

## *Daily Reporting*

### **BOTTOM LINE:**

**Transparency** (*real market value of products made with milk*)

**Timeliness** (*more up-to-date price information for decision making*)

**Accountability** (*real-time reporting – no more “operating in the dark”*)

**Broad supply/demand factors** (*other commodities have that; dairy does not*)

#### **1. From the Univ. of Wisconsin / FAPRI dairy policy brief:**

“Product price formulas (which are used to calculate the milk price) rely on wholesale prices for dairy products that are collected and reported by USDA’s National Agricultural Statistics Service (NASS). While reporting is mandatory, NASS only requires reporting of prices for —spot market sales, which represent less than 20 percent of butter production and less than 40 percent of cheese production. **Moreover, because prices for most butter and cheese transactions are pegged to the thinly-traded Chicago Mercantile Exchange markets, even spot market sales prices may not consistently reflect broad supply and demand conditions.**”

**This is a crucial statement.** If NASS product prices do not reflect broad supply and demand conditions, then the dairyman’s milk price may not be accurate. This is because the CME drives the spot market sales NASS collects weekly.

**Daily reporting would dilute the CME’s impact on dictating price.** Daily reporting of actual sales -- would give a broader view of supply and demand factors and the wholesale value of dairy products on a given day. In addition to daily reporting, the threshold for reporting plants should be reduced (i.e. 500,000 lbs / month capacity vs. 1 million lbs) so more plants are reporting. Also the list of reported products should be expanded. American style Cheddar and Colby is only 40% of production. Italian style (mainly mozzarella) is 41% of production and is unreported.

#### **2. Section 1510 of the 2007-08 Farm Bill already authorizes an electronic reporting system and “more frequent” mandatory reporting (daily). It also calls for QUARTERLY auditing. The funding was never provided.**

**Example:** Both daily reporting and quarterly auditing would have identified early the powder mis-reporting incident in 2006-07 that cost dairy farmers millions with no avenue for reimbursement of those losses.

3. **Daily reporting and the reporting of more than “spot markets” on cheddar, butter, nonfat dry milk and whey, are necessary to reflect broad supply and demand factors.** Retail cheese and butter prices have risen substantially and both products are receiving good demand from consumers here and overseas... so... did the Nov. 5 butter crash and ensuing cheese decline reflect broad supply and demand factors? We do know it will move milk prices lower anyway.

**In cheese:** 2 traders—under 7 different names—moved dozens of loads of barrels, pushing the price down to 1.35 to 1.40/lb. Some argue the price is driven down for manufacture and driven up for sale and the CME is used by a couple big players to do that according to their private agendas. But is that the market reality? CME cheese has since come back up to 1.39 to 1.44/lb because that drop was not sustainable due to demand. But the damage of that eight-day CME decline will eventually affect the dairy farmer’s pay price once it is “captured” in the NASS weekly data. Millions were spent / invested this year to expand cheese manufacturing capacity and retail space. This is reportedly because of very good demand and expanded sales of cheese. The CME, having basically two traders, does not instill confidence that it truly reflects “the market” price.

**In butter:** the CME butter market is fraudulent. We saw that on Nov. 5 when the price fell 27 cents in one day based on one load offered at this low price in the session on that day. Others within the industry are calling for an end to the Butter Spot Market on CME. Floor traders, themselves, question its touch with reality. But there needs to be a replacement that is a daily report because we have butter futures and so a daily indicator is needed.

**Overall:** Some of the less powerful cheesemakers in the industry would prefer to “vote” daily -- five days a week -- in the price discovery process—via daily reporting—as opposed to having their inventory and sales valued (or de-valued) by a couple of the largest players on the thinly-traded CME exchange that the Gov. Accountability Office has already stated (2007) is “vulnerable to manipulation.”

**As the 2007 Government Accountability Office report requested by Sens. Clinton, Specter, Feingold, Kohl and Schumer states on Page 27:** *“The Chicago Mercantile Exchange spot cheese market continues to be a surplus market where a few large participants buy and sell cheese and less than one percent of the cheese produced in the United States is traded. In addition, market participants continue to use the CME spot cheese market prices to set most cheese prices in the United States. As a result, concerns about price manipulation will likely remain.”*

- 4. Lost opportunities:** There are serious lost opportunities for value in the marketplace that would then be reflected in the milk pay price. Please refer to the "cheese manufacturer example" on page 2 of Dennis Wolff's testimony to the DOJ in the market transparency panel at Madison, Wisconsin in June of 2010.

**Conclusion:** Dairy farmers would benefit by having a broader reflection of supply and demand factors than what one or two traders think the price should be on a given day (and you hope those two did not have coffee together in the morning). If the CME were used by more buyers and sellers and if it represented broad supply and demand factors... daily reporting would not be needed. **But, because the CME is thinly traded at best and fraudulent at worst...** daily reporting of actual sales in the real world is needed.

**At the end of the day... This is about accountability and confidence in the price paid to producers via the impact of a thinly traded, and some would say fraudulent, CME spot exchange.**