

Chicago Mercantile Probed Over Cheese Price-Fixing

Friday, August 18, 2006 --- U.S. regulators have taken a closer look at the daily cheddar cheese auction at the Chicago Mercantile Exchange for alleged price-fixing in the cheese market.

The Commodity Futures Trading Commission investigation, which has been underway for nearly a year, stemmed from allegations made by farmers groups that the big cheeses in the industry, including the Dairy Farmers of America, the country's biggest dairy cooperative and the food company Kraft Foods Inc., are setting prices at the auction, according to industry insiders.

The groups have complained that the price-fixing at the cheese auction also affects prices for milk sold by farmers throughout the U.S.

The CFTC has been investigating the Dairy Farmers of America, which buys the cheese, and an independent trader of milk futures and cheese at the CME, according to John Bunting, who serves on the dairy subcommittee for the National Family Farm Coalition.

About 12 traders of bulk cheddar participate in the auction, and the Dairy Farmers of America, Kraft and other large food groups are the most frequent traders.

"The Dairy Farmers of America is a powerful player, and it is basically exerting undue power against all other players. It is the only show in town, and that allows them to put undue pressure on farmers, co-ops and processors," Bunting said.

Bunting said the industry is hindered by having a handful of buyers with a "follow-the-leader" mentality and has created a very thin market.

"The first thing that needs to happen is transparency. There is insider information and insider control in the dairy industry. The industry needs to get to the point where all the cards are on table. Also, regulators need to [revisit] exemptions of cooperatives from antitrust actions," Bunting said.

The CFTC did not confirm or deny the investigation, and the CME declined to comment on whether the CFTC investigation was taking place.

The majority of cheese in the U.S. is sold under long-term contracts between individual cheese makers, including farmer-owned cooperatives and companies that convert commodity cheese into retail and food products, according to Annica Johansson, a Kraft representative.

“We use the CME, as it is the only active exchange that has a cash market for cheese and the only exchange available for daily cheese transactions,” she said. “Kraft has confidence in the CME and the markets that trade there.”

Farmers groups have grown concerned that cheese prices set at the CME auction are also affected by U.S. government calculations that set a minimum price that farmers are paid for milk.

The Federal Milk Marketing Order, which was established in the 1930s during the Depression to help farmers and give a boost to sinking farm incomes, influences what prices consumers pay on milk and other dairy products.

From January to May, milk production increased more than 4% compared to last year, which has led to lower-than-average prices for dairy commodities this year, according to Johansson.

U.S. senators have also jumped into the cheese fray. Last month, six senators, including Hillary Rodham Clinton (D-NY), requested the Government Accountability Office investigate the cash cheese market at the CME and its activities in federal milk pricing.

The senators were concerned that the thin market for cheese may be prone to price manipulation. Other senators who endorsed a GAO review include Arlen Specter (R-Penn.) and Russ Feingold (D-Wis).

The GAO said it was planning to investigate the cheese market and that it would look into regulatory oversight of the CME’s cheese auction.

Bunting also said the Department of Justice is looking into corruption in the dairy market.

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