

We must fairly price cheese/cheese milk

Discontent reigns over both USDA and California pricing systems for milk made into cheese. Cheese must be our milk-pricing basis. Half of all U.S. farm milk goes into the cheese vat. Think about it: scientists can clone cows and sex semen, but dairy can't equitably price cheese milk to keep producers and cheese plants financially viable.

Powerful firms are banking mega-bucks, thanks to current cheese and milk pricing systems. And federal/state milk orders let certain co-ops steal enough money to cover their inefficiencies. The "big boys" don't want to change these systems.

Make-allowances just current flash-point

Recent USDA and California Department of Food and Agriculture decisions on "make-allowances" leave many parties mad. "Make-allowances" are subsidies for cheese and butter-powder plants, paid out of producers' monthly revenue pools, before monthly blend prices are figured. This scenario is like the old Ray Charles' song, "Busted," where the singer goes to his brother to borrow money, and the brother replies, "I was just thinkin' 'bout callin' on you, 'cause I'm busted." Expecting dairy farmers to subsidize cheese and butter-powder plant operating costs, in these times, is brain-dead. There's lots of cheese money in the market place. It's counterproductive for dairy producers and plants (low-enders on the food chain) to fight each other for crumbs.

"Make-allowances" are a symptom, not the disease. But that symptom may kill federal milk orders. Dissatisfaction—by producers and cheese plants—is massive and growing, especially in the Upper Midwest. Dairy's pricing systems are key elements helping deny producers and cheese plants the chance to make an honest buck.

Gotta be a better way to price cheese milk ...

Let's throw out a few cheese-pricing truths, for what they're worth. In this milk pricing existence, or the next, maybe some folks will do better.

*The money IS in the marketplace. Tracking back from the supermarket, it's clear the money is in the marketplace: combined average retail Cheddar prices, plus whey values, show \$40-\$45/cwt. worth of gross revenue generated from the end-sale of 100 lbs. of milk processed into cheese. And dairy farmers are supposed to survive, in these times, on \$11-12/cwt. milk for cheese? A \$16-18/cwt. farm price is bare bones for cheese milk, the way costs (feed, fuel, fertilizer & interest) are going. Producers are tired of talk about "survival." They want an honest shot at prosperity, or to heck with milking cows.

*USDA/CDFR pricing formulas are too rigid. Classified pricing for raw milk is so dependent upon weekly and monthly formulas that the whole pricing system leaves nothing for the cheese plant. All plant costs move directly with commodity costs, leaving nothing for marketplace vigor. Also, you can make a solid case that Chicago Mercantile Exchange (CME) cash cheese markets are manipulated based upon timing of monthly federal/state surveys used for dairy pricing.

*In my opinion, cheese milk should be priced nearly the same as Class I (fluid) milk. The net resource—\$40-\$45/cwt., when tracked back from the supermarket—are almost the same. Let Class I buyers cover additional costs for balancing, through premiums.

*Dairy farmers should not be expected to pay any subsidies for manufacturing plant costs.

*Cheese plants should not be mandated to pay one cent to producers for the value of whey. Whey is a back-end value, extracted at significant fixed end costs. Asking cheese plants to pay producers for whey is like asking dairy farmers to pay the feed company a credit towards the value of the manure produced by the farmers' cows. Throw out both "make-allowances" and whey charges—it's close to

a wash and would instill more vigor in whey product development.

*Inventory losses by cheese plants/cheese marketers have been a great source of financial loss. Nobody likes to talk about the "whupping" they've taken on inventories. Most of the last six or seven calendar years have seen a collapse of cheese prices during the fall. Result: huge inventory value erosion for firms holding cheese during the traditional peak-demand season. These repeated fall cheese-price collapses have cannibalized a lot of equity for cheese plants and marketers (prime example: Agri-Mark's wobbling Cabot subsidiary). I'd argue that such seasonally collapsing cheese inventory values have drained as much money out of cheese plants as any alleged inequities in "make-allowances." What better way for a cheese-buying giant, such as Kraft Foods, to depress product costs during peak sales, than to ratchet down the price of Cheddar cheese at the Chicago Mercantile Exchange (CME)?

