meanwhile, the Compact Commission is proceeding with hearings.

Meanwhile organizers of the Maryland Dairy Price Commission--  
are urging minimum milk pricing at the producer, processor and retailer, to slow the loss of dairy farms and dairy plants in their state. Price control efforts seem to be in the group's plans as they watch extra milk from dairy plants in neighboring Virginia and Pennsylvania flow into Maryland at a cheaper price than is paid in the home states--thus, sells for a lower price in Maryland supermarkets. The group will give its recommendations to the legislature.

Help me! Next issue...a look at the 1996 and into 1997. I'd appreciate your thoughts--how do you see your business, what are the main challenges, the good side of agriculture, thoughts for dairy ag down the road.

I'll make calls and see people, but I'd like your input. That's why I'm enclosing a sheet you can use to fax me at 608-222-7774. Or you call me at (608-222-0624). Take a moment. I'll combine bits and pieces and quote you (if you don't mind). How little or how much depends on your response and how it fits together. Thanks.

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Merry Christmas  
Happy New Year

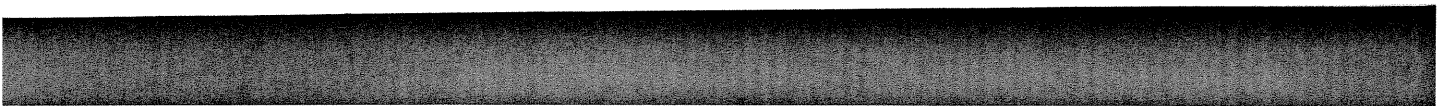
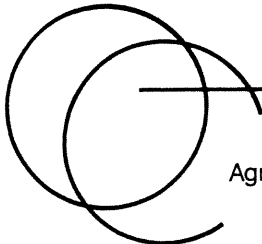
*John F. Oncken*  
John F. Oncken

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# C

# hange the heese Exchange

*Wisconsin dairy farmers fighting to end the National Cheese Exchange's monopoly over milk prices*

December 27, 1996

P.O. Box 153  
Chippewa Falls,  
Wisconsin 54729-0153  
phone: 800-272-5531  
Internet:  
<http://www.nfu.org>

Dear Dairy Farmer:

***Wisconsin dairy farmers could lose \$1 billion each year from their milk checks!***

Wisconsin dairy farmers lose \$23 million a year for every \$.01 drop on the National Cheese Exchange. In the past two months, actions on the National Cheese Exchange have caused milk prices to plunge nearly \$4 per hundredweight. Members of the Wisconsin Farmers Union are organizing a campaign to ***"Change the Cheese Exchange" and we need your help!*** Nationally, we cannot -- and will not-- accept anything less than federal oversight of the NCE or the removal of the NCE's influence in setting the national milk price.

#### Chairman

Bill Brey  
Sturgeon Bay  
414-743-9015

#### Vice Chair

Janet Nelson  
Prairie Farm

#### Committee Members

Richard Dierauer  
Alma

Rolf Anderson  
Cadott

Dennis Rosen  
Emerald

Dirk Mulder  
Holmen

Larry Strangstalien  
Westby

Richard Keller  
Mt Horeb

Gerald Jaeger  
Campbellsport

This problem is not due to the Northeast Dairy Compact, California production, GATT or NAFTA, grazers or large dairies, state trading enterprises or the New Zealand Dairy Board. The problem is the National Cheese Exchange, on the corner of Washington and Walnut in downtown Green Bay, Wisconsin. The NCE trades less than 1 percent of the nation's cheese, yet affects the price of 90-95 percent of the nation's milk.

Wisconsin Farmers Union, along with other agriculture groups, successfully rallied to alter the Governor's task force recommendations on the NCE. We have urged the Wisconsin Agriculture Department to move forward with an administrative rule prohibiting trading against interest. Now, Wisconsin Farmers Union and the National Farmers Union are implementing a national campaign. We are:

- \* Asking the President to issue an executive order directing the Commodity Futures Trading Commission or the Federal Trade Commission to assume oversight responsibilities for trading activities on the National Cheese Exchange!
- \* Asking President Clinton to include in the executive order a federal rule prohibiting trading against interest! A company that is primarily a buyer in transactions off the exchange should not be able to dump cheese on the exchange at firesale prices for the purpose of lowering the national price of cheese.
- \* Working to reform the Basic Formula Price (BFP) to ensure dairy producers receive the true value for their product.
- \* Educating the public on the disparity between what the producer receives and the consumer price for dairy products.

***"Change the Cheese Exchange"*** is an effective means to initiate these changes. Without immediate federal reform, the National Cheese Exchange will continue to hold hostage dairy farmers' milk checks and livelihoods.

Your involvement will make the difference! We invite and encourage you to join the national campaign. Please send the enclosed reply card, along with your contribution to ***"Change the Cheese Exchange" PO Box 153, Chippewa Falls, WI 54729-0153 TODAY!*** If you have any questions, please call Wisconsin Farmers Union President Bill Brey 414-743-9015 or Wisconsin Farmers Union 1-800-272-5531, or access the National Farmers Union WebSite at <http://www.nfu.org> for more information.

Working as a unified force we can ***"Change the Cheese Exchange."***

Sincerely,

Bill Brey  
Dairy Farmer  
Campaign Chairman  
Wisconsin Farmers Union President

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)*

# Cheese/Price manipulation alleged

From page 1

Madison; the Journal Sentinel obtained a copy in advance.

"The main beneficiaries of this situation appear to be Kraft ... and other seller-traders with coincident interests," says the report. "The evidence supports the hypothesis that during 1988-1993 Kraft (a) had a financial motive for influencing National Cheese Exchange prices, (b) had the power to influence prices and (c) had at times exercised this power for its benefit."

Executives of Kraft, a \$15.8 billion Northfield, Ill., subsidiary of tobacco giant Philip Morris Co., blasted the report, which they received Monday afternoon.

"This report is dead wrong — inaccurate, misleading, long on speculation and short on facts," said Betsy Holden, executive vice president of Kraft's cheese division.

It would be impossible for Kraft to manipulate national dairy prices through the exchange, because other industry giants would have to sit on the sidelines "like mindless puppets," Holden said.

The Wisconsin investigators sought and received federal funding for their probe on the assumption that the market was being manipulated and then opted to "leave out all the facts that don't support their case" while drawing "a misleading conclusion," Holden said.

The report states that investigators found no evidence of collusion between cheese companies trading on the exchange.

Sen. Herb Kohl (D-Wis.) received a copy of the report Monday and said he would ask Attorney General Janet Reno to review the findings and examine whether antitrust laws have been violated.

"That dairy farmers are held hostage to this market is inexcusable," added Sen. Russ Feingold (D-Wis.) who said he would call on Agriculture Secretary Dan Glickman to create a task force of industry, farmer and government representatives to come up with a replacement for the exchange.

Kraft was the seller in nearly

three out of every four exchange trades studied by investigators from 1988 to 1993. Statistical analyses showed that "... leading seller-traders, especially Kraft, had a significant negative impact on exchange prices," the report says.

At times, the study found, Kraft sold cheese on the exchange for less than it could have received elsewhere, apparently trading at a loss on the exchange to gain lower wholesale milk and cheese prices from its main suppliers in the broad dairy market.

"There is evidence that Kraft chose to sell cheese on the exchange at a loss when it could have more profitably made the

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### State report:

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"The main beneficiaries of this

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situation appear to be Kraft ...

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and other seller-traders with

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coincident interests."

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sales elsewhere," wrote the report authors, led by University of Wisconsin agricultural economist Willard F. Mueller and Bruce W. Marion.

"Such conduct constitutes trading against interest ... Rational businessmen would not needlessly squander resources in exchange selling unless they believed doing so enhanced overall profits."

Kraft, which sells more than \$2 billion worth of cheese a year, is a major buyer of farm milk and wholesale cheese. Dairy plants sell to buyers, such as Kraft, at contract prices pegged to the exchange closing price — for example "4 cents over the exchange."

Every drop in the exchange cheese price of one penny per pound lowered Kraft's costs by more than \$10 million a year, the report says.

Those savings were not all passed on to grocery shoppers, however, according to the investigation. In 1990, for example, exchange cheese prices fell 30.5 cents per pound between January and March, while the retail

price of Kraft processed cheese products fell just 5 cents per pound.

"As a result, Kraft's gross profit margins on cheese reached record highs ...," the report says.

State authorities will seek new rules banning "trading against interest" on the exchange, sources said. They will suggest the development of a new market to price dairy products — perhaps a national electronic exchange.

Richard Gould, exchange president since 1960, brushed off the charges. "I don't believe there has ever been any improper conduct by anybody at the exchange," he said.

State Agriculture Secretary Alan T. Tracy, through a spokesman, declined comment.

Mueller and Marion, the report's main authors, also declined comment.

Mueller, considered a leading expert on antitrust matters, once led the Federal Trade Commission's Bureau of Economics. Marion has been the director of the university's Food System Research Group since 1974.

The university investigators used the state Agriculture Department's subpoena power to obtain records from cheese makers and sellers. Michael S. Mudd, a Kraft vice president, said the company turned over more than 24,000 documents. Portions of the report were withheld because Kraft argued they contained trade secrets. The matter is expected to be resolved in court.

"Four years and hundred of thousands of taxpayer dollars, and all you have is another hypothesis," Mudd said. "If there is some wrongdoing here, where are the facts?"

Holden said the only reason Kraft sold cheese on the exchange was to get rid of excess inventory, not to lower the price of wholesale dairy products.

Cheese exchange prices increased 6% during the period studied, Holden said. Kraft is trading the same amount of cheese on the exchange today, although it now accounts for just 30% of all trades, Mudd said.

Kraft studies found that prices actually increased an average of 0.2 cents a pound when the company closed sales on the exchange during the investigation period, said.

However, most trading on the exchange does not result in completed sales.

"It needs to be recognized that the cheese exchange in Green Bay is flawed," said a member of the Senate Agriculture Committee. "The potential is huge for manipulation of the market, generally to the advantage of the farmer."

Feingold said the investigation found what dairy

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### Kraft official:

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"This report is dead wrong

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inaccurate, misleading,

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speculation and short on

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have long believed — the exchange could be manipulated to keep producer prices

The investigation found that trading on the exchange had changed dramatically as federal dairy price supports were lowered to the point where wholesale prices could fall downward. Before that, and other companies that were major buyers of cheese in the general market were primarily cheese buyers, not sellers, on the exchange.

Kraft's sale of raw materials on the exchange for prices higher than it could get elsewhere would defy logic. Sales did not also cut with other major cheese buyers paid for raw materials to increase their profit margin, the report says.

The state investigation found the findings of a Milwaukee Sentinel investigation into the exchange and Kraft's role in national dairy price manipulation. The Sentinel found, for example, that in 1991 Kraft sold the cheese traded on the exchange and was the major seller when wholesale prices were declining.

# Cheese probe targets Kraft

## Prices were manipulated, report says

By CARY SPIVAK  
of the Journal Sentinel staff

After a 3½-year investigation of Green Bay's tiny National Cheese Exchange, state authorities today will call upon U.S. investigators to see if antitrust laws have been broken on the exchange, whose dominant player is Kraft Foods Inc.

Congress also will be urged to examine the exchange, given its primary role in U.S. dairy pricing, sources said. While the exchange meets only for 30 minutes each Friday and trades a mere

### Summary

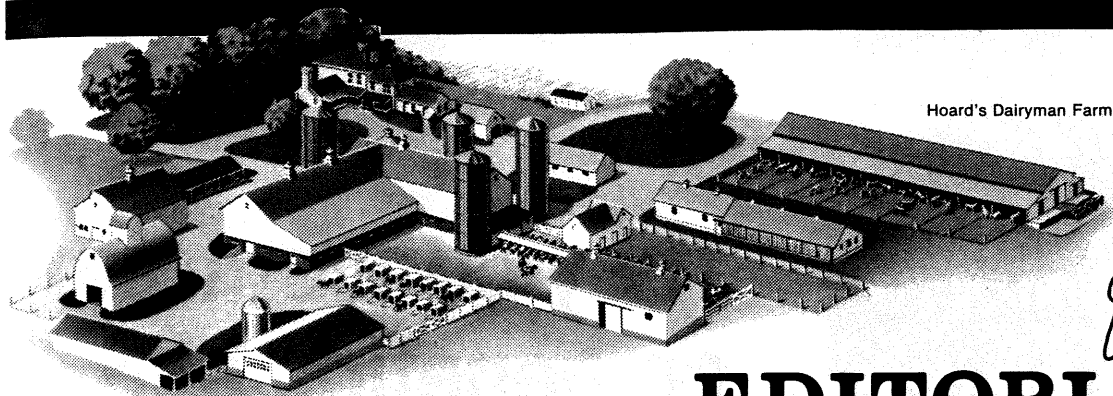
- Kraft Foods Inc. made 3 of every 4 sales on the exchange from 1988 to 1993 and "had a significant negative impact on exchange prices."
- Kraft buys cheese from suppliers at prices pegged to the exchange (for example "4 cents over the exchange"). Exchange prices are key to how much U.S. dairy farmers get for milk.
- Each drop in the exchange price of a penny a pound lowered Kraft's costs for wholesale cheese and milk by more than \$10 million a year.
- Kraft's gross profit margins soared to record highs in 1990 when exchange prices plunged 30.5 cents per pound while the retail price of Kraft cheese products fell just 5 cents per pound.
- At times, Kraft sold cheese on the exchange for less than it could have received elsewhere — apparently trading at a loss to gain lower prices from main suppliers.
- State authorities say true dairy market reforms must be sought at the national level.

ing force for dairy prices nationwide — affecting everyone from the dairy farmer to shoppers buying frozen pizzas sprinkled with cheese.

"The exchange appears to facilitate market manipula-

Department of Agriculture, Trade and Consumer Protection and the University of Wisconsin Department of Agricultural Economics.

Their report will be released Tuesday afternoon in



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# EDITORIAL COMI

## THERE'S MORE "WRONG" THAN ALLEGED PRICE MANIPULATION

UNFORTUNATELY, all of us are ready to jump on the big guy when he's accused of wrongdoing. In the case of the National Cheese Exchange, the big guy happens to be Kraft. See page 271 of the April 10, 1996, Hoard's Dairyman.

A nearly four-year, six-figure study conducted by University of Wisconsin economists with impeccable credentials alleges that Kraft, by far the largest seller on the Exchange, manipulated prices to its advantage. The charge is Kraft was able to "put a top on Exchange prices, begin declines, maintain bottoms and moderate rises."

By keeping Exchange prices lower than what they might have been, Kraft, in theory, would be able to purchase its substantial cheese needs at prices lower than what it might have otherwise. With the volume of cheese purchased, 60 percent of its requirements, Kraft would save millions of dollars in procurement costs since its contract prices are tied to Exchange values as many others are in the industry.

The manipulation charge arises from conclusions drawn by the economists after reviewing mountains of Exchange and Kraft data.

The charges have serious ramifications. If Kraft were able to lower Exchange prices, then dairy farmer income for milk is less than what could have been because previous studies have shown that the basic formula price (previously the Minnesota-Wisconsin price) is influenced greatly by cheese prices. As a matter of fact, from 90 to 95 percent of the changes in M-W price could be explained by fluctuations in cheese prices.

If Kraft or anyone else could influence cheese prices by as little as 1 cent a pound and maintain that 1-cent lower price, dairy farmers nationwide would receive 10 cents less a hundred for all milk. With 1995 milk output totaling 155.6 billion pounds, the effect on last year's milk income would have been \$155.6 million, a considerable sum.

However, there is much more "wrong" with the U.S. milk pricing system than the alleged

Exchange manipulation by Kraft. How did we ever come to the point at which an extremely small volume of milk, represented by cheese offered for sale and bid to purchase on the National Cheese Exchange in Green Bay, Wis., establishes the value of all U.S. milk? Exchange officials rightly point out that the purpose of the Friday half-hour trading session is to allow co-ops and companies an opportunity to purchase cheese needs or find a market for excess inventories.

Not only do we let the Exchange price our nation's milk, we go the roundabout way of transferring cheese value to milk value by determining what dairy product manufacturers pay for Grade B milk in two states. For some reason, the Grade B based M-W, now BFP, is supposed to represent Grade A milk value for manufactured products nationally. It does not. For a number of years, USDA economists have determined a Grade A manufacturing price and compared it to the M-W; the Grade A manufacturing price always is significantly higher than the M-W.

Another "wrong" is that the value of milk for fluid products (Class I) is tied closely to the value of milk for manufactured products (Class II and III). Fluid and manufactured products have distinctly different elasticities, different shelf lives and fulfill different food requirements. Other than coming from the same milk pool, a carton of skim milk and a half pound of Kraft slices have little in common. Why should the value of the skim be tied to the slices?

There are a plethora of other milk-valuing wrongs. California make allowance, Eau Claire-based Class I differentials, multiple component pricing and higher fluid standards are noteworthy examples.

The Exchange and alleged Kraft price manipulation are but a symptom, not the disease. There are too many other, more serious symptoms. We need to get the industry's good thinkers studying the disease.



111 year

It costs just as much pound (butter) cow as doesn't it?

## WISCONSIN: ALL

PEOPLE often ask us about Wisconsin. After all, the Badge Dairyland with nearly 2' 1,475,000 cows. Even though we produced more milk during the 1990s than any other state, we are more in common with Wisconsin.

The sheer size and diversity of the industry make it difficult to talk about Wisconsin, we often have 27,000 of 'anything'. And Wisconsin has it all - Grade B operations to 1,000 cow setups to 800-cow farms. Most herds in the state are in stanchion barns, but a good call free stalls home.

Like herds everywhere, growing. Average herd size a decade ago. AgSource (DHIC) recently reported herd jumped from 61 to 69 percent boost.

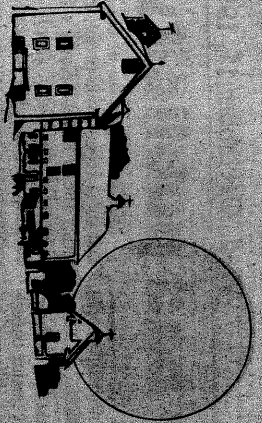
But averages don't tell USDA figures, one state has more than 100 cows - Wisconsin. Not surprisingly, California followed by New York (1,700), Pennsylvania (1,200), Michigan (900). An impressive 310 more than 200 cows. Only more 200-cow-plus operations (1,800), Texas (600) and New Jersey, both with 400 each.

