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HEADLINE: 'Big dairy' is milking cheese prices, say US small farmers: The daily cheddar auction in Chicago affects incomes across America and smallholders say the system stinks. Jeremy Grant reports

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BODY:

Every morning, about 30 people gather in a corner of the Chicago Mercantile Exchange to conduct one of the world's most unusual auctions: buying and selling cheddar cheese.

Traders with telephones pressed to their ears shout orders to two men standing in front of a white board, on which they mark up bids and offers. The session is the only one of its kind in the US and probably one of the shortest commodity auctions, never lasting more than 15 minutes.

Cheese trading has carried on largely unnoticed for years, but this week it has become an unexpectedly public battleground in the struggle between small farmers and "big dairy" multinationals.

A coalition of farmers and consumer groups gathered outside the exchange on Monday, many dressed in cow suits, to protest against alleged price manipulation on the market. Their targets were dairy co-operatives such as the Dairy Farmers of America, the largest grouping in the country's second biggest agricultural sector, and multinational food companies such as Kraft Foods.

Paul Rozwadowski, a Wisconsin dairy farmer and chairman of the National Family Farm Coalition's dairy sub-committee, says: "We want government to oversee what's going on at the CME - a handful of dairy traders who manipulate commodity prices to their advantage."

The CME, Kraft and the DFA deny the allegations. "Many businesses with very different interests - manufacturers, sellers and brokers - participate in the market," says Kraft.

Like other participants, Kraft uses the exchange when it cannot meet its needs for ingredients used in its Di Giorno frozen pizzas and Philadelphia cream cheese from other sources.

At the root of the protesters' complaint is a suspicion that the cheese market is a tool by which "big dairy" and food companies are not only setting prices at levels that suit them, but generating price volatility - making it impossible for smaller farmers to operate.

The protesters have focused on the exchange because its cheese market, despite its low public profile, has, through nothing more than custom, become a benchmark for setting prices for farmers. Under a system known as the Federal Milk Marketing Order, in place since the 1930s, the US government calculates monthly the minimum price that should be paid to dairy farmers for their raw milk. The cheese price is a factor in those calculations.

Joe Logan, president of the Ohio Farmers Union, says trading on the exchange represents just a fraction of 1 per cent of US commercial cheese transactions, yet has an influence "far beyond that".

"We are trying to shed light on the fact that the CME is an extremely thin market without any transparency and (without) any significant oversight that has a tremendous impact on dairy prices nationally and globally."

He argues that, because the dairy industry has become increasingly consolidated, factors other than the cheese price, such as average production costs, should be used to set dairy prices instead.

He is approaching the justice department to ask for hearings under the Federal Trade Commission. "In a situation where the market has consolidated so that the conventional dynamics of competition are no longer functional, we need to create another system," he says.

Ed Jesse, dairy economist at the University of Wisconsin-Madison, agrees that the cheese price has undue influence on national dairy prices. "What you've got is the flea in the tail of the dog wagging the dog," he says.

The NFFC and others have called for stricter surveillance of the cheese market, and for the Chicago exchange to publish who is behind trades. The CME is considering that request.

But cheese traders say the government's system, not their market, is to blame. "If the farmers have a complaint, they have a complaint with the government, not us," says Erik Andersen, a cheese and milk futures trader.

Mr Jesse says he has "never been a fan" of the system and that there is "no doubt that the smaller dairy farmer is being squeezed".

Government figures show that US milk production generated by farms with 100 cattle or less fell to 22 per cent last year, from 45 per cent in 1993. By contrast, the largest farms, with more than 2,000 cattle, accounted for 20 per cent of US milk production last year, up from only 8 per cent in 1993.

No matter what the outcome of small farmers' efforts to pursue the issue, attention could focus increasingly on the government's antiquated system. Asked whether the marketing order system was still an appropriate way to set milk prices, the US Department of Agriculture, which administers the process, said: "We will not be answering that question."