*AHA! Now we've reached the vultures' nest: CME. Every major agricultural industry needs an H-O-N-E-S-T cash market. Yes ... CME is THE cash market, but not honest. CME cash dairy markets are manipulated, up and down at different times, by different parties exploring their own agenda. The "biggest" interest served is Kraft Foods', a firm with a long history cheese price manipulation at exchanges.

We need an H-O-N-E-S-T dairy cash market. Until dairy has an honest cash market, all other efforts to fairly value farm milk, to the farmer and the processor, will be flawed, because our basis is flawed. "Perfect milk prices, every month" is an impossibility. But fair, market-derived prices over time are vital.

*Dishonesty reigns at CME's dairy cash markets and futures/options.

—I have a September 2000 tape of Gary Hanman (Dairy Farmers of America's former chief thug) bragging how DFA drove up farm milk prices by buying cheese at CME. (Trouble was: DFA didn't pay for hundreds of loads of CME Cheddar—a violation of CME rules. When confronted, DFA paid up, but quit buying. CME cheese prices then collapsed.) I filed a formal complaint to the Commodities Futures Trading Commission. CFTC took no action, although the agency did say it was unusual for the complaining party to include an audio tape detailing the miscreants' alleged misdeed!

—One scurrilous cheese industry figure drove up CME Cheddar prices in late November 2004 and late January 2005, taking advantage of low inventories to boost cash market prices. That individual was heavily vested in Class III "futures" (gambling). He made so much money "gaming" the cash markets vs. his upside Class III "futures" position, that he later bragged of building an \$8 million house (in Minnesota) and had \$20 million left over! (Note: CFTC launched a CME dairy cash market investigation in early 2006 and is on to this guy, for what that's worth.)

—October 2001 (post 9/11) was the biggest spoof at CME. That month, CME block Cheddar prices fell 50-cents per pound—at that time, the single biggest monthly CME Cheddar price decline. "Word" was that Americans had suddenly quit buying cheese. That was false. That month, USDA's "Cold Storage" report found 50 million lbs. of Cheddar had moved out of warehouses—the single biggest monthly inventory decline in history. How can the cheese industry have honestly witnessed the biggest CME block Cheddar price decline, and the single biggest warehouse inventory outflow, in the same month? Certainly not an honest cash market at work.

Get the picture? The above examples are some of the reasons why we label CME a crooked marketplace. Cash dairy markets are manipulated. Dairy futures and options are rigged. Dairy's pricing basis—a cheese-based cash market—is severely flawed.



Pete Hardin

Kiss this industry's nucleus good-bye, unless ...

Equitable dairy pricing ... for dairy producers and cheese plant operators ... is critical for a financially healthy basis. Nothing else will sustain the productive capacity of the U.S. dairy industry and allow our dairy farmers to supply adequate volumes of milk and dairy products. Kiss many needed parties in this industry good-bye, unless ...

—We achieve a fair cash dairy market, and fair federal/state pricing systems to allocate market resources to producers and processors.

—Dairy producers gain a "fair share" of the consumer price paid for cheese.

—Conventional dairy producers can cover their legitimate costs, plus profit.

—Cheese plants' raw milk costs give them a fair shot at a profit.

—Raw milk marketing agencies turn into tools of profit, not loss, for the farmer.

—Government enforcement of dairy is conducted fairly. CFTC has failed to regulate CME. Antitrust enforcement by the DOJ is a joke. USDA has failed to fairly oversee federal milk orders. Perhaps worst of all, the federal Food and Drug Administration has made a joke out of enforcing food standards and safety rules. Imported yogurt from China and India entering the U.S.? Imports of dairy and meat products from nations infested with Foot and Mouth Disease outbreaks! Lord, spare us.

How do we fairly value cheese and the farm milk from which it is produced? That's a challenge which will make or break today's U.S. dairy industry. I suspect we'll spend some interim time wandering in the "wilderness" (unregulated chaos), before better cheese pricing can be achieved. And in that chaotic period of no rules, watch Kraft Foods push hard for "fixed-price contracts" for dairy farmers—a solution that will barely keep producers' noses above water. Producers' ignorance about dairy pricing and marketing—especially what is being done by some of their own organizations—is a killer.

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