## BOTH SIDES OF HIS MOUTH, MILK MUSTACHE AND ALL

THE following quote appeared in a news release from Dairy Management, Inc., (DMI) and the

sions (higher fluid milk standards) debate.

We find it curious that Tipton favors "coloring"



# The Country Today

Vol. 20, No. 48 Wednesday, December 11, 1986 The Newspaper That Cares About Rural Life 76 Pages 4 Sections 75 Cents

## Goold: Cheese exchange is target of false accusations

### Green Bay

Attorney Richard Goold, 74, president of the National Cheese Exchange since 1960, is clearly agitated by the swirl of accusations regularly thrown his way on how the exchange operates.

Tumbling cheese prices — from a record high of \$1.6950 a pound for 40-pound blocks of Cheddar and \$1.6675 a pound for 500-pound barrels on Sept. 6 — have made the exchange a lightning rod for some who charge that the price reported is a result of market manipulation.

As of Dec. 6, the barrel price is \$1.15 a pound and the block price is \$1.2675 a pound.

"I don't think you would like to be accused of violating the law," Mr. Goold said in an interview with *The Country Today*. "Practically every newspaper comes out with stupid statements. It becomes aggravating. The thing that bothers me the most is the more the false accusations are printed, the more the public is going to accept it as the truth."

Those who charge the exchange with allowing or con-

doning market manipulation are playing recklessly with the truth, he said.

"Every corporation knows that's against the law. You can't manipulate prices or attempt to set prices by colluding with your competitors. That's what the antitrust laws are against," Mr. Goold said.

Charges of manipulation were fueled by a study of the National Cheese Exchange commissioned by the Wisconsin Department of Agriculture, Trade and Consumer Protection.

## target of false accusations

Referring to the 4-year study issued in May by University of Wisconsin-Madison economists, Mr. Goold contends that what has been widely publicized doesn't square with the findings and observations made in the report.

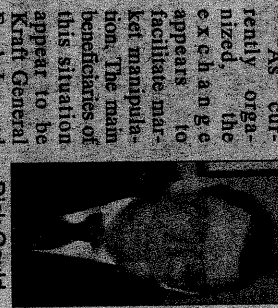
The report, he said, "specifically disclaims any factual basis for these statements of manipulation. It's purely theoretical on the part of these professors."

"That's where newspapers are getting into trouble by saying these things against the exchange," he said. "When you

accuse somebody of violating the law, you are not exercising your right of free speech, you are invading them."

The UW researchers, he said, "didn't come up with a factual basis for their conclusions. They used economic formulas. The study had a pre-determined purpose to put us down. That's my contention and it took them 4 years to do it."

The report, authored by Willard Mueller, Bruce Marston, Margool Slat and F.E. Getlman, said in part:



Dick Goold other seller-traders with coincident interests. See Exchange on Page A2

## Cheese price fall hits producers

### Madison

This fall's free fall of the cheese market impacted the price dairy farmers received for their milk delivered to plants during November.

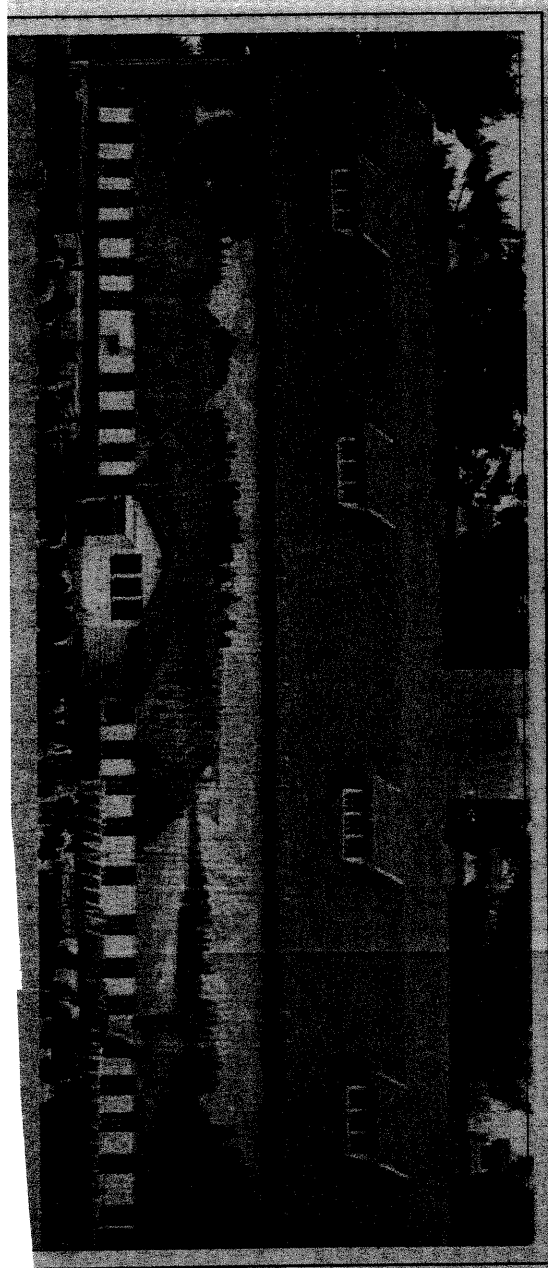
The basic formula price for November production at \$11.61 per hundred pounds tumbled \$2.52 cents from the \$14.13 received for October milk; the new price is \$3.76 below the record price of \$15.37 set just 2 months ago.

Both the November to December price reductions are a record drop, topping the previous mark of \$1.02 a hundred pounds from September 1990 to October 1990. The 2-month decline of \$3.76 from September to November was also a record.

The announced price at \$11.61 is \$1.26 below the price paid to producers for November 1995 milk and is the lowest November price since the \$10.25 per hundred pound price in 1990. It is the third lowest November price in the past 10 years.

The price of a 40-pound block of cheese, on which the base price is set, fell from \$1.69 in September to \$1.22 in November during a

slip of several hundred thousands of barrel cheese, in particular, were





# Assembly Ag Committee urges cheese exchange action

Madison

The Assembly Agriculture Committee decided Dec. 12 to forward a letter to the U.S. Department of Agriculture and Agriculture Secretary Dan Glickman asking to "cease using the market activities on the National Cheese Exchange in determining the basic formula price" of milk.

The decision came after nearly 4 hours of testimony designed to brief the committee on issues facing the Wisconsin dairy industry.

The Agriculture Committee decided to forward the letter to the secretary and then introduce a similar resolution to the 1997-98 Legislature. Instead of using the NCE price, the letter recommends establishing a "broad-based formula that more accurately represents market conditions for milk in establishing the basic formula price."

Earlier that day, Alan Tracy, Wisconsin Department of Agriculture, Trade and Consumer Protection secretary, had told the committee about the Governor's Task Force on Cheese Pricing and the governor's planned trip to Washington, D.C., early next year to deliver task force recommendations.

Mr. Tracy said several misperceptions exist about the task force, including the feeling that its membership favors processors. This isn't true, he said, because although less than half the task force members were farmers, the others were not all processors; there also were representatives of the University of Wisconsin, growers and the governor's office.

Even the processor members were not all on the same side, he said: Some were predominantly buyers on the exchange and others were predominantly sellers.

Mr. Tracy said the federal milk pricing system should operate more like the corn industry where farmers are able to choose whether to sell their product at a

"Most farmers agree the corn price adequately reflects supply and demand. ... That's a market that really works and one that we should be moving toward," he said.

The secretary defended the task force's recent decision not to recommend adding the cost of production to the milk pricing formula. "If the governor would try to take the cost of production to Washington (D.C.), he would not succeed. It would not be a credible package," Mr. Tracy said.

He agreed that the existing system is not working, noting "there is a problem here. The system is not working as it should." But, he said, the industry did not get into this situation overnight, and the situation will not resolve itself overnight. There is little that can be done in the near term to resolve the problem, he said.

Asked about the feasibility of the state imposing regulations on the NCE should the task force recommendations fail, Mr. Tracy said it would be possible, but the NCE could easily move to another state. "There's little to keep the NCE here. Any actions would chase them out of the state and little would be served."

Rep. Rick Skandrud, R-Mount Horeb, questioned Mr. Tracy's comment regarding the credibility of asking for cost of production when the Northeast Dairy Compact is designed to set an artificially high milk price in the northeastern United States.

Bill Oemichen, administrator for the DATCP Division of Trade and Consumer Protection, reported that a district court judge ruled Dec. 11 that at this time, the compact could move forward because there has been no harm yet.

Mr. Oemichen said the judge stated that Secretary Glickman failed to "articulate coherent reasons" for its passage. The compact will be forwarded to a briefing period early next year. Mr. Oemichen said the compact itself doesn't represent a huge threat to

because the dairies involved in it are small dairy states, but the Wisconsin farmers and not bring like New York want to join the more competition into the state.

Wisconsin has more farmers leaving the business than are coming in, mainly due to retirements, Mr. Tracy said. That leaves processing plants scrambling for enough milk, he said, noting it's in the state's best interest to protect the existing infrastructure.

He said bringing an existing dairy farmer from California to Wisconsin will not hurt Wisconsin milk prices. "It doesn't matter where milk is produced,"

Mr. Tracy and Pete Knigge, Omro dairy farmer and DATCP board chair, reported on the recent dairy farmer recruitment trip to California. The trip brought crit-

he said, noting milk production carries the same weight regardless of the state in which it's produced. "The reality," Mr. Knigge said, "is that in 5 years, there will be no cows in the Chino (Calif.) area."

It's not a question of if they'll move; it's a question of when they'll move.

Mr. Tracy apologized to the committee for the trip's poor timing.

"I took the risk to go ahead with the trip during the election," he said. "The timing was poor. The governor has informed me of that. ... I think the concept is still good. This is one small way to offset losing farmers and keep the infrastructure."

Agriculture Committee Chair Al Ott, R-Forest Junction, said the state should learn from the deteriorated poultry and swine indus-

tries. Now that there are no more kill floors in the state, he said, it will be nearly impossible to get one back and rebuild the industry.

"I think we'd rather fight now to keep what we want," Rep. Ott said.

Larry Lemmenes, president and general manager of Alto Dairy Cooperative, reported on Alto's dairy futures market — the first in the country. "I believe this tool will become only more valuable as the industry moves away from price supports," he said.

Mr. Lemmenes said it's important to enlist the aid and provide funds to the university to analyze programs to teach market scenarios. "Overall, the dairy industry is on a tremendous learning curve," he said.

See Committee on Page A7

**"If the governor would try to take the cost of production to Washington (D.C.), he would not succeed. It would not be a credible package."**  
— Alan Tracy, state agriculture secretary

**Futures could be valuable tool**  
Exchange in Green Bay recently awarded from the DATCP's development and diversification grant fund. "It's proof of what a little seed money can do," he said, encouraging more money for the good solution. He said one caller told him he no longer supported paying for deer damage since he wasn't allowed to hunt on a farmer's land.

Whitehall, asked Will Hughes of the Wisconsin Federation of Cooperatives how education could help farmers and their cooperatives look at hedging. He said almost every cooperative has some kind of informational futures program. He said funds for research and development may provide better price forecasting tools.

Deb Reinhardt, a dairy farmer from Calumet County, spoke on the virtues of the state's Dairy 2020 program and stressed the importance of education. "How can we control our destinies if we don't understand what's happening to us?" she asked. Dairy 2020 and the Department of Commerce are striving to fill that need, she said. Rep. Ott wrapped up the briefing by cautioning trusted farmers on the strategies they choose to protect the milk pricing system. He said the farmers who took tractors to the National Cheese

# Von Ruden Calls for Milk Strike

To the Editor: Agri. View 12-12-96

Brainwashing, smokescreens, rape, abuse, emotional abuse and slavery are all things that dairy farmers are contending with today. Why are these things happening? How do we stop it from happening?

Brainwashing? Newspapers, ag agents and government keep saying "bigger is better." Better for whom? The processors, the government and everybody but the people who invest the time and money into expansions.

Smoke screens? Gov. Tommy Thompson set up a big one with his "task force."

Dairy farmers were given false hope that the State of Wisconsin might actually do something for them. The task force recommendations to Gov. Thompson will do absolutely nothing for dairy farmers. Any dairy farmer who goes to Washington, D.C., with Gov. Thompson will be wasting his or her time.

Rape? Not only are dairy farmers being raped, but so are the consumers. Alan Tracy, secretary of the Wisconsin Department of Agriculture, Trade and Consumer Protection, has done a very poor job in making sure that the trade is fair and the consumer is protected. We all know what happened with volume premiums. Then there is the "trading against interest" rule that secretary Tracy didn't

get in the books so that the attorney general's office had something to go by. Consumers are paying 40 cents a pound more than they should be for cheese. Where's the protection?

Abuse, emotional abuse and slavery? How do farmers contend with these? Protect yourself with what you have: Your land and the product you produce. Your land takes abuse from snowmobilers all winter long. Dairy farmers are being asked to close down snowmobile trails on Jan. 15, 1997, if the clubs in their area do not make an effort to help the dairy farmers they depend on for trail space.

We control our milk until it's on the truck, then everybody else scores a "touchdown" with it! How do we stop this? We need to control the ball until we have the ball in the end zone. The end zone is when we get a cost of production plus profit for our product.

We as dairy producers are talking about a milk withholding action. I, as a dairy farmer, am asking you, the dairy farmers of America, to join me on Jan. 22, 1997, in withholding your milk if the snowmobile action does not get any results. Please send a postcard with a "yes" or "no" to the address below so we can get our offense driving down the field.

Darin Von Ruden, Rt. 1, Box 23A  
Westby, WI 54667

# Farmers demand immediate action on cheese market pricing reform

RAY MUELLER  
LITTLE CHUTE

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"I would not be surprised if the place is charged some day, but that would not solve the problem," Congressman-elect Jay Johnson (D-Green Bay) told an audience that included some very angry dairy farmers at a "Meet Your Legislators" program sponsored on Friday, Dec. 6, by the agribusiness committee of the Heart of the Valley Chamber of Commerce.

Johnson was referring to the National Cheese Exchange in the Bellin Building at the edge of downtown in Green Bay. "I agree we can't wait until Jan. 1, 1999" for the promised reforms in federal milk marketing orders, Johnson said. "All we're asking for is fairness in the national and international markets.

"I come from the city in which the NCE is," Johnson noted, "but otherwise I swing a small club" as a newly elected member of Congress in the minority

party, he explained. "We need administrative action." Johnson didn't expect Congress itself to take any legislative action on milk pricing reforms "unless we meet a total deadwall in Secretary Agriculture Dan Chickman."

As the question period opened immediately after Johnson spoke, a very agitated young dairy farmer came from the second row in the audience of about 40, slammed some papers on the table in front of Johnson and demanded immediate action. "When will you do something?" he asked. "Do something!"

"Five years ago you promised to do something, but milk prices went down then while beef went up; but today beef is zilch, too. We might as well hit our calves on the head," the farmer continued. "Five years ago you did nothing. Now you're going to wait until 1999. Here we go again. It's round two."

As a startled Johnson didn't know what more to say except to note that he has not yet taken the oath of office, program moderator Rick Risberg of F & M Bank in Kaukauna pleaded with those in the audience to "set the right tone" for the meeting. The anger was precipitated by a 24.4 percent drop in the Basic Formula Price for milk (\$15.37 to \$11.61 per hundred) from September to November, following sharp drops in the cheese price on the National Cheese Exchange that began in October.

Holding in his anger but having it show through his voice as he spoke was dairy farmer Gerald Moehn of rural Hilbert. "I've been farming since 1958," Moehn began. "The November milk

See DEMAND, page 5

# Farmers demand action

**DEMAND** cont. from page 1

price drop (\$2.52 per hundred) was the most ever in one month. That scares my two sons who want to farm." He also noted, "Cull cow prices are the lowest in 30 years. There are loads of cattle from Canada coming to Packerland Packing in Green Bay, but we can't ship ours to Canada." He challenged those at the head table to check on the cattle shipments for themselves.

"We had a surplus 10 years ago, but now we have none," Moelein said in referring to dairy products. "Ten years from now some people, not you people up there, will be starving. There is a lot of concern with the environment, but the environment is very minor compared to food. What's the matter with our government?"

Dairy farmer Jerry VanderHelden of rural Seymour recalled that "once we had the government dictating things to us. Now big industry is dictating. We need to have the government tell them to back off. But that's what big business does. How do we fight big business?"

"I'd like to charge out too," commented Brad Pfaff, the agriculture policy staff assistant for Wisconsin U.S. Senator Herb Kohl (D-Milwaukee). He called the milk price plunge "a serious situation" and said he would "not be surprised" if milk prices fell to the federal price support amount (\$10.35 per hundred) by February. "We need to increase farmgate prices," he said. "But there is a difference in political philosophy on the time for government to get out of dairying."

Pfaff drew applause for his call to replace the National Cheese Exchange in the pricing mechanism for milk but quickly warned, "It's a lot more difficult

makers in the United States but only 40 are members of the NCE and only a few of those 40 are involved in a majority of the trades that account for less than 1 percent of cheese sales but set the prices for about 95 percent of all cheese.

"It's the USDA (U.S. Department of Agriculture), not the NCE, that's at fault here," Pfaff emphasized. At a minimum, he said, "The NCE must be regulated," but also cautioned that turning to other markets for pricing might not bring big changes. Pfaff pointed out that butter prices on the Chicago Mercantile Exchange dropped 50 percent during the same time that cheese prices fell in October.

Pfaff said Senator Kohl, his Wisconsin colleague Russ Feingold, and others from the Upper Midwest are pushing for "a flattening and equalizing of the differentials" for Class I fluid milk, but emphasized, "The influences from around the country are not to tinker with the differentials." Those differentials are about \$2 to \$3 per hundred higher in areas of the country (not including California) the greatest distance from the Upper Midwest. Only about 15 percent of the Wisconsin milk supply is used for fluid milk sales but the percentage is much higher in other areas. "We are fighting not a partisan issue but purely a regional issue on the differentials," Pfaff said. "We're opposed by the Northeast, the Southeast, and California.

