

## **“Daily” Electronic Reporting—Backgrounder (August 2010):**

### **Farm Bill already authorizes it**

1. Section 1510 of the 2007 Farm Bill already authorizes an electronic reporting system and it authorizes “more frequent” reporting. DPAC interprets this as “daily” because we already have a “weekly” NASS Survey. Thus, “more frequent” would be “daily.” Congress saw fit to include this “more frequent” reporting in the last Farm Bill, but did not provide the funding for it.

### **What would it cost?**

2. DPAC has been working with the Ag Appropriations Subcommittees to have them include the \$1 million cost (\$600,000 to retrofit the electronic beef reporting software for use in reporting dairy product prices and \$400,000 to educate the plants on how to go from the outdated paper survey to the push-of-a-button software.) There is really no difference in cost whether it’s weekly or daily.
3. The Senate Ag Appropriations Subcommittee chaired by Sen. Herb Kohl contains dairy reporting language in it, and it directs the Secretary of Agriculture to take the advice of the Dairy Industry Advisory Committee on how to implement the electronic reporting. However, the House Ag Appropriations does not contain that language and the budget process for FY 2011 may drag out until early next year instead of finishing Oct. 1.
4. The cost to processors was analyzed and reported by USDA to the Dairy Industry Advisory Committee as \$381 per plant per year. Very small cost to processors.

### **Mandatory Reporting Act of 2010 (adds dairy to beef/pork reauthorization bills)**

5. In the meantime, the House Ag Committee (different members than Ag Appropriations), passed **HR 5852** to reauthorize the current daily reporting of beef and livestock and to add daily reporting for pork, and they added a section via Chairman Collin Peterson (Minnesota) to require “weekly” reporting of dairy products.
  - a. The main point here is that beef, livestock, and pork are now all daily-reported. The parallel is that the product price information for beef products and pork products are daily, but dairy product price reporting would remain weekly under this bill.
  - b. The companion bill in the Senate (**S. 3656**) uses the exact same “weekly” language for dairy. There were at least two Senators who were considering offering an amendment in committee to change “weekly” to “daily,” but they were prevented from doing so by the late night lobbying scramble by the International Dairy Foods Association (IDFA).
  - c. Both bills will be voted on by Sept. 30 because the beef, livestock and pork reporting authorization runs out on Sept. 30, and so they need this bill to go through to keep their reporting going. The members of House and Senate Ag Committees have been convinced that using “daily” language for dairy could hold up this bill and cause a delay that would hurt the beef and pork industries getting their daily system reauthorized in a timely fashion.

6. Argument given by IDFA is that dairy is unlike beef and pork because it is a federally regulated pricing system based on monthly USDA price announcements.
7. **IDFA completely misses the point!** This is information—market intelligence—which today's dairy farmer needs in order to make decisions, just like other farmers producing other commodities. Even though it does not literally affect the current way milk prices are regulated, it would inform the system with a daily market indicator apart from the Chicago Mercantile Exchange (CME) and would dilute the influence of the very thinly-traded CME Cheese Exchange.

**Daily reporting dilutes the CME Cheese Exchange, which is vulnerable to manipulation.**

8. The CME Cheese Exchange is where less than 1% of the cheese is bought and sold and less than 2% of the butter. It moved from Green Bay to Chicago when Wisconsin was getting ready to change the rules to prevent trading against positions. In other words, rules were going to prevent entities that are largely buyers from acting as sellers and vice versa.
  - a. Now the Exchange functions on the CME in Chicago without those rules. Essentially two entities bid and offer on the CME Cheese Exchange and that sets the price of milk for the country.
  - b. The current weekly USDA NASS Survey then “captures” that thin trade and makes it official. The smaller processors and the farmers are squeezed by what the large players decide should be the price.

**SIGNIFICANCE OF ELECTRONIC REPORTING:**

1. DAILY-negotiated trades vs. weekly NASS Survey.
2. Timely price information vs. 14 days old.
3. Accuracy through quarterly auditing to avoid misreported prices like in 2006-07, when nonfat dry milk prices were misreported by a large seller for about 6 months. U.S. dairy farmers lost tens of millions of dollars with no provision for USDA to go back and make up the difference.
4. Beef industry has been doing daily electronic reporting for several years.
5. **Reducing CME influence:** DPAC sees daily electronic reporting as the first step to reducing the influence of the Chicago Mercantile Exchange (CME) spot surplus market, where less than 1% of cheese is sold.
6. 2007 Government Accountability Office (GAO) reported the CME spot cheese market is vulnerable to manipulation because it is so thinly traded.

**First Big Step**

9. Bottom line: Daily reporting of dairy product sales is a first big step to bringing truth and transparency to the dairy industry, and in the short term, it would give dairy farmers more timely information about their market so they can make better decisions in their business. Mandatory reporting is important to guarantee transparency... and help improve producers' ability to access fair market prices.

**Daily reporting is cornerstone for building more comprehensive reporting**

10. The next step is to add more products because the current Farm Bill does not authorize that part. Cheddar was 41% of 2009 cheese production and Italian cheese (mainly Mozzarella) was 41% of 2009 cheese production. But those prices are not reported.