



A coalition of grassroots dairy producers actively participating, with a unified voice, on policies and issues affecting milk pricing.

**DPAC** Dairy Policy Action Coalition

890 N. Reading Rd., Ephrata, PA 17522 • Toll Free: 800.422.8335 • [www.DPAC.net](http://www.DPAC.net)

## DPAC's Cornerstones for Change

**PROBLEM:** The farm-gate milk price is indirectly set by less than 1% of cheddar cheese trade and less than 2% of butter trade on the Chicago Mercantile Exchange (CME). The USDA NASS Survey captures these prices and introduces a 4 to 6 week time lag. The University of Wisconsin and FAPRI economists observe further that the NASS Survey also no longer reflects broad supply and demand factors as it only covers 20 to 40% of the cheese.

**SOLUTIONS:** 1) Improve market transparency—dilute CME influence.

- Implement Mandatory **DAILY** electronic reporting of product prices/volumes (Section 1510 of 2007 Farm Bill)  
*\*This is supported by American Farm Bureau policy and has been adopted in the resolutions of many state and regional dairy producer organizations and cooperatives)*
- Audit price reporting on a **QUARTERLY** basis. (per Section 1510 of the current Farm Bill)
- Establish mandatory inventory reporting, with **AUDITING**.

2) Expand price discovery—reflect broad supply/demand factors.

*\*Both items below are supported by the American Farm Bureau National Policy for 2011*

- Expand the list of plants required to do mandatory price reporting.
- Add more dairy products to the list of products reported.
  - Current NASS reporting is limited to cheddar, butter, nonfat dry milk, whey; cheddar is the driver and is pegged to 0.4% of product traded on CME.
  - Italian cheeses (mainly mozzarella), are a fast growing production sector that has surpassed American style cheddar and colby, but prices are not currently reported.
  - Yogurt and other soft products are also fast-growing value centers that are not reported.

**PROBLEM:** The federal milk pricing system is broken. Dairy markets today are three-pronged:

**1) global, 2) national, and 3) regional.** The complex and cumbersome federal milk pricing system is failing both producers and consumers because it: 1) inhibits free enterprise and innovation to be a consistent supplier in the world market; 2) facilitates the concentration of market power; 3) creates complicated order hearing processes that have created such regional issues as the example of Southeastern dairy producers, who are, "in effect," subsidizing the cost to transport supplemental milk from other regions to their deficit market. The current system of pricing was developed before global marketing was an issue.

**SOLUTIONS:** Simplify the milk pricing system.

- 1) **Simplify 4 milk classes to 2.**
- 2) Establish **competitive** pay pricing and move away from end-product-pricing formulas that "pigeon-hole" the milk.
- 3) Adopt a federal pricing system that **encourages movement of milk to its highest value use.**
- 4) Adopt federal dairy policies that **encourage competition, product innovation, and market development.**

**PROBLEM:** The federal milk pricing system places all the price risk on producers, and yet producers have no say in how those prices are fixed nor any redress for mistakes.

**SOLUTIONS:** Redistribute price risk:

- 1) **Eliminate the Dairy Product Price Support Program and the guaranteed processor "make allowances."**
- 2) Adopt federal pricing policies that **encourage competitive market-based manufacturing decisions and market development** to be a consistent supplier of dairy products in world markets.
- 3) **Reject the continual process of patching and re-patching the pricing system.**
- 4) Move the federal milk pricing methods in a direction that **reflects the global realities of the 21st century** and passes more value from the marketplace back to producers.
- 5) Promote the development of marketing models around the concept of "producing for a market" as a means of **sharing price risk, achieving a price into the future, and managing milk production.**
- 6) Continue risk management tools like LGM-Dairy, which is a good margin insurance tool and now is partially subsidized. **But, margin insurance should be a voluntary tool, not a solution for a broken pricing system.**