"No one has the answers," Pfaff conceded. "We don't have the votes. But no one is quitting on this issue." He said, "Canada is not playing fair. It tripled the costs for U.S. dairy products but the NAFTA (North American Free Trade Agreement) review board said that was okay."

sudden drop in milk prices is creating "very serious frustration" for dairy farmers, but suggested they look to government for help in selling dairy products. Replying to a farmer's call for limiting how much cheese or milk prices can drop and noting the New York Stock Exchange has built-in controls to react to price volatility, Lasee nevertheless cautioned "a freeze can work both ways."

But Lasee also said, "Farmers have a justifiable grievance with the NCE. It is antiquated and should be abolished. It provides a select few with a sweetheart deal for only a few trades every Friday morning." He asked for including "cost of production" in a new milk price formula.

"When will something happen?" Pfaff asked. "January 1, 1999, is the date Congress gave the USDA. But I don't believe we can wait any more. We have to stop the use of the NCE for basing prices administratively. Legislation takes much too long."



**FARMERS DEMAND ACTION** - Taking part in the "Meet Your Legislators" program at Little Chute on Dec. 6 were (l-r) Assembly Agriculture Committee Chairman Al Ott (R-Forest Junction); Brad Pfaff, agriculture policy staff member for Senator Herb Kohl; and Congressman-elect Jay Johnson (D-Green Bay). (Photo by Ray Mueller)

## Agri at 'M

### LITTLE CH

Topics on second fidd about plung farmers and Your Legislat the agri-bus of the Vall still had ple stray voltage agreements, a state" for I non-point w Wisconsin, trespassing farmland.

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## Agenda topics pushed to second place at 'Meet Your Legislators' meeting

### LITTLE CHUTE

Topics on the planned agenda played second fiddle to the immediate concern about plunging milk prices but the dairy farmers and others attending the "Meet Your Legislators" program sponsored by the agri-business committee of the Heart of the Valley Chamber of Commerce still had plenty of chances to learn about stray voltage on farms, international trade agreements, the question of "treatment as a state" for Indian nations, a pending new non-point water pollution source law in Wisconsin, and the state's new laws on trespassing and use value assessment on farmland.

"Stray voltage is a very serious problem (for farmers affected by it). I'm not saying it's not," said Dan Dasho, an electrical engineer who works for the Wisconsin Public Service Commission. He said the PSC's duties include regulating the utilities and regularly reviewing how they are handling stray voltage complaints. Dasho assured farmers that the utilities "recognize traditional problems" on stray voltage and are spending about \$7 million per year on such problems. He said the utilities and on-farm wiring are the usual sources of problems.

"Involve your utility first," Dasho tells farmers. "If you're not satisfied, go to the PSC next." He says he would then work with a master electrician and a veterinarian "until the customer is satisfied that the problem has been resolved."

One dairy farmer in the audience who was not convinced by Dasho's comments was Ted Lamers of rural Kaukauna. He told Dasho that at least four farmers in his neighborhood are coping with long-term unresolved stray voltage problems that are costing farmers up to \$16,000 per year in losses. Lamers had to remind Dasho that he had been to his farm as part of a stray voltage team.

Lamers wanted to know why the meter readings taken by PSC representatives don't jibe with those taken by independent consultants. He also asked why the PSC and utilities install more groundings before taking on-farm meter readings. Dasho replied this was because they

Dasho and assembly agriculture committee chairman Al Ott (R-Forest Junction) pointed out that one concrete result of a strong effort earlier this year to change the legislation on stray voltage was the creation of Docket 15, which allows utility customers to demand isolation from the electrical grid. "This does not mean the stray voltage problem is solved," Ott said.

In the past, PSC rules gave utilities five days to correct stray voltage problems before giving the choice of isolation, and then 90 days to correct stray voltage problems before giving the choice of isolation, and then 90 days to correct system problems, Dasho explained. The new docket rule allows customers to be isolated by choice if they pay the cost of isolation and have the on-site wiring meet the state's electrical code standards, he added. Utilities have 45 days to satisfy the isolation request during the first year of the new rule and 30 days when the second year starts.

After a 10-year hangup in trying to address stray voltage problems through new legislation, Ott noted a 12-person team achieved "consensus minus one" on drafting an acceptable new bill earlier this year. The exception was the "hold harmless" provision on liability.

Ott and State Senator Alan Lasee (R-De Pere) commented on the new trespassing law, noting the burden of proof for permission about going onto private land has been shifted to the person going onto the land rather than the owner. The act of trespassing has been reduced from a criminal to a civil violation with a minimum fine of \$203 and a maximum of \$1,000.

Lasee explained that signs are no longer needed to establish trespass on private lands. "People will have to get a plat book or leave when asked," he commented. Lasee and Ott said they had become aware of only a few problems with the new law in the deer hunting season.

The use value assessment of farmland is justified because the income from the land is the same no matter what the assessment and despite the suit that has

parking lots in cities are not assessed as if they had large buildings on them, he pointed out.

But Lasee was "surprised" that the basis of the cities' suit is that farmers who live near cities are the only one who will benefit from land use assessment. Lasee said only a small percentage of farmland is affected because few assessors had been putting a "development value" on it.

Ott talked briefly about the proposed new non-point source water pollution regulations, noting they were driven by audit report findings and the reorganization of the Department of Natural Resources. He also said landowners outside of the designed watersheds are not eligible for the non-point program grants under current regulations.

A completely different type of concern involving water quality - having four Indian tribes in Wisconsin being "treated as states" under the provisions of the federal Clean Water Act - was addressed by Suzanne Brault Pagel, the Fox Valley coordinator for U.S. Senator Russ Feingold (D-Middleton). She noted the Environmental Protection Agency has granted water quality control rights to the Oneida, Menominee, Mole Lake, and Lac du Flambeau tribes, a move that is being challenged in the eastern and western Wisconsin U.S. district courts by the state of Wisconsin.

International trade practices have become an issue for farmers, despite the passage of the North American and world-wide trade agreements, because of the rise of "state trading enterprises" for wheat in Canada and dairy products in New Zealand and the refusal of Canada to allow the import of milk from the U.S. without high tariffs, according to Brad Pfaff, the agriculture policy staff assistant for U.S. Senator Herb Kohl (D-Milwaukee). He said those enterprises create a monopoly pool on products not available to farmers in other countries and allow the country to capture a market and then increase prices for the products.

All of the parties, including congress-

# Appleton aldermen show their support for dairy farmers

*File*

■ **Citing the economic ripple effect, their letter calls for an investigation**

**By James Meyer**  
Post-Crescent staff writer

The Appleton Common Council is urging the Wisconsin congressional delegation to help form a federal task force to investigate the recent drop in milk and cheese prices for farmers.

In an unusual show of support for the city's rural neighbors Wednesday, all 18 council members, along with Mayor Timothy Hanna, signed a letter requesting that "a blue ribbon task force" evaluate the price drop and "formulate recommendations that will enable local dairy producers to obtain fair market value for their product."

Copies of the letter are expected to go to Democratic senators Herbert Kohl and Russell Feingold, Rep. Thomas Petri, R-Fond du Lac, Rep.-elect Jay Johnson, D-Green Bay, and Gov. Tommy Thompson.

Appleton usually remains aloof from rural issues, but Ald. Michael Whitman, who circulated the letter, said the "dairy crisis" is too serious to ignore.

Whitman, a member of the

Outagamie County Board, said rural supervisors have made it clear to him that the problems dairy farmers face affect cities, too. That view is reflected in the letter, which says the financial challenge confronting state farmers "has a ripple effect on all aspects of our state and national economy."

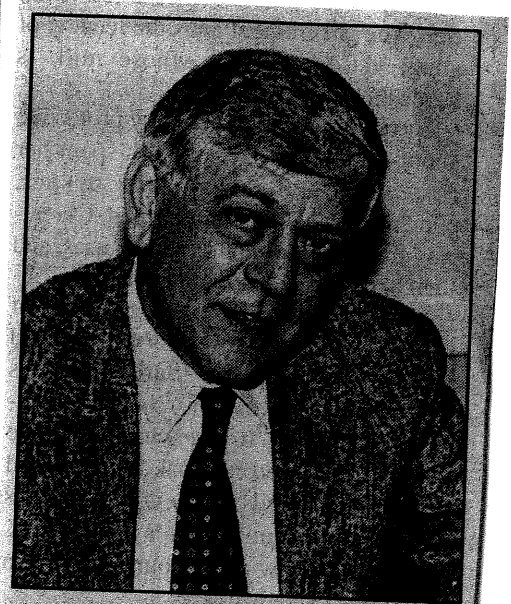
The letter, which Whitman prepared with help from the local University of Wisconsin-Extension office, cites a drop in cheese prices since Oct. 18 that translates to a 25% to 33% drop in income revenue for dairy farmers.

"We realize that government programs are being cut and the farmers are going to face market swings; however, the speed of this current market decline has created hardships for many of our rural neighbors," the letter says.

Whitman told the council support for the letter shows "that we may live in the city, but we appreciate our rural neighbors."

Whitman said he hopes other Wisconsin cities follow Appleton's lead and submit similar letters.

"My goal is to get 15, 20, 25 of these letters adopted by governing bodies of the cities; that we back our farmers," he said.



**LARRY LEMMENES**  
*President & General Manager*  
*Alto Dairy Cooperative*

# Dean Foods sues DATCP over volume premiums

Madison Oct 30 '96

Can the Wisconsin Department of Agriculture, Trade and Consumer Protection control the price processors pay for milk produced by Wisconsin farmers, but sold in Illinois?

That's the basis for a lawsuit filed against the DATCP on Oct. 22 by Dean Foods Inc., based in Franklin Park, Ill.

According to Dale Klebber, Dean Foods attorney, some Wisconsin dairy producers are opting to send their milk to Illinois to capture volume premiums restricted by a Wisconsin law enacted Oct. 1.

The volume premium law, issued by the DATCP, prohibits processors from paying volume premiums to producers except under conditions justified to meet competition or to reflect procurement costs.

Under a new procurement option offered by Dean Foods, Wisconsin producers can earn the restricted volume premiums if they assume the responsibility and risk of transporting their milk to Illinois.

Once the milk reaches Dean Foods' receiving stations and passes quality standards, the processor takes possession and pays up to \$1.80 per hundred-weight in volume premiums, Mr. Klebber said.

"We are buying milk in Illinois that Wisconsin dairy farmers transport on their own to Illinois," he said.

Under a second procurement option offered by Dean Foods, the company takes title of the milk at

the farm and pays the big share of hauling costs, but complies to the DATCP's rule and does not pay volume premiums for milk purchased in Wisconsin.

"We think the rule is unworkable, but we're complying. ... We can't pay what we need to attract large producers," Mr. Klebber said.

The lawsuit is an attempt to protect the company's right to pay volume premiums for milk sold across Wisconsin's border.

"We need some certainty whether the rule legislatively applies to us. We're confident it doesn't or we wouldn't pursue (the lawsuit)," Mr. Klebber said.

"It really strikes us with a great deal of irony ... We're fighting to pay more for milk. We feel there is significant cost efficiency in dealing with large farms," he said, adding the company would not pay premiums if there weren't such benefits.

Mr. Klebber said Dean Foods representatives repeatedly asked the DATCP for the rule interpretation, but received no response. That prompted the lawsuit in federal court.

Brad Legreid, Wisconsin Dairy Products Association executive director, said the issue over milk premiums is whether the DATCP can regulate natural competition in the marketplace. "Everything in the dairy industry in moving toward free market competition," he said.

The North American Free Trade Agreement and the General Agreement on Tariffs and Trade both encourage free market com-

See Lawsuit on Page A2



# DATCP exploring options

## Lawsuit from Page A1

petition, Mr. Legreid said. "The last thing we wanted to see is a rule that stifles the (dairy) industry," he said.

He said many people try to make the volume premium issue a small farm vs. large farm issue when in reality it reflects business economics. It costs processors less to pick up 35,000 pounds of milk a day from one producer than from 10 producers. "It's good business," he said of the practice of paying large producers more.

Mr. Legreid said from "day one" the DATCP stated it would not place a cap on volume premiums, but a letter sent to processors Oct. 1 said anyone paying volume premiums of more than 50 cents a hundredweight will be investigated. "To me that's a pretty blatant cap," he said.

"We should try to utilize our resources to make our industry the best it can be. Rules that shackle our ability to compete on a national level ... that's what discouraging to our industry," Mr.

Legreid said.

Bill Oemichen, administrator for trade and consumer protection in the state DATCP, said the department is still exploring its options in regard to the lawsuit. "We're still examining the lawsuit. We're a bit surprised," he said of the action. The department had not threatened any action against the processor or its Illinois program.

"We're not ready to say what action we're going to take, if any," he said. The department is working with the Department of Justice to determine what step to take, he said.

He said the department has not seen a rate above 50 cents that could meet the volume premium law. The department also will look carefully at premiums below 50 cents. "We're not setting a safe harbor," he said.

As for the general enforcement of the volume premium rule, Mr. Oemichen said "to date we're hearing Wisconsin parties will comply with the rule. If there's not compliance, we will start auditing immediately."

—Janelle Thomas

## Feingold: Task Force should listen to Alan Tracy's Cheese Exchange recommendation

MADISON

Oct. 25, 1996

U.S. Senator Russ Feingold expressed strong concern about the decision of the Governor's Cheese Exchange Task Force to reject a proposal to ban uncompetitive trading practices on the National Cheese Exchange.

"While I am not surprised that the Task Force, which is dominated by cheese processing industry, rejected the proposed rule, I am extremely disappointed with this outcome. The Task Force should reconsider its decision at the next meeting in November," Feingold urged.

Feingold, in a letter to DATCP Secretary Alan Tracy earlier this year, urged him to move forward with the rule which prohibits so called "trading against inter-

est" — the proposal recently rejected by the Task Force. The rule would have prohibited a trader from selling cheese on the Exchange when that trader is predominantly a buyer of cheese in off-Exchange transactions, when the intent of that action is price manipulation.

"I urge Secretary Tracy to move forward with this rule despite the decision of the Task Force. The Task Force action does not preclude the secretary from moving forward with this proposal," Feingold said.

"Several months ago, I asked the governor to increase the number of farmers on his Task Force because I was concerned that the over-representation of Cheese Exchange advocates on this

committee would bias the outcome," Feingold said.

Feingold was pleased that the Task Force is continuing to consider a recommendation to ask the U.S. Department of Agriculture to improve reporting of statistically reliable cheese prices, as an alternative to the National Cheese Exchange — a proposal Feingold has repeatedly urged. Feingold has proposed legislation to improve USDA's cheese price reporting and has asked Secretary Glickman to make these improvements administratively as well.

"The solution to the Cheese Exchange involves a combination of regulatory reforms and improved pricing mechanisms," Feingold said. "The Task Force should consider these items in tandem."

# Is secretary of agriculture concerned with state's plight?

To the editor,  
When Secretary of Agriculture Alan Tracy goes to California to lure West Coast milk producers to Wisconsin, whose interests are served? Certainly not the 26,000 producers currently farming here. Upper Midwest milk prices would slip a notch for every 5,000-cow facility installed in the state. Good for Kraft, bad for Wisconsin farmers.

Rather than restore our state's #1 milk producing status by improving the rural economic climate, the secretary is taking the governor's failed Dairy 2020 project—Big Farms R Us—to the land of big farms. "Come to Wisconsin! We are losing five dairy farms a day, but you guys will do great here."  
What incentives will entice the world's largest cow factories to move to

Wisconsin? Tracy's tax-and-processor-industry-funded entourage includes at least one person presently in court challenging the Wisconsin law that prohibits milk plants from paying unjustified "volume premiums." He can invite Californians to join the suit, and boast that the department does not enforce the member equity law anyway. California producers can be promised higher prices than smaller farms in Wisconsin and invited to join the Dairy 2020 leadership council to preach the hypocrisy of efficiency-in-business.

For startup loans in establishing 10,000-cow facilities, will the governor's Department of Development kick in the needed tax dollars? If not, will Land-O-

Turn to Letter/page 11

## Letter

Continued from page 10

Lakes and Foremost Farms? Flying under the flag of "farm owned cooperatives," these processors fund expansion projects with profits gleaned from smaller farms. Last year Land-O-Lakes even purchased a California cheese plant. We Wisconsin farmers would also like for the state to be #1, but not #1 in rural poverty. Let's send the secretary of agriculture to the Northeast to bring back the blueprints for an Upper Midwestern Dairy Compact. Or send him to Texas to bring back Jim Hightower to be our new

secretary of agriculture. We need someone whose nose doesn't get all bent out of shape over the mention of fair farm prices.

Sincerely,

John Kinsman

Wisconsin Family Farm Defense Fund

Dennis Jelle,

Ag Price

Wol State Farmer  
12-6-96

# Kohl, Feingold call for cash market alternative to National Cheese Exchange

WASHINGTON

As one remedy to long-standing concerns over the severe market failures of the National Cheese Exchange, U.S. Senators Herb Kohl and Russ Feingold called for creation of an alternative cash market for cheese, and suggested that the Coffee, Sugar and Cocoa Exchange (CSCE) explore that option.

Kohl and Feingold have worked to address concerns about the cheese exchange's low volume trading, dominant influence on national cheese and milk prices and lack of oversight by federal and state trade agencies.

A three-year investigation into the National Cheese Exchange (NCE), funded by the U.S. Department of Agriculture, found that the NCE had such influence on national cheese prices because it is the only source of cheese market information in the country. Although less than one percent of all cheese was traded on the NCE, it determined the price for up to 95 percent of bulk cheese in the nation, influencing milk prices paid to farmers.

"We believe that an alternative cash market for cheese could enjoy a higher

volume of transactions, and offer less potential for manipulation. Not only could such a cash market supplant the NCE as a price indicator throughout the nation, but it would have the added benefit of surveillance by the Commodity Futures Trading Commission and the CSCE itself," the senators wrote in a letter to the president of the CSCE.

