

**Transcript of comments presented  
by *Dennis C Wolff*  
for Dairy Policy Action Coalition (DPAC)  
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I've thought about dairy price discovery for a longer period of time than when I was Secretary of Agriculture in Pennsylvania, and now representing DPAC, because I have spent my entire adult life as a dairy farmer, and I still am.

In the past six or seven years—in the various roundtable dairy discussions that we held—whether it was through the Department of Agriculture or through the DPAC organization representing several thousand dairy producers today—market transparency and price discovery easily floated to the top every time we were talking about how we may be able to reform federal dairy policy and pricing.

We really think it's the cornerstone of any changes that happen, going forward in federal dairy policy reform.

We think we need to do that by diluting the influence of the CME (Chicago Mercantile Exchange). We need the CME—that's a given—with the futures market and also having a place to go to market your crop. But we think for the small volume of dairy product that is traded on this exchange, it has way too much impact.

When you look at the fact that 0.4% of the cheese processed in the United States is being marketed on the CME, or less than 2% (1.7%) of the butter, and yet it is having this large of an impact on setting the price for a \$30-40 billion dollar industry and what the farms receive in their milk prices... That is concerning.

We do not think that it necessarily reflects current market conditions, and we do not think that it accurately reflects supply and demand. It is often used as a market of last resort, and of course as was mentioned earlier on this panel, a very small amount of the product is traded there.

To dilute this impact, we think there is one specific way that you can do that: Daily electronic reporting. Congress recognized this when they were writing the last Farm Bill, and they wrote in Section 1510, which states more frequent basis (compared with the

weekly NASS Survey) shall be implemented by the Secretary of Agriculture—and then the words: *pending funding*.

So, we've been working on that in terms of trying to move the funding forward. We have circulated letters in both the House and Senate and sent them to Sen. Kohl and Congresswoman DeLauro—the chairs of the Senate and House ag appropriations subcommittees—to see that the funding is included in the current appropriations bill for FY 2011. The cost is \$600,000 annually (mainly for the quarterly auditing) and \$400,000 to put it in place.

So why do we need that? The NASS Survey is important information and it's good information, but if you use a real life example: It's yesterday, July 24, and I'm going to negotiate a price. Let's say I'm a cheese manufacturer, and I'm pricing my cheese. The only information I have is from the CME or the NASS Survey, but the information from the NASS Survey would be from June 7 to 11—starting back 17 days ago. So how do you get to the current market for the product?

Electronic reporting on a daily basis takes that lag away. The pork industry and the beef industry have daily electronic reporting, and it's released more than once a day (twice/day). That's very important in terms of making sure that we have accurate reporting and timely reporting, every day, and to build from that to include more products—all manufactured products—not just the four products that are currently used in the NASS Survey (cheddar, butter, nonfat dry milk and whey).

With this, you certainly start to get much closer to having better price discovery and that's what our dairy farmers want. They do not trust the way that it is currently being handled, primarily due to how thinly the CME is traded, as was mentioned earlier.

If two buyers have been responsible for buying 74% of the products over the last 10 years, you just hope they haven't had coffee together that morning when they go to make their decisions on what they're buying and what they're paying.

I would just like to read one statement here and then make a few comments on it. The statement goes like this:

*“This reform brings 100% transparency to the market with real-time reporting. They will no longer be able to make excessive profits by operating in the dark. Exposing these markets to the light of day will put the money where it belongs.”*

Now, I'm not talking about the CME, I'm talking about the first bullet point that was written on a section by section analysis of House Resolution 4173 that passed out of conference committee late last night (June 24). This comment about financial market reform, as it relates to the derivatives market, could just as easily describe the needed daily price reporting in the dairy industry.

That is a fundamental rule, and not just for the dairy industry, where dairy farmers are concerned, it's a fundamental rule of price discovery and of transparency.