The CSCE currently trades cheese futures contracts and is policed by the Commodity Futures Trading Commission (CFTC), a neutral regulatory agency. Last month, Senators Kohl and Feingold and Congressman Dave Obey asked CFTC to consider expanding its surveillance to the NCE or to offer viable alternatives to such regulation. Kohl, Feingold and Obey noted that NCE officials and industry traders have rejected many proposals for self-regulation, including limits on price movements and rules prohibiting trading against interest.

The nearly 40-cent per pound drop in block cheese prices on the NCE in recent weeks has highlighted concerns about the influence of the NCE on prices paid to farmers for their milk.

# Task force to urge bypassing cheese exchange prices

*Ad  
Alan*

## Recommendation follows governor's suggestion

BY KEVIN MURPHY  
Special to the Journal Sentinel

Madison — The Governor's Task Force on Cheese Pricing said Thursday it plans to draft recommendations to change the nation's dairy pricing formula by eliminating National Cheese Exchange trading as a component.

The task force will suggest the industry instead use the U.S. Department of Agriculture report of cheese sale prices and milk futures contracts, as Gov. Tommy Thompson suggested Wednesday.

The recommendations come after a probe chastised the tiny Green Bay-based National Cheese Exchange as being easy to manipulate to the benefit of large cheese marketers such as Kraft Foods Inc.

The task force — made up of dairy farmers, cheese traders and other interests — will recommend the formula rely on wholesale cheese sale prices re-

ported by the USDA when they become available early in 1997.

Because of the exchange's influence on cheese prices around the country, some task force members said cheese prices reported by the USDA would not be a good, independent indicator of cheese prices. Many bulk cheese sales are based on formulas linked to closing prices on the exchange.

The task force expects the price of milk futures contracts traded on the Coffee, Sugar and Cocoa Exchange to be a long-term solution to the pricing formula.

The 19-member task force met before dozens of dairy farmers who were angry that recent drops in cheese prices on the National Cheese Exchange have wiped out gains they made this year as milk supplies dried up. The audience demanded that a cost of production component be added to the pricing recommendation.

"Supply and demand wouldn't reflect the cost of our production, and if you want the milk supply to stay stable you

better pay the guys producing it," said Jim Schroeder, who milks 40 cows on his farm near Cashton.

Ed Jesse, a task force member and University of Wisconsin-Madison dairy scientist, gave little hope that the cost of production would be included in the final recommendation.

The task force also will recommend that the Commodity Futures Trading Commission and the Federal Trade Commission be asked to re-evaluate its regulatory authority over the National Cheese Exchange.

However, the task force defeated a recommendation that the state prohibit trading against interest on the exchange, one of the more manipulative practices cited in the state-UW probe. It probably would drive the exchange out of the state, state Agriculture Secretary Alan Tracy said.

The task force will meet Dec. 5 to prepare its final recommendations before Thompson will present the report to the National Cheese Exchange's board and then to Congress.

Nov. 6, 1990

# An ill-timed trip

You've probably seen the letters to the editor in *The Country Today*.

"Secretary of Agriculture Alan Tracy's idea to lure California dairymen to Wisconsin is just another slap in the face to Wisconsin dairymen."

"Make no mistake about it: Those traveling first class to California to throw a party for wealthy corporate farmers in fancy hotels have an agenda contrary to the vast majority of Wisconsin citizens and farmers who are in part paying for the festivities."

"The state's (agriculture) secretary sat idle watching the dairy farmers fall off the map in record numbers and now panics because of short supply in milk. Where have you been this past 15 years, Mr. Tracy?"

"California dairymen, please come to Wisconsin, our money is gone. The industry sure needs yours now."

In case you haven't heard, Mr. Tracy is in California this week heading up a Wisconsin contingent that is attempting to convince California dairy producers to move their operations to Wisconsin. In his words, "the future of the (dairy) industry is brighter (in Wisconsin) than anywhere else in the country. By taking a team to California we hope to give dairy producers there a farmer-to-farmer perspective of life in Wisconsin and the economics of milking cows here."

While Mr. Tracy may have had good intentions in organizing the trip, he probably didn't realize how strong the reaction would be from Wisconsin dairy farmers. A handful have come forward to support the idea — in fact, three farmers are along on the trip — but many have expressed a sense of abandonment.

One farmer put it this way in a letter to *The Country Today*: "Rather than restore our state's No. 1 milk-producing status by improving the rural economic climate, the secretary is taking the governor's failed Dairy 2020 project — Big Farms 'R' Us — to the land of big farms. 'Come to Wisconsin! We are losing five farms a day, but you guys will do great here.'"

In an interview at World Dairy Expo, Mr. Tracy said he perceived the trip as a way of sending a message to Wisconsin dairy farm-

ers that Wisconsin is *the* best place to milk cows in the United States. He also said he realizes that dairy plants that don't operate at capacity struggle financially, and more milk would help keep them viable.

Wisconsin dairy farmers saw it differently. They have enjoyed relatively high milk prices in recent months because supplies have been tight. That's what happens when milk plants have to compete for milk.

Why on earth would Wisconsin dairy farmers want to see milk supplies increase, which would subsequently mean lower milk prices? It's only logical that the California trip was met with opposition.

Yes, dairy plants need ample supplies of milk to operate at a profit. The large number of plants in the state keeps competition for milk relatively high. Milk prices are higher here than anywhere else in the country.

But on the flip side, Wisconsin dairy farmers need high milk prices to keep their operations going, too. It is difficult to convince the state's 26,000 dairy farmers that the interests of 200 dairy plants should be considered ahead of theirs.

When Wisconsin lost its status as the nation's No. 1 milk-producing state 3 years ago, many dairy leaders said it really didn't matter. The milk-producing title was just a title, it wasn't really important, they said.

Apparently, they've changed their minds.

Meanwhile, in California the recruiting trip is being met with some humor. (See related story in this edition of *The Country Today*). Members of the staff at the Modesto Calif. Bee came up with a list of 10 reasons for California dairy farmers to move to Wisconsin. No. 1 on the list? "The hope that summer falls on a weekend."

Apparently the rivalry between the Wisconsin and California dairy industries has been reactivated.

It will be interesting to see what kind of reaction the Wisconsin dairy contingent receives while it makes the rounds in California dairy country. But it may be even more interesting to see how Mr. Tracy handles the dairy-farmer response when he gets back to Wisconsin.

—Jim Massey

# Feingold says farmers' outrage is justified

**The Wisconsin senator sees a lot of proof of cheese market price manipulation**

by Dan Wilson

Staff-Crescent staff writer

have taken a 35% drop in the past two months.

"I fear there is manipulation," said Feingold. "I'm not saying illegal. There are issues here about anti-trust which haven't been resolved. If you are talking about manipulation, something that is not a true reflection of the market, then there is a lot of evidence that it does not (reflect the market). Such as the study done by the University of Wisconsin. So I am suspicious of it. The precipitous decline in recent weeks seems to have something to do with the cheese exchange and that's what the farmers think and they know more about it than I do."

Feingold said Wisconsin will miss Rep. Steve Gunderson, R-Osseo, who had a seat on the House Agriculture Committee, but the new Secretary of Agriculture,

Dan Glickman, is much more receptive to the complaints of Midwest dairy farmers than secretaries in the past.

"I am getting a much better response in terms of accessibility and understanding from Glickman than I did from (former Secretary) Mike Espy, but obviously I am not 100% happy. I was very disappointed on the New England Dairy Compact."

The dairy compact creates a separate milk marketing order system for the New England states, giving them a higher price for fluid milk. The creation of the compact has

been challenged in the courts.

"I did personally approach him about trying to gather more cheese data after that and he did begin the process. It is the first time we got a secretary to do that, but I told him personally and repeatedly and I hope he is listening, that we have got to do something about the cheese exchange, the milk marketing order system and we have got to see if we can stop this New England Dairy Compact in its tracks."

"On the milk marketing order system he is about to announce a reformed proposal. We don't know how it's going to go. We do have a concern that it will simply be a reduction in the number of orders which isn't enough. We have got to get that differential (the differential which pays farmers more based on

the distance from Eau Claire) reduced and I have told him that."

"I also urged him to get off the support of this New England Dairy Compact and I let him know that in Congress we would attempt to eliminate it."

"On the cheese exchange he has taken the first step. That's a problem that can be addressed by the cheese exchange itself in part, by state government in part and by the federal government in part and all of them need to take a step-by-step approach to see if we can get this exchange to reflect reality or minimize its significance."

Feingold said that not only is there bipartisan support for reform, there is support from other states which also live under the present



FEINGOLD

Please see FEINGOLD, B-6

## Feingold sees ag secretary more receptive

From B-1

milk pricing system.

Feingold this past week sent a letter to Glickman urging his department to make an advance purchase of cheese and other dairy products to help moderate falling cheese prices. The products are used in school and domestic feeding programs.

"We have done this sort of thing in the past for pork and beef. I think it is a reasonable request. It is a short-term thing, almost a band-aid."

"We certainly agree we want the government to get out of the milk order system and the elimination of the dairy compact, so there is more unanimity in the delegation than there has been in the past. The areas of disagreement are much lower.

"We got 19 senators to sign my letter (asking for an early purchase of dairy commodities). That shows that it is hurting people all over," Feingold said.

FDU

# REGIONAL

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## Dairy farmers may get a break

**USDA readies reforms it says will be more fair to Wisconsin**

**By Bob Vitale**

Post-Crescent Washington bureau

WASHINGTON — The U.S. Department of Agriculture will unveil its ideas soon for changing the way milk prices are set for the nation's dairy farmers, and Secretary Dan Glickman says reforms are likely to create a system that's more equitable to those in Wisconsin.

A complicated national program that for more than 60 years has set

prices based in large part on a farmer's distance from Eau Claire "doesn't make much sense anymore," according to Glickman, and he says dairy farmers in the Upper Midwest are bearing much of its burden.

The department's preliminary plans for reshaping the system are scheduled to be released Dec. 2, USDA officials say, and two months of public hearings are likely to follow in Washington and around the country. Reforms are supposed to be in place by April 1999.

In a meeting this week with reporters, Glickman said the department's initial proposals are being drawn up with an eye toward mak-

ing federal milk pricing more fair. But looking back on deep regional divisions that marked congressional debate on the very same topic earlier this year, he added: "It depends on what part of the country you live in if you think (current) dairy policy is fair or not."

"I'm hoping we can make it more equitable nationwide," Glickman said.

Glickman's Agriculture Department received a directive from Congress to draw up plans for a new federal milk-pricing system as part of the seven-year Farm Bill approved early this spring.

The provision calling for a consolidation of 38 current pricing

regions into no more than 14 was one of the Farm Bill's few concessions to Wisconsin dairy farmers, whose lobbyists and congressional representatives pushed to scrap the entire program but were out-manuevered by interests from other regions of the country.

The current setup of regional "milk marketing orders" is despised in the state — and in Minnesota as well — because its base price for beverage milk is set in Eau Claire, the traditional center of the industry.

The system was created in the 1930s, before the days of refrigerat-

Please see DAIRY, B-4

■ Every 10 miles from Eau Claire, farmers receive an extra 2 cents for every 100 pounds of milk sold. Farmers in New England, the Southeast and Southwest, therefore, generally receive higher prices and want the system to stay as is.

## Dairy farmers may get new milk pricing formula

From B-1

ed transport, as a way to encourage dairy farming in all parts of the country.

Every 10 miles from Eau Claire, farmers receive an extra 2 cents for every 100 pounds of milk sold. Farmers in New England, the Southeast and Southwest, therefore, generally receive higher prices and want the system to stay as is.

ment plan looming, both sides are gearing up for a repeat of their congressional battles.

Wisconsin Sens. Herb Kohl and Russ Feingold, along with colleagues from Minnesota, Iowa, North Dakota and South Dakota, have written to Glickman urging that he eliminate Eau Claire-based pricing and other hurdles for Upper Midwest farmers when he draws up plans to consolidate the 38 pricing

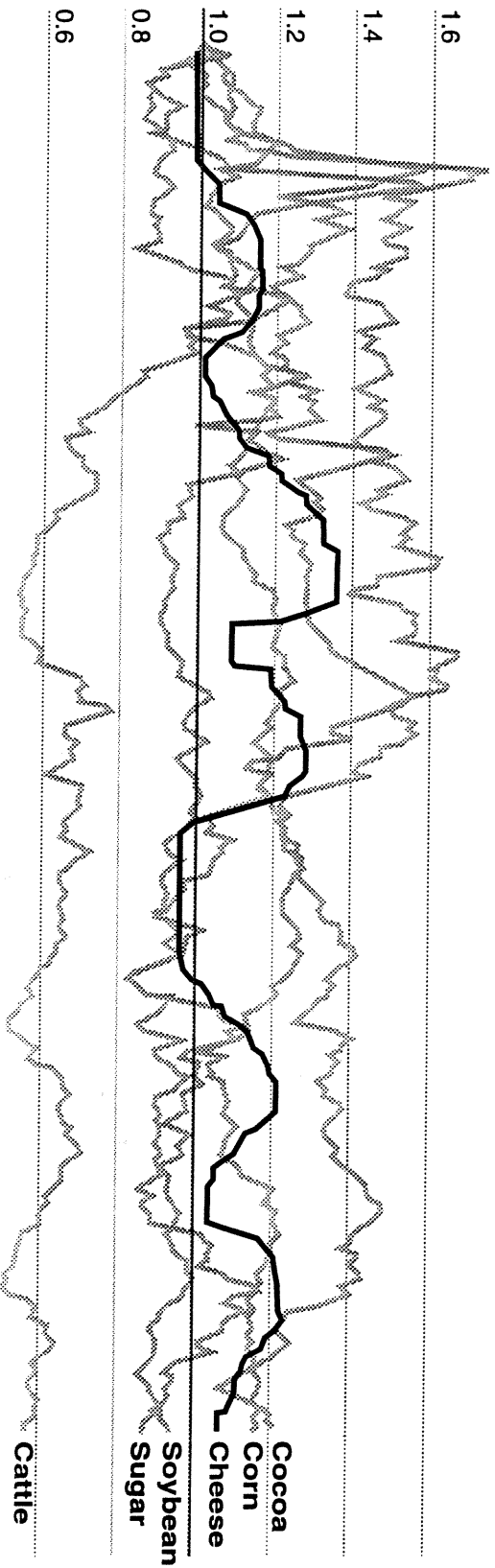
"Upper Midwest producers have for too long suffered under the existing system that has, until now, seemed impervious to change," they wrote.

Glickman's pending announcement will only begin the debate over reforms, not end it, others say. "It's going to be very much subject to change," said Ed Coughlin, a former head of the pricing system, who now works for the National

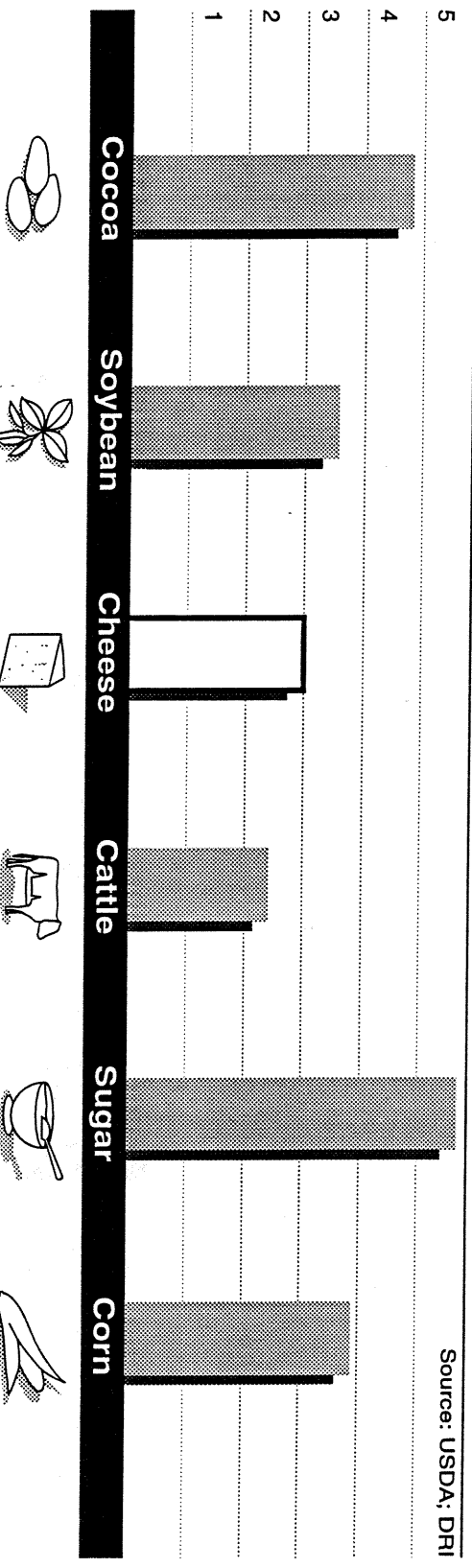
# Cheese Prices Volatile Like Other Commodities, 1988 - 1992

## Comparison of Prices to Selected Agricultural Commodities

Commodity Prices Indexed at January 1988



Average Volatility of Selected Agricultural Commodities



Source: USDA; DRI

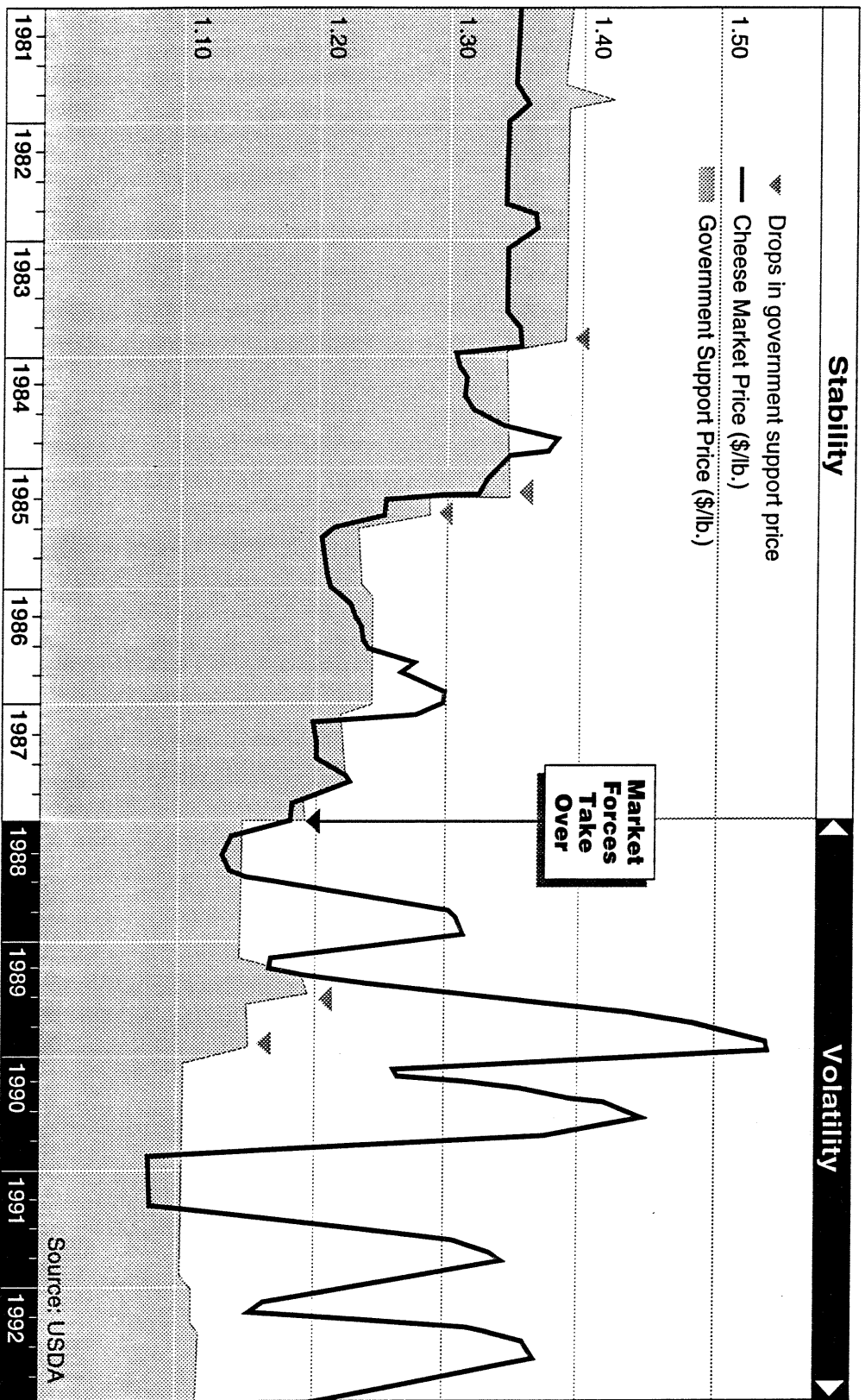


## **NCE trading practices provide strong protection against market moving counter to supply and demand.**

- Every transaction is open.
- NCE members are sophisticated and diverse group of participants - farmer co-ops, processors, brokers - *big and small*.
- Every member has equal ability to buy or sell.
- In trading, market moves in quarter-cent increments
- Bid is not raised until every member chooses not to sell at current price.
- Offer is not lowered until all have declined to buy at current price.
- All members have opportunity to buy or sell; choosing not to act demonstrates recognition that the market is reflecting supply and demand.
- Net, the National Cheese Exchange works; the price opinion reflects supply and demand.

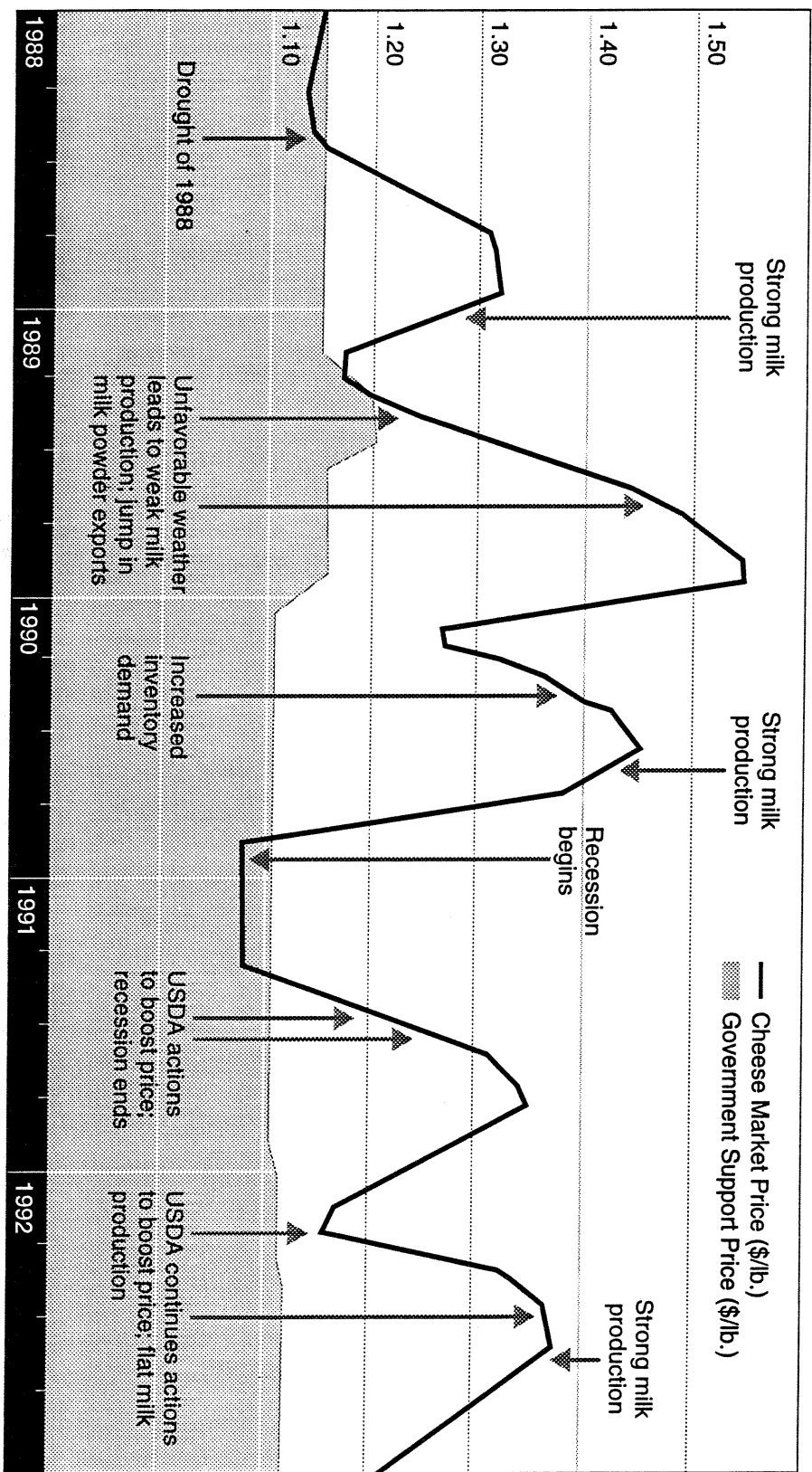
# Big Changes in the Cheese Market

## Volatility Grows as Support Prices Fall



# Supply and Demand Drive Cheese Prices

## Market Forces Cause Volatility



# **Kraft Sales Had Little Impact on Cheese Prices**

Changes in Cheese Prices when Kraft Sold and when Others Sold

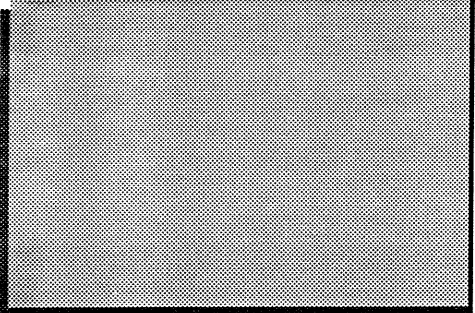
Average Weekly Changes in NCE Barrel Cheese Prices January 1988 – December 1992

Prices Up Slightly, + 0.2¢



Weeks When  
Kraft Sold

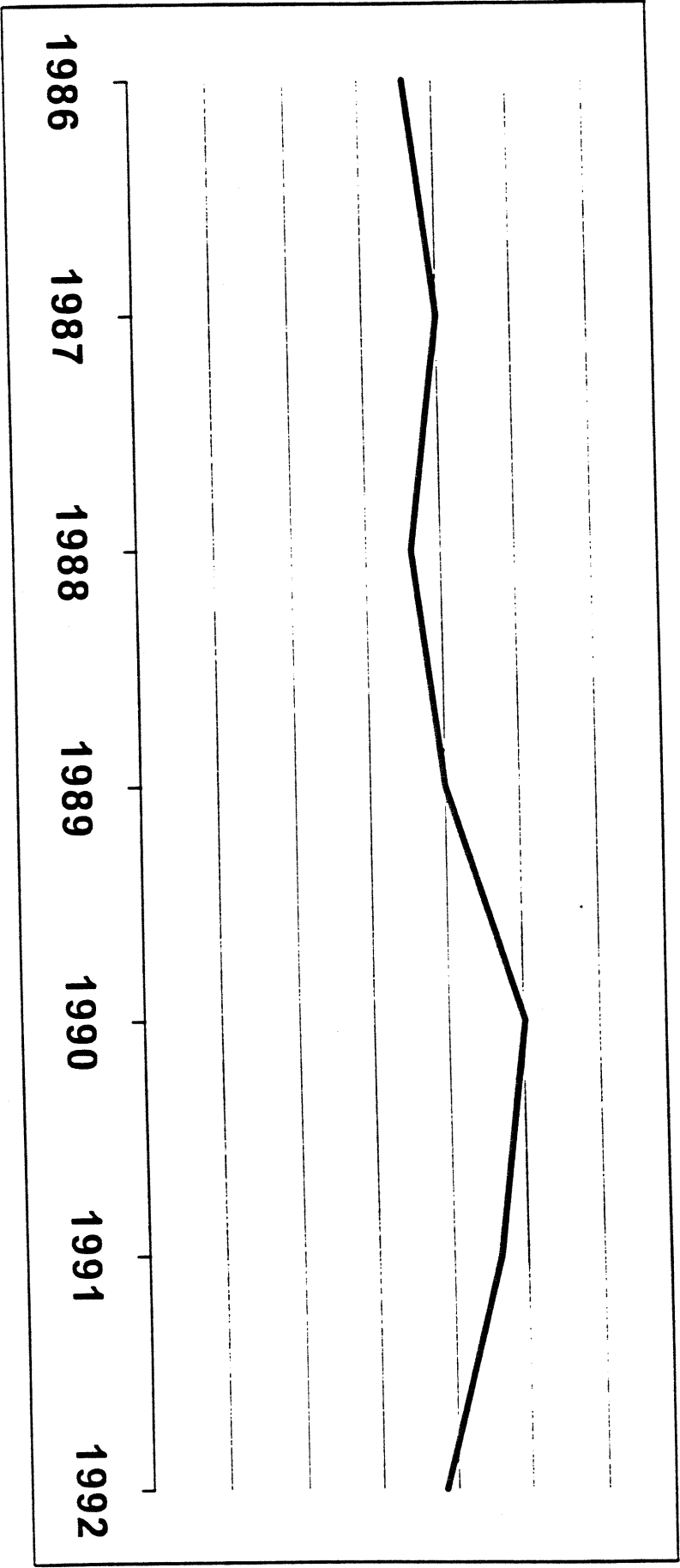
Prices Down, - 1.7¢



Weeks When  
Only Others Sold

# Kraft's Average Days of Supply of Current Manufacturing Cheddar Cheese.

Average days of supply rose as market conditions required safety stocks.

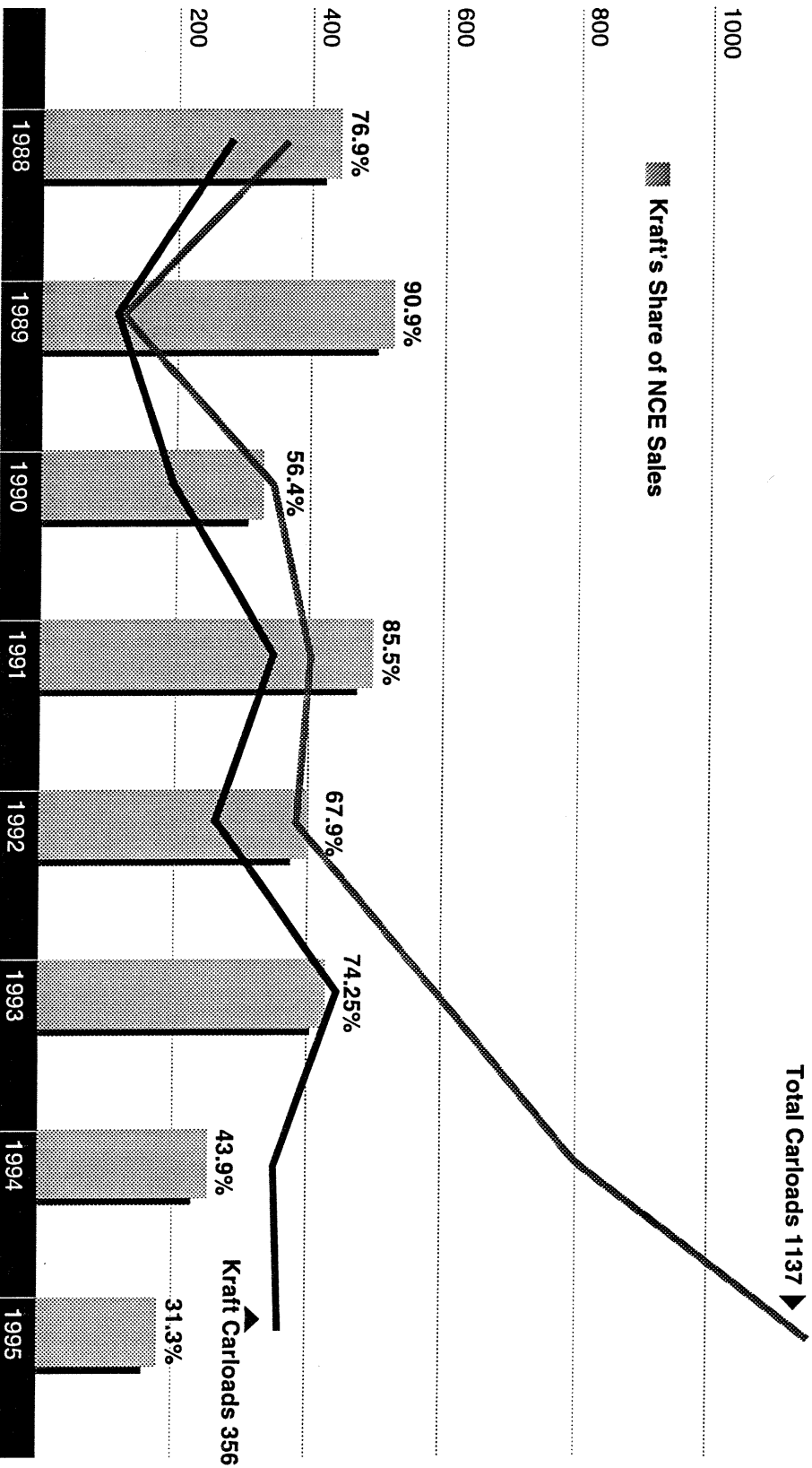


— Average Days Supply

# As Others Sell More, Kraft's Share of Sales Goes Down

## Volume Sales on the NCE, 1988-1995

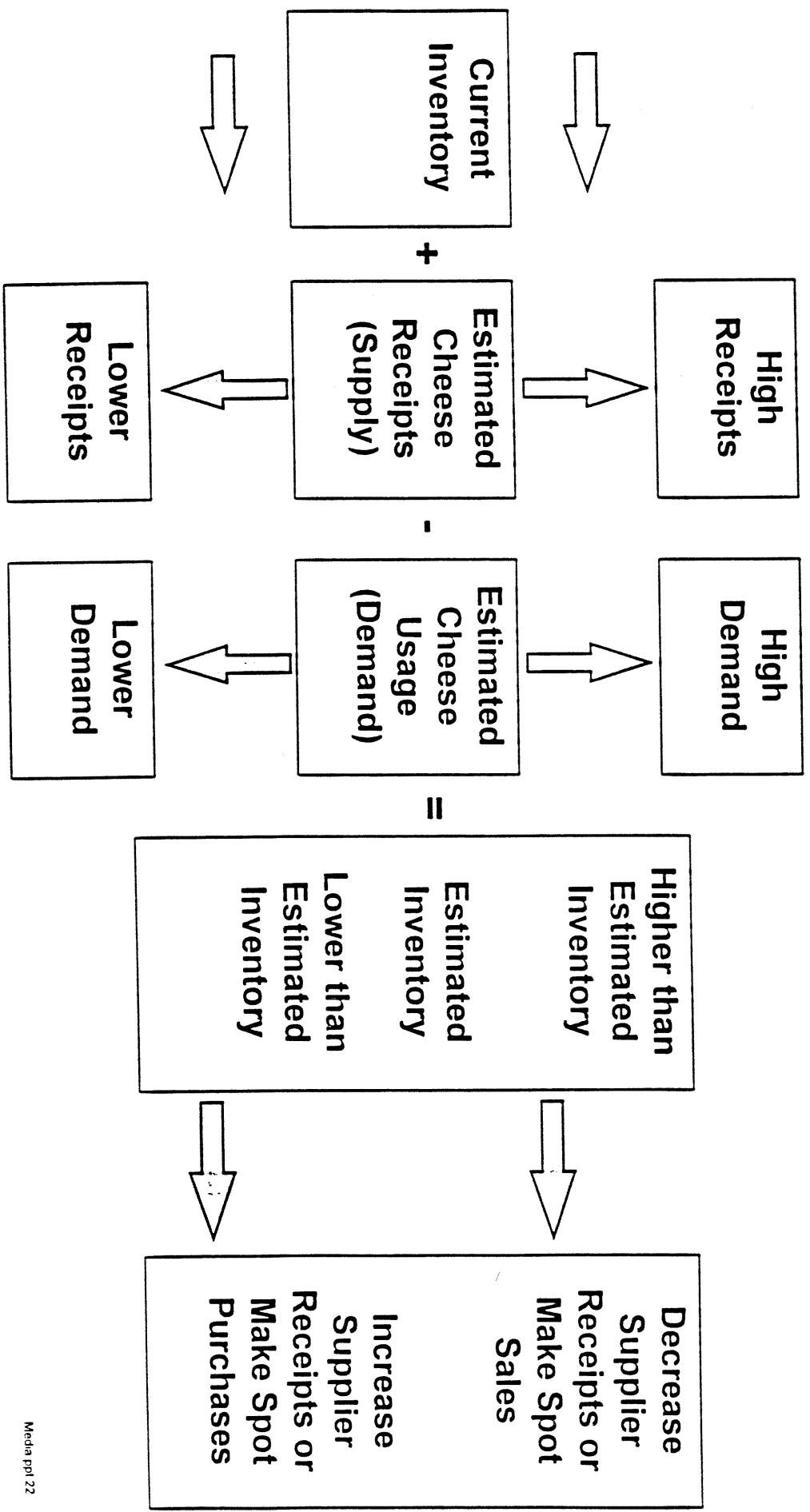
### NCE Sales Carloads



Note: Excludes aged cheddar and other styles of cheese

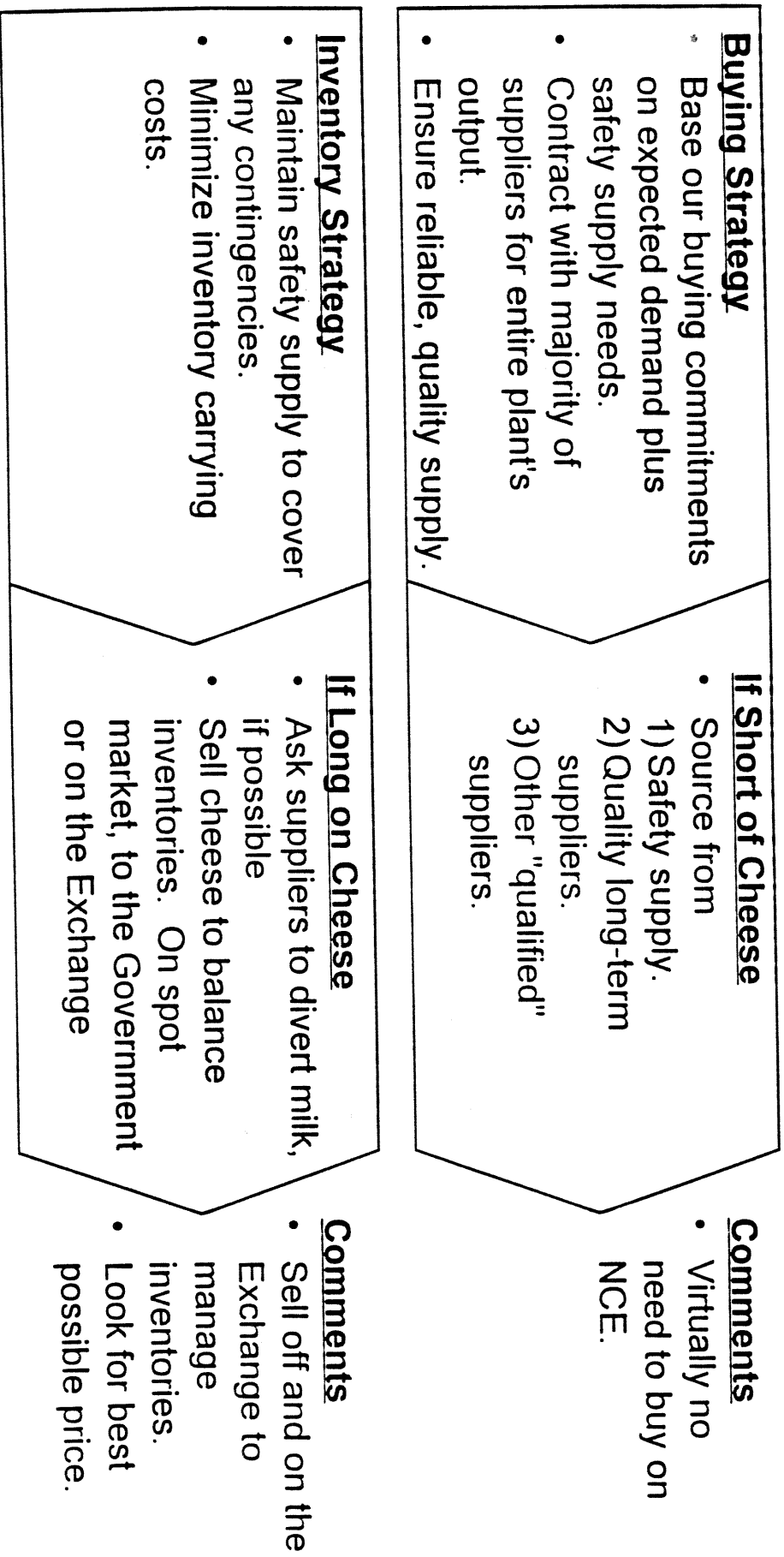
**Inventory management is a dynamic process that takes into account demand, supply, and inventory targets.**

**Must look at the interaction of all these key components to understand our inventory management practices.**



# Kraft's inventory and buying practices explain why we trade on the National Cheese Exchange the way we do.

***Our #1 objective is to ensure we do not run out of quality cheese!***





## The National Cheese Exchange

### What It Is and How It Works

The National Cheese Exchange in Green Bay, Wisconsin, has been in operation since 1918. It is a market where, each week, members representing most of the U.S. cheese industry meet to buy and sell bulk cheddar cheese.

Unlike most other exchanges, the NCE is a cash exchange. Buyers of cheese on the Exchange actually take physical delivery of carloads of cheese. Sellers make delivery within a week after each trading session, and the buyer must make payment promptly. As a result, the general public has no interest in buying or selling cheese on the Exchange, unlike commodities futures markets or other public exchanges.

The Exchange trades only one variety of cheese -- bulk cheddar. For many years, the cheese has been sold in either barrels or 40 lb. blocks, which is between 4 and 30 days old on the date of sale. Trading in 640 lb. squares began in 1995. The Exchange is open for 30 minutes every Friday. If trading is active at the end of a session, the Exchange President may choose to extend the session.

The NCE's members are a diverse and sophisticated group of buyers and sellers which represent over 80% of the cheese manufacturing capacity of the United States. The number of members changes, usually ranging between 35 and 45, and is currently at 36 members. The members are from all segments of the industry, represent diverse economic interests and different approaches to business. Members include both small and large companies, farmer cooperatives and brokers.

All trading on the Exchange is open, so every other Exchange member and the United States Department of Agriculture (which has a representative at every trading session) immediately know exactly which Exchange members have proposed which transactions.

If a member wishes to bid for cheese, he bids first at the current price. If no other member chooses to sell at that price would the bidder increase his bid. Increases are in quarter-cent increments. Likewise, when a member offers to sell, he offers first at the current price and, only if no other member shows interest in buying at that price, would offer at a quarter-cent lower price. Since all members know exactly what is occurring and are free to take any action in response, each member expresses its agreement or disagreement with whatever transaction has just occurred either by taking an action or choosing not to do so.

Exchange trading volumes averaged approximately 350 to 400 carloads of cheese per year from 1988-92, except for 1989, when the volume was only 121 carloads due to shortages of cheese. A carload of cheese is approximately 40,000 pounds. Trading volumes have increased significantly since 1992; more than 1,100 carloads were traded in 1995. As a result, the largest percentage of sales accounted for by a single member has declined from approximately 70% to 30%.

The Exchange does not set or quote a price for cheese. The closing price is published by the United States Department of Agriculture and trade publications. Nearly all cheese buyers and sellers, including farmer cooperatives, choose to use the published prices of NCE transactions as the basis for pricing very large amounts of bulk cheese they buy or sell off the Exchange. There are no laws or rules requiring them to do so. They do it voluntarily.

The Exchange President enforces Exchange trading rules, which are reviewed and periodically revised by the Exchange Board and Rules Committee, both of which are drawn from the entire spectrum of the membership. Members of the public may observe Exchange trading sessions whenever they choose. No invitation or permission is required.

3/19/96

Kraft

Pete Christiamson, Seth Eisner, Peggy Martin

UW professors <sup>Fritz Buehler (?)</sup>  
Bruce  
370 pages

Natl. Cheese Exchange report

- federally funded - David Ohey advocated for \$500,000 to do report therefore they are not surprised by outcome
- only way they could manipulate NCE is if everyone else was too stupid<sup>(?)</sup>

- Kraft is rarely a buyer, almost always a seller

- operate business so they always have enough cheese
- many long-term contracts (ex: take all cheese Weyawega plant can't make) based on estimates as to how much cheese they'll need
- may be in March + know you'll need more in October so commit for cheese in October (in March) + sell surplus in March

- \* 1<sup>st</sup> choice when they need cheese → go to their plants
- 2<sup>nd</sup> choice → go to plants they used to buy from
- 3<sup>rd</sup> choice → go to plants they've "qualified" but never bought from
- 4<sup>th</sup> choice → buy @ NCE

\* want to know where cheese is coming from

~~report says they sold cheese as part of managing their inventory~~

Report:

- Made \$ when sold off the exchange
  - cheese commands a premium b/c buyer knows where it came from
  - report assumes they can always find a buyer off the exchange → not true

4-30 days old cheese on the NCE

- They weren't balancing their inventory - just selling cheese whenever
  - report was using Kraft's total inventory (parmesan)

Report didn't look @ demand side at all

- Kraft sales depressed prices on the exchange (see Kraft chart)
  - ↳ when others sold + Kraft didn't, prices went down
  - ↳ when Kraft and/or others sold, prices went up

\* Kraft did ~~not~~ go to exchange as last resort, usually when prices were low

patronage

- related to rules being proposed by DHTCP (trade statutes - landowners/tenant)

- no statute that says DHTCP can regulate NCE

nature of rule

- define the practices that occur on NCE that are unfair trade practices

ex: if selling on NCE, you should also be buying

ex: if you are engaged in action on NCE that loses you \$ and you could have made \$ outside of NCE - that's an unfair trade practice

State's package to Decker (no memo)

- UD report
- track force materials



The State of Wisconsin  
 LEGISLATIVE COUNCIL STAFF  
 One East Main Street, Suite 401  
 P.O. Box 2536  
 Madison, WI 53701-2536  
 (608) 266-1304/FAX (608) 266-3830

12/16

Kim -

Attached is a copy of the

summary excerpt of this report,

for Dr. It's one of the things

I gave to Decker, that apparently

led to Dr's questions -

Fraser. May be useful.

Jane



Don't have any place else

US is better than that, distill

end users cost of production

\* no precedent in state laws

\* defense → contracts (cost + contract)

- us govt buys military goods for the company's cost + a contract

- research trading against interest?

(are we doing it anywhere else) - anything in statute

similar to what's being proposed

proposed

No - we don't regulate any markets

- either private sector (informally) or govt - this would be a new step

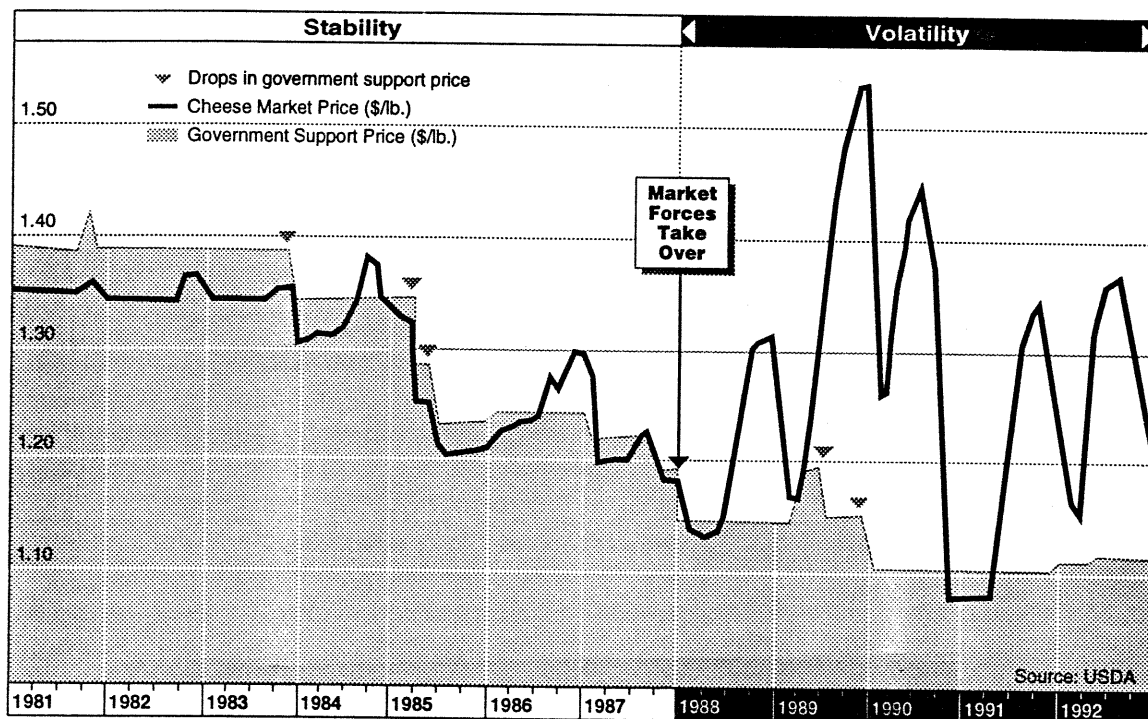
## THE FACTS ABOUT KRAFT AND THE NATIONAL CHEESE EXCHANGE

Two professors at the University of Wisconsin have released a report mischaracterizing the National Cheese Exchange (NCE) and misrepresenting Kraft's trading practices from 1988 to 1992. In essence, the report contends that periodic movements in NCE prices were not due entirely to supply and demand. The professors speculate that Kraft was somehow able to sell on the Exchange in a way that kept prices below where they should have been.

The fact is, Kraft's trading was based solely on sound business reasons, and it was conducted in a completely fair and open fashion for all to see. The "manipulation" the professors suggest did not occur and, in fact, would be impossible to accomplish.

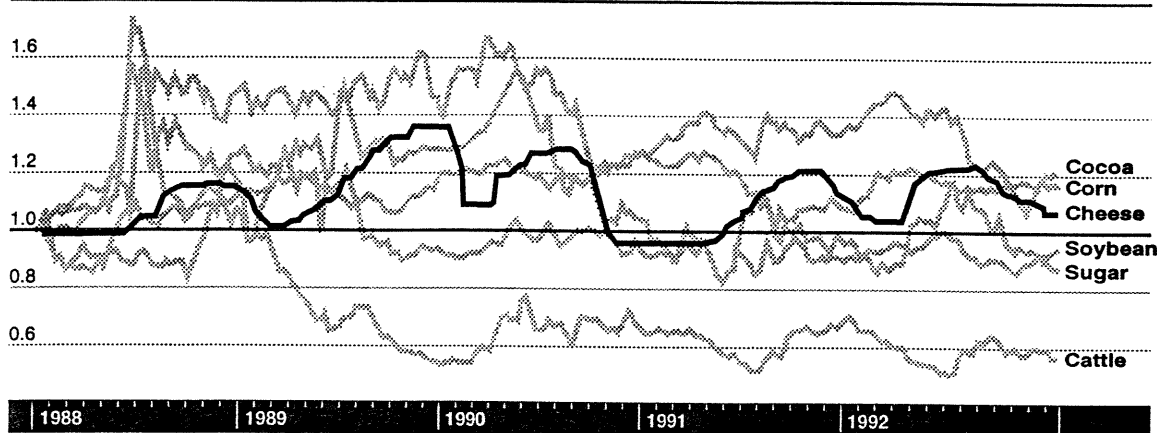
### Changing Times

All would agree that the five years covered by the report were marked by far more price volatility than the dairy industry had seen in decades. The volatility was made possible by a dramatic decline in government support programs. Dairy commodity prices, which had long been protected from ordinary swings in supply and demand, became subject to the everyday forces of weather, general economic conditions, and changing consumer preferences.

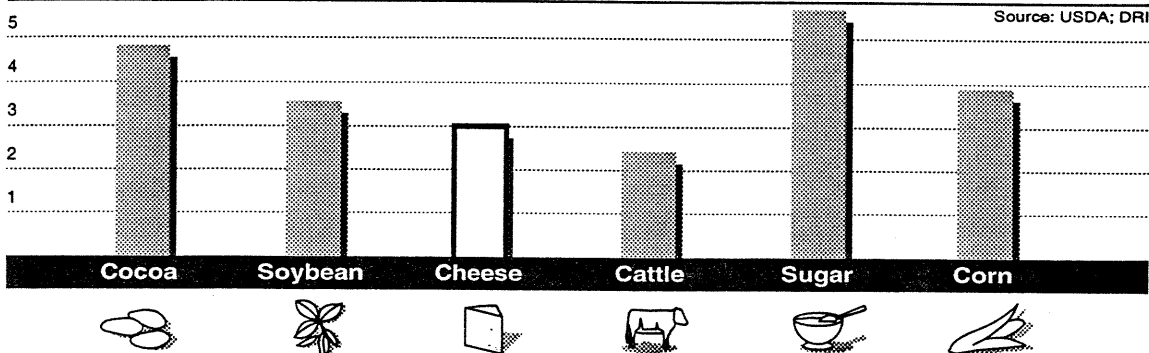


Even so, the volatility experienced in dairy prices was actually moderate compared with other agricultural commodities. Likewise, a fact that's often lost in the controversy is the increase in bulk cheese prices that occurred during the period covered by the professors' report. From 1988 to 1992, the prices on the NCE actually rose 6%.

#### Commodity Prices Indexed at January 1988



#### Average Volatility of Selected Agricultural Commodities



Nonetheless, along the way there were temporary but significant declines, as well as sharp increases in prices. These swings in the price for bulk cheese caused some observers to ask two questions. Were the prices on the NCE consistent with the forces of supply and demand? And, did Kraft somehow "manipulate" the NCE, as the professors hypothesize?

#### How The Exchange Works

There are many significant reasons why the public should have confidence in the integrity of the National Cheese Exchange.

Certainly the cheese industry, as a whole, demonstrates its confidence in the NCE in the strongest possible way -- year after year, nearly all cheese sellers, including farm cooperatives, willingly use published NCE prices as the basis for pricing very large amounts of bulk cheese they sell off the Exchange. There is no law or regulation requiring them to do so. They do it voluntarily. And few, if any, of these cooperatives and companies have actively sought an alternative benchmark.

Why? Because the Exchange accurately reflects supply and demand; because it is in the best interests of the industry, Kraft included, for the Exchange to function reliably; and because there are obvious and immediate ways for all members to see and prevent any questionable trading.

NCE rules explicitly prohibit manipulation. And, as a practical matter, the trading process itself provides strong protection against attempted abuse.

If a member wishes to bid for cheese, he bids first at the current price. Only when every other member has chosen not to sell at that price would the bidder increase his bid above the current price. And he may do so only in quarter-cent increments. Likewise, when a member offers to sell, he offers first at the current price. Only when everyone else declines to buy at that price would he offer at a quarter-cent lower price.

**So the market cannot move up or down on the action of just one or even a few members. All members must first consciously choose to trade or not to trade before the price can change.**

The NCE's members are a sophisticated and diverse group of buyers and sellers, representing all interests in the dairy industry. For example, the NCE members whom the professors themselves identify as the leading buyers on the Exchange, with incentives for higher cheese prices (AMPI, Mid-Am, Land O' Lakes, Beatrice and Schreiber), have a track record of being large, aggressive, successful competitors who vigorously pursue their own self-interests in their actions on and off the NCE.

Every one of these members, at every trading session, is free to buy or bid for cheese, or sell or offer to sell cheese. Every transaction occurs openly, so everyone knows who is taking which action. If any member thinks an action does not reflect market conditions, it is free -- and has the incentive and the ability -- to counter that action with one of its own. Choosing not to react is an explicit expression of a member's agreement with whatever transaction has just occurred.

In essence, the appropriate checks and balances are built into the Exchange's structure and operating procedures. For someone to believe that a member could effectively manipulate NCE prices, he must also assume that all the other members are not smart enough to see that their interests are being damaged, or that they don't care enough to do anything about it. Neither of those are true or make any business sense.



**Sales On vs. Off the NCE**

Whenever Kraft sells excess cheese, it always tries to obtain the highest possible price. Usually that has meant trying to sell first off the Exchange on the spot market where historically Kraft has been able to attract the best prices. If no buyer can be identified, Kraft usually looks next to government purchase programs (e.g., school lunch programs) or to the NCE to seek the next best price for its cheese. Most often, Kraft would reach this point when both it and the industry as a whole were long on cheese.

For that reason, the price Kraft received for its cheese on the Exchange was occasionally below what it originally paid for the cheese -- to be expected since cheese was generally long and therefore at a lower price. Regardless, it was the best price available at the time. Kraft sold because it had no better options.

The professors take this simple economic reality and contend, with no factual support whatsoever, that Kraft could have sold this cheese off the Exchange at a higher price but chose instead to sell it on the Exchange at a lower price in order to drive Exchange prices down. The report simply asserts that in weeks when Kraft sold both on and off the Exchange, it could have sold everything off the Exchange if it had wished. No proof is cited. Instead the report mistakenly assumes an endless demand for Kraft's cheese at the higher off-the-Exchange price.

In effect, the report implies that Kraft should always sell all of its excess cheese off of the Exchange, regardless of market conditions -- even in a rapidly rising market, when the NCE could well provide a higher price on Friday than off-the-Exchange sales earlier in the week. In fact, the report chides Kraft for just that. The professors point to a week in 1992 when Kraft was asked for cheese but declined to sell, waiting instead to sell at the end of the week on the Exchange when it hoped to get a higher price.

In every instance, one thing and one thing alone dictated Kraft's decision to sell on or off the Exchange -- where Kraft believed it would get the best price.

**Managing Inventories**

Kraft regularly sells on the NCE and rarely buys because it often has slightly more cheddar than it actually needs, and the Exchange is one of the means it uses for managing its inventory.

That raises the question, why does Kraft so often have too much cheddar? The answer is strictly a matter of cost and Kraft's commitment to maintaining a steady supply of cheese for customers and consumers. If Kraft managed its inventories less conservatively, it would increase the risk of running short of cheese. Without cheese, Kraft can't keep its shelf space stocked in the supermarket. That would disappoint its grocery trade customers and cause Kraft to lose sales and market share to its competitors.

Lost sales and market share cost far more than selling excess inventory, even if it sometimes must be sold at a loss. For that reason Kraft manages its inventory to ensure that it never runs out of cheese. This often results in a slight excess, which, in seeking the best price, Kraft almost always tries to sell first on the spot market or sometimes to the government. If it can't find a buyer either of those ways, it then tries to sell on the NCE.

It's also important to know how Kraft purchases cheese, because that helps explain why it so seldom needs to buy any on the NCE. With the great majority of its supplier plants, Kraft contracts to take their entire output during the year, regardless of how much it might be. Kraft decides how many of these agreements to make based on what it thinks consumer demand for its cheese will be during the coming year. By being conservative in its calculations, Kraft almost never runs short of cheese, and if it does, it can almost always buy more from its suppliers. But Kraft periodically does find itself with too much cheese, either because its suppliers produced more than they thought they would or consumer demand turned out to be less than Kraft thought it would.

This is particularly true with current cheddar (less than 30 days old), the style of cheese that is traded on the NCE. As a result, Kraft is almost never short of the cheddar it needs and therefore has no reason to buy any on the NCE.

So, with all this considered, Kraft determines whether its inventories are adequate or excessive at any given time by looking at what it has on hand, what is now likely to come in, and what is likely to go out. Every business does this. It's "Inventory 101."

### **Flawed Reasoning**

The professors' report, however, contends that Kraft really doesn't manage its inventories this way. In fact, this assertion is fundamental to the report's entire argument. To support this claim, the report constructs a table of data that tries to show that Kraft's inventories were sometimes short when it was selling on the Exchange. The table is based on faulty analysis and the misuse of selective information. In a word, the table is wrong.

The table uses inventory projections from one year to compare with actual inventories from the next year. The report concludes that if an actual number is smaller than what was projected a year earlier, that must mean Kraft did not have a surplus and therefore had no business reason to sell, on or off the Exchange.

What the report ignored was all the marketplace changes that occurred in the year since the projections were made. Those projections were based on how much cheese Kraft's suppliers estimated they would produce, as well as what Kraft estimated consumer demand would be. If either of those factors changed -- and they always do -- then, of course, the projections and actual numbers would not match.

Here is a typical example. Kraft expected cheese consumption to continue to grow in 1991, as it had in the preceding several years. Its inventory projections for the year, which were made in August of 1990, were based on this expected growth. But 1991 turned out to be far different. Consumer demand for Kraft products dropped dramatically and, as a result, so did its sales volume.

It soon became obvious that Kraft's earlier inventory projections were far too large. So, as a first step, Kraft contacted its suppliers and asked them to sell some of their cheese to other buyers, if they could, because it no longer needed as much as it had originally planned. Kraft was successful in reducing its receipts by a substantial amount. This, of course, reduced its inventory level below its August 1990 projection.

However, the drop in consumer demand was far larger than the reduction in inventory Kraft was able to achieve by cutting back receipts. So Kraft was still very long and had an urgent need to sell the excess. Kraft sold whatever it could off the Exchange -- tens of millions of pounds -- but was unable to sell all its excess that way. It then sold 14 million pounds on the Exchange.

By simplistically comparing Kraft's projected inventory with its actual inventory a year later, the report draws a false and misleading conclusion. Just because Kraft's actual inventory was below what it first thought it might be does not mean Kraft was short of cheese. As the events of 1991 played out, Kraft was, indeed, faced with a significant excess of cheese. And like any good business, it had to deal with it as effectively as it could.

Another basic flaw in the report's inventory analysis is the fact that it is based on Kraft's total cheese inventory. Instead, it should have, for the purposes of this report, been focused only on the inventory of the specific form of cheddar cheese that is actually traded on the Exchange. Obviously, how much mozzarella, parmesan, or even aged cheddar Kraft may have had on hand has nothing to do with whether it was long or short on current cheddar cheese.

Aside from the flaws in the report's methods, there is even stronger proof that Kraft was, indeed, long when it was selling on the NCE. Throughout the entire 1988-1992 period, whenever Kraft was selling on the Exchange, it was almost always also selling excess inventories off the Exchange. And most of the time, it was selling more heavily off the Exchange than it was selling on the Exchange. Clearly, this was the behavior of a company with too much cheese.

### **Volume of Trading**

Another concern some people express is the amount Kraft sells on the Exchange compared to other members.

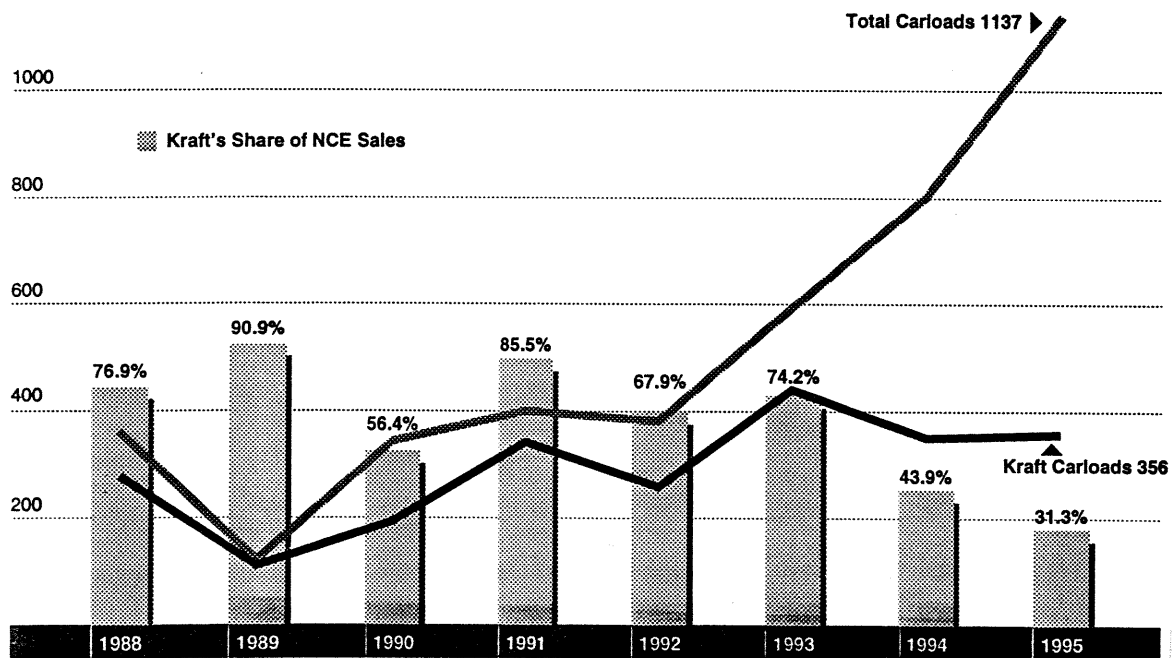
It is true that Kraft is primarily a seller on the NCE and that its sales accounted for a majority of Exchange sales from 1988 to 1992. Kraft makes no apology for that. However, it does object to the inferences some observers have tried to draw from these facts.

For example, critics like to point to Kraft's accounting for 70% of the cheese sold on the NCE between 1988 and 1992 as somehow ominous. But the actual volume of cheese -- in pounds -- that it traded on the Exchange was very small, only about 1% or 2% of all its cheese in a given year. For whatever reasons, other members chose not to sell very often. Their inactivity made Kraft's modest sales appear bigger, in percentage terms, than they really were.

So any notion that Kraft was flooding the Exchange with cheese just doesn't square with the facts -- especially since Kraft made more spot sales off the Exchange than on.

And regardless of the volume that Kraft sold, every time it made a sale on the Exchange, there was a willing buyer who agreed with the price. In fact, a large majority of the sales Kraft made were initiated by other members. Kraft simply agreed to sell at the price bid by another member, a price that was bid and accepted in the open and determined by nothing more than supply and demand.

#### NCE Sales Carloads



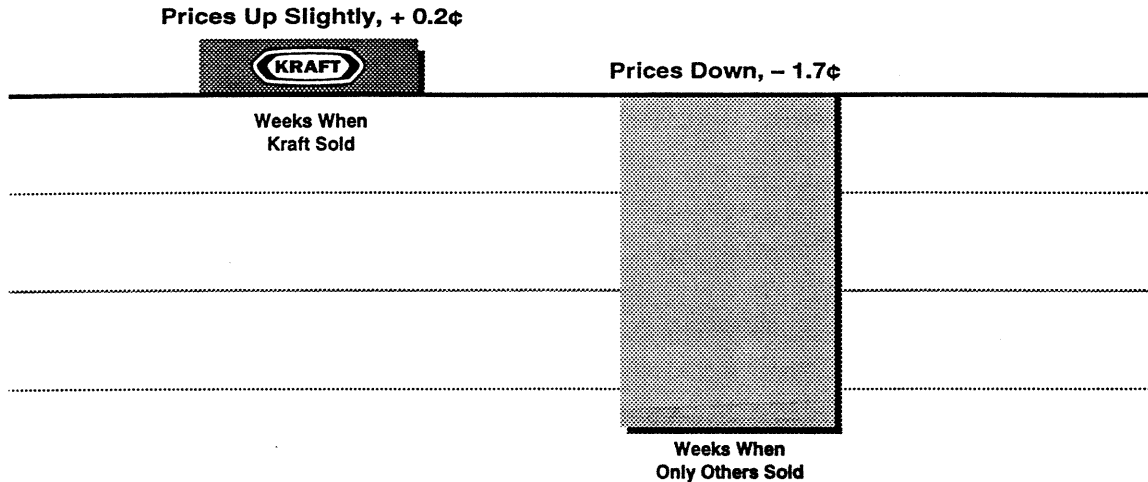
Note: Excludes aged cheddar and other styles of cheese

Since 1992, Kraft's volume of trading on the Exchange has stayed about the same. But, as the graph below shows, its share of sales has declined significantly, down to about 30% in 1995. Its percentage is down not because Kraft changed its practices or was ever selling in an unreasonable way before, but simply because other members have now become more active sellers.

### Changes in Cheese Prices

Another important fact to keep in mind is the relative effect Kraft's sales on the NCE had on cheese prices compared to other members. Over the 1988-1992 period, in weeks when Kraft was the only seller, the opinion actually increased an average of two-tenths of a cent. In weeks when other members sold along with Kraft, the opinion increased about three-tenths of a cent. But in weeks when Kraft did not sell and only other members sold, the opinion declined an average of about 1.7 cents.

#### Average Weekly Changes in NCE Barrel Cheese Prices January 1988 – December 1992



These numbers speak for themselves. Kraft's sales had far less effect on NCE prices than other members. The focus on Kraft's activities is clearly misplaced.

### Better Alternatives?

As confident as it is in the integrity of its trading and the NCE itself, Kraft has been and continues to be open to ways to improve the Exchange, including alternatives. Kraft is open to changes in NCE trading rules. Kraft is open to other pricing arrangements with its cheese suppliers. It is open to electronic marketing systems and to increased use of the futures market. Kraft itself worked with others to implement a futures market for dairy products as a way to help all dairy industry participants to better manage volatility.

Kraft's paramount objective is to build consumer demand for cheese and other dairy products. Kraft invests 17 times more than the next branded cheese processor in marketing programs to build demand. Kraft invests five times more than dairy producer organizations. The result is a cheese category that has been growing at better than 3% a year, to everyone's benefit. This compares with the fluid milk category where sales are flat because there is no national branded marketer spending to stimulate growth.

Kraft shares the same goal as everyone else, from the farm gate to the supermarket shelf -- and that's a healthy, profitable and growing dairy industry.

## **Recent Actions by Gov. Tommy G. Thompson regarding Dairy Pricing**

**Oct. 19, 1995:** Gov. Thompson sends letters to the House Budget Committee Chairman, Rep. John Kasich (R-Ohio) and the House Rules Committee Chairman, Rep. Gerald Solomon (R-N.Y.), urging them to work to change discriminatory dairy pricing policies.

**Oct. 19, 1995:** Gov. Thompson sends letters to the governors of Iowa, Ohio, Illinois, Indiana, South Dakota, North Dakota and Michigan, urging Midwest leaders to rally behind efforts to change discriminatory milk pricing policies.

**Nov. 8, 1995:** Gov. Thompson sends letters to House Speaker Newt Gingrich (R-Ga.) and Sen. David Pryor (D-Ark.) in support of marketing order reform and in opposition to the Northeast Interstate Dairy Compact.

**Nov. 8, 1995 and March 13, 1996:** Gov. Thompson sends letters to Sen. Bob Dole (R-Kan.) in support of marketing order reform and in opposition to the Northeast Dairy Compact.

**March 17, 1996:** The Thompson Administration's Department of Agriculture, Trade and Consumer Protection (DATCP) and University of Wisconsin-Madison, College of Agriculture and Life Sciences releases its report regarding the National Cheese Exchange. The investigation raised concerns about the National Cheese Exchange as a mechanism for determining bulk cheese prices. Copies of the report are sent to Wisconsin Department of Justice, United States Department of Justice, United States Department of Agriculture, the Federal Trade Commission, and the Commodities Future Trading Commission.

**May 31, 1996:** Gov. Thompson sends letters to U.S. Secretary of Agriculture Dan Glickman asking him not to authorize the Northeast Interstate Dairy Compact.

**May 30, 1996:** Gov. Thompson sends a letter to President Bill Clinton asking him to intervene with Secretary Glickman to stop the Northeast Interstate Dairy Compact.

**April 5, 1996:** Gov. Thompson appoints the Task Force on Cheese Pricing to facilitate a discussion among the stakeholders of the cheese pricing system and make recommendations to improve the current system for the benefit of the dairy industry and consumers.

**Nov. 1 and 13, 1996:** Gov. Thompson says the National Cheese Exchange should be removed as a determinant of milk pricing and sends letters to members of the Task Force on Cheese Pricing, urging them to include this as part of its recommendations.

## **Recent Actions regarding Dairy Pricing**

### **Page 2**

**Sept. 13, 1996:** DATCP and the Minnesota Department of Agriculture file an amicus brief in federal district court in Washington, D.C. in support of the Milk Industry Foundation's suit to overturn the Northeast Interstate Dairy Compact. Officials at DATCP drafted the brief.

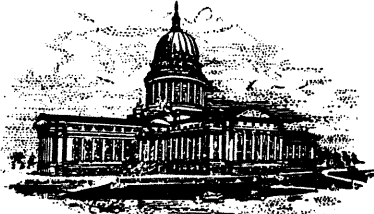
**Dec. 9, 1996:** Gov. Thompson writes letter to Secretary Glickman urging him to hold hearings in Wisconsin on milk pricing reform and to meet with him and a delegation of Wisconsin farmers on this important issue.

**Jan. 1, 1997** The Task Force on Cheese Pricing submits report to Gov. Thompson. Most significant recommendations are: USDA should not use the National Cheese Exchange in determining the basic formula price which is paid to farmers by processors and the Commodities Futures Trading Commission and Federal Trade Commission should regulate the National Cheese Exchange.

### ***Actions in the Immediate Future:***

**Feb. 1-4, 1997:** The governor has proposed to amend National Governors' Association policy to reflect these two recommendations.

**Feb. 4-5, 1997:** The governor will lead a farmers to Washington, D.C. to meet with USDA officials and the Congressional delegation.



# Wisconsin State Assembly

P.O. BOX 8952 • MADISON, WI 53708

January 29, 1997

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

Dear Secretary Glickman:

As members of the Wisconsin State Assembly Committee on Agriculture we respectfully ask that you listen earnestly to the farmers, farm organization representatives and government officials from Wisconsin whom you are meeting with in Washington, D.C. We beg your favorable reception to the proposals they are bringing forth to you and your Department.

Please pay particular attention to the farmers in the group. Farmers across Wisconsin have been faced with large decreases in their milk checks and many, if not all, cannot go another day in such a volatile market. We join them in urging expedient action to reform the current formula used to calculate the Basic Formula Price (BFP) for manufactured milk. It has been reported that you have indicated that you will not use the National Cheese Exchange (NCE) as a component of any milk price formula until public confidence in the market is restored. We urge you to follow through with this and replace the NCE price component in the BFP with a broader-based alternative.

In addition, as you consider more far-reaching dairy policy changes, we beg you to adopt regulations that are fair across all regions of the United States. Wisconsin has historically been at a disadvantage under federal dairy pricing programs and the time to rid our farmers of this unfairness is long overdue.

The agriculture industry in Wisconsin is of utmost importance to our economy as well as to our nation as we export a large quantity of our dairy products. Our farmers deserve a fair price for their products. It is truly a sad day in America when we have to witness the dumping of perfectly good milk as a gesture to let the government know how bad the situation is.

Thank you in advance for your time and consideration of these matters.

Sincerely,

Al Ott  
State Representative  
3<sup>rd</sup> Assembly District

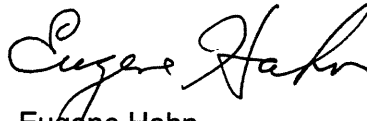
Barbara Gronemus  
State Representative  
91<sup>st</sup> Assembly District

Tom Sykora  
State Representative  
67<sup>th</sup> Assembly District

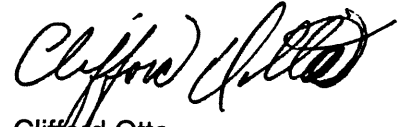




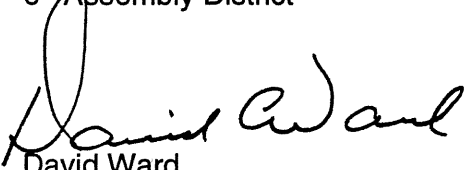
John Ainsworth  
State Representative  
6<sup>th</sup> Assembly District



Eugene Hahn  
State Representative  
47<sup>th</sup> Assembly District



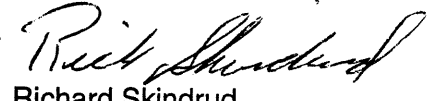
Clifford Otte  
State Representative  
27<sup>th</sup> Assembly District



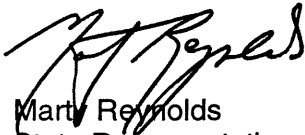
David Ward  
State Representative  
37<sup>th</sup> Assembly District



Robert Zukowski  
State Representative  
69<sup>th</sup> Assembly District



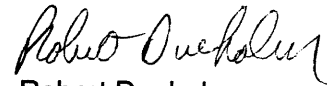
Richard Skindrud  
State Representative  
79<sup>th</sup> Assembly District



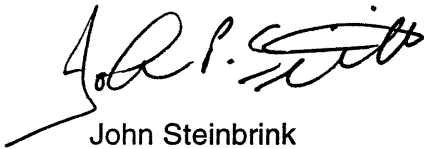
Marty Reynolds  
State Representative  
87<sup>th</sup> Assembly District



Tom Springer  
State Representative  
86<sup>th</sup> Assembly District



Robert Dueholm  
State Representative  
28<sup>th</sup> Assembly District



John Steinbrink  
State Representative  
65<sup>th</sup> Assembly District



Joe Plouff  
State Representative  
29<sup>th</sup> Assembly District

cc: Members of the Wisconsin Congressional Delegation

# **C S C E D A I R Y F U T U R E S & O P T I O N S**

**milk • cheddar cheese • nonfat dry milk • butter**

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USDA Economic Research Service

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Dairy Industry Associations

Independent Research Services

### **USDA Publications**

*Dairy Market News*

*Dairy Products*

*Agricultural Prices*

*Milk Production*

*Dairy Situation and Outlook*

*The Federal Milk Marketing Order Program*

*Questions and Answers on Federal Milk Marketing Orders*

### **Additional Reading**

Bibliography

Note: Information contained in this package was compiled as of November 22, 1995 and will continue to be updated. Updates will be forwarded to you as soon as they are available.

# **C S C E   D A I R Y   F U T U R E S   &   O P T I O N S**

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## **Dairy Industry Associations** (Page 1 of 2)

### **ALLIANCE OF WESTERN MILK PRODUCERS**

980 Ninth Street, 16th Floor  
Sacramento, CA 95814-2736

James E. Tillison  
Executive Director  
(916)-449-9941

### **AMERICAN BAKERS ASSOCIATION**

1350 I Street, N.W., Suite 1290  
Washington, DC 20005

Paul C. Abenante  
President  
(202) 789-0300

### **AMERICAN BUTTER INSTITUTE**

1250 H Street N.W., Suite 900  
Washington, DC 20005

Jerome J. Kozak  
Executive Director  
(202) 737-4332

### **AMERICAN DAIRY PRODUCTS INSTITUTE**

130 North Franklin Street  
Chicago, IL 60606

Warren S. Clark, Jr.  
Chief Executive Officer  
(312) 782-4888

### **DAIRY INSTITUTE OF CALIFORNIA**

1127 11th Street  
Suite 718

Sacramento, CA 95814  
Craig Alexander  
Executive Director  
(916) 441-6921

### **INTERNATIONAL DAIRY FOODS ASSOCIATION**

Milk Industry Foundation  
National Cheese Institute  
International Ice Cream Association  
1250 H Street N.W.

Suite 900  
Washington, DC 20005  
E. Linwood Tipton  
Executive Director  
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## **Dairy Industry Associations (Page 2 of 2)**

### **NATIONAL MILK PRODUCERS FEDERATION**

1840 Wilson Blvd.  
Arlington, VA 22201  
James C. Barr  
Chief Executive Officer  
(703) 243-6111

### **NEW YORK STATE DAIRY FOODS, INC.**

201 S. Main Street, Suite 302  
N. Syracuse, NY 13212  
Bruce W. Krupke  
Executive Vice President  
(315) 452-6455

### **WISCONSIN CHEESE MAKERS ASSOCIATION**

P.O. Box 2133  
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John Umhoefer  
Executive Director  
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Don Ault

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Fayetteville, NY 13066

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Bob L. Hall

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Tulare, CA 93274

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Jim Grueble

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Bernard Horton

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David Holloway

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## **USDA Publications**

To order a copy of  
*Dairy: Background for 1995 Farm Legislation*  
call 1-800-999-6779

or, write to:  
ERS-NASS  
341 Victory Drive  
Herndon, VA 22070

Cost is \$9 per copy

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Sara Short  
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Washington, DC 20005-4788  
(202) 219-0769

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## Information Sources

### United States Department of Agriculture

Economic Research Service  
1301 New York Avenue N.W.  
Washington, DC 20005  
(202) 219-0770

Contact: Jim Miller, Sara Short

### National Agricultural Statistics Service

USDA South Building  
Washington, DC 20250  
(202) 720-4448

Contact: Kevin Hintzman

## Trade Reports and Industry News Publications

### *Agri-News*

5792 Alpine Road  
Brooklyn, WI 53521  
(608) 455-1706

*Cheese Market News*  
P.O. Box 620244  
Middleton, WI 53562  
(608) 833-2020

*The Cheese Reporter*  
4210 E. Washington Avenue  
Madison, WI 53704  
(608) 246-8430

*Dairy Field*  
1935 Shermer Rd.  
Suite 100  
Northbrook, IL 60062  
(708) 205-5660

*Dairy Foods*  
455 N. Cityfront Plaza Drive  
Chicago, IL 60611  
(708) 635-8800

*Dairy Herd Management*  
10901 West 84th Terrace  
Shawnee Mission, KS 66201  
(913) 438-8700

### *Dairy Market News (USDA)*

2811 Agriculture Drive  
P.O. Box 8911  
Madison, WI 53708-8911  
(608) 224-5080

*"Dairy Outlook" Newsletter*  
c/o Ken Bailey  
University of Missouri System  
233 Mumford Hall  
Columbia, MO 65211  
(314) 882-6533

*Dairy Profit Weekly*  
DPW Publishing, Inc.  
1938 Jefferson Street  
St. Paul, MN 55105-0885  
(612) 699-8071

*Dairy Today*  
141 East Broadway #7  
Monticello, MN 55362  
(612) 271-3366

*Hoard's Dairyman*  
28 West Milwaukee Avenue  
Ft. Atkinson, WI 55538  
(414) 563-5551

*Milling & Baking News*  
4800 Main Street, Suite 100  
Kansas City, MO 64112  
(816) 756-1000

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# C S C E D A I R Y F U T U R E S & O P T I O N S

## GLOSSARY OF TERMS

*Agricultural Marketing Service (AMS).* A USDA agency responsible for administering marketing order programs, standardization, inspection and grading programs, market news programs, and research and promotion programs.

*Balancing.* A service, usually provided by cooperative associations of milk producers, to tailor the milk supplied to each handler in a market to that handler's needs. It involves directing milk movements between producers' farms and handlers' plants and diverting supplies in excess of handlers' needs to alternative outlets such as manufactured dairy product plants.

*Basic Formula Price (former M-W price).* A monthly average price per cwt paid by plants for manufacturing grade milk in Minnesota and Wisconsin as estimated by NASS.

*Blend price.* A weighted average price based on the proportion of Grade A milk in a pool allocated to each of the use classes. Producers participating in a pool receive its blend price with adjustments for butterfat content and farm location if so specified.

*Class I differential.* The amount added to the basic formula price to obtain a given order's Class I price. Two components usually make up the effective or total Class I differential: a minimum Federal order differential and an over-order payment.

*Class I use.* Grade A milk used in Class I milk products as defined under a milk marketing order. Class I products generally include all beverage milks and may include other fluid products.

*Class II use.* Grade A milk used in fluid cream products or perishable manufactured products (ice cream, cottage cheese, and yogurt) under Federal marketing orders with three classes.

*Class III use.* Grade A milk used to produce storable manufactured products (cheese, butter, canned milk, and dry milk) under a Federal marketing order with three classes.

*Class III-A use.* Grade A milk used to produce nonfat dry milk under Federal milk marketing orders where the class has been established.

*Classified pricing.* A structure of prices that differ according to category of use. In particular, the Federal order pricing system under which regulated processors pay for Grade A milk according to the class in which it is used.

*Commodity Credit Corporation (CCC).* A federally owned and operated corporation within USDA created to stabilize, support, and protect farm income and prices through loans, purchases, payments, and other operations.

*Consolidated Farm Service Agency (CFSA).* A USDA agency responsible for administering farm price support and income support programs and some conservation and forestry cost-sharing programs.

*Cooperative.* A firm that is owned by its farmer-members, is operated for their benefit, and distributes earnings on the basis of patronage (volume of milk).

*Cost of production.* An amount, measured in dollars, of all purchased inputs, allowances for operator labor and management, and rent that is necessary to produce farm products.

*Economies of size.* Increasing returns as use of factors is expanded in least-cost combinations. Once an operation reaches a certain size, the marginal cost of producing additional output begins to decline.

**Equalization pool.** With a classified pricing system such as that used in Federal and State orders, processors pay for milk at different prices for each use category. Producers are paid a weighted average, or "blend" price for all uses of milk in a particular order or market. Processors pay into or draw out of the pool on the basis of their utilization of milk relative to market average utilization. Producers participating in the pool receive identical uniform blend prices, with adjustments for butterfat content and location. In markets with multiple component pricing, adjustments are also made for protein or nonfat solids content.

**Farm act.** The omnibus agricultural legislation that expires every 4 or 5 years. The act's titles include program commodities, trade, conservation, credit, agricultural research, food stamps, and marketing.

**Federal milk marketing order.** A regulation issued by the Secretary of Agriculture specifying minimum prices and conditions under which regulated milk handlers must operate within a specified geographic area.

**Fluid grade (Grade A) milk.** Milk produced under sanitary conditions that qualify it for fluid consumption. Only Grade A milk is regulated under Federal marketing orders.

**Fluid product.** Packaged dairy products traditionally including beverage milks, milk and cream mixtures, cream, eggnog, and yogurt.

**Fluid utilization.** The proportion of Grade A milk pooled in a market and used to produce fluid (Class I) products.

**Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624).** The omnibus food and agricultural legislation signed into law on November 28, 1990, that provides a 5-year framework for the Secretary of Agriculture to administer various agriculture and food programs.

**Handlers.** Generally refers to fluid milk processors but can include manufacturing plants that also supply fluid markets.

**Make allowance.** The difference between the government support price for milk and the value of its products at the CCC-announced purchase prices for butter, nonfat dry milk, and cheese. The allowance is administratively set to attain the desired level of prices for milk in manufacturing uses.

**Manufacturing grade (Grade B) milk.** Milk not meeting the fluid grade standards. Less stringent standards generally apply.

**Manufacturing milk.** Grade B milk or the Grade A milk assigned to Class II and Class III or otherwise used in the production of a manufactured product.

**Manufacturers.** Generally refers to the producers of cheese, butter, nonfat dry milk, and other storable dry products.

**Milk equivalent.** The amount of farm milk represented by a quantity of dairy products. Most often used to aggregate stocks, trade, or removals of various dairy products on a common basis, either milkfat or skim solids. Milkfat basis refers to the quantity of milk needed to provide the milkfat contained in the dairy products. Similarly, skim solids basis refers to the milk needed to provide the skim solids used in production. Total solids basis is an arbitrary weighting of net removals on the two bases used for adjusting the support price for milk. The weights currently are 40 percent milkfat basis and 60 percent skim solids basis.

**Over-order payment.** A payment above Federal order minimum prices negotiated between buyers and sellers to cover the cost of providing market services or attracting milk away from manufacturing plants. Over-order payments could also result from market power.

**Parity price.** Originally defined as the price which gives a unit of a commodity the same purchasing power today as it had in a base period, traditionally 1910-14. In 1948, parity procedures were modified to adjust for changes in relative farm prices between the base period and the most recent 10 years.

**Perishable manufactured dairy products.** Manufactured dairy products with limited storage life, including ice cream, cottage cheese, yogurt, and sour cream.

**Processors.** Generally refers to firms that process raw Grade A milk into fluid dairy products.

*Public Law 480 (P.L.480)* Common name for the Agricultural Trade Development and Assistance Act of 1954, which seeks to expand foreign markets for U.S. agricultural products, combat hunger, and encourage economic development in developing countries.

*rbST (recombinant bovine somatotropin)*. A synthesized copy of a protein hormone, bovine somatotropin (bST), which naturally occurs in cattle: The hormone is secreted by the cow's pituitary gland and directs how energy and nutrients from feeds are used for growth, milk production, and other body functions. Initially studies of the hormone emphasized its relation to growth and led to it being called bovine growth hormone (bGH), a name that is still sometimes used.

*Reconstituted milk*. Fluid milk recombined from ingredients (nonfat dry milk, condensed milk, cream, butter, and butter oil) or concentrated milk.

*Section 22*. A section of the Agricultural Adjustment Act of 1933 (P.L.73-10) that authorizes the President to restrict imports by imposing quotas or fees if the imports interfere with Federal price support programs or substantially reduce U.S. production of products processed from farm commodities.

*Storable manufactured dairy products*. Manufactured dairy products, including butter, nonfat dry milk, and hard cheeses, which can be stored for relatively long periods of time.

*Surplus*. The difference between commercial milk supplies and the amount demanded by the market at a given price. CCC net removals (price-support purchases plus DEIP shipments minus domestic sales for unrestricted use) approximate the surplus during a particular period.