

DPAC – Milk Pricing Workshop – March 11, 2010

Framework of Action – Focus on Achievable Goals

Consensus: Emphasis is on Pricing first with Supply Management still in discussion via committee

- I. **Dilute the influence of the Chicago Mercantile Exchange (CME)** on the farm milk price to achieve market transparency and improve price discovery.
 - a. **Electronic Reporting (USDA NASS) – 2007 Farm Bill section 1510**
 - i. **Increase frequency** of product price reporting with electronic reporting of daily negotiated trades, and increase the audit frequency (quarterly). Use electronic reporting to reflect daily-negotiated trades.
 - ii. **Expand this reporting** in the next Farm Bill to include more products and more plants (i.e. Italian cheeses, soft products like yogurt and ice cream). The dairy industry needs a price discovery process that reflects broad supply and demand factors.
 - iii. **Reconcile product inventory** and milk production – real numbers?
 1. Product inventory: Mandatory inventory reporting (including cold storage), with auditing.
 2. Milk production – Could DMI checkoff be used as a way of determining actual milk marketings vs. production survey?
- II. **Eliminate Dairy Product Support Price purchases**
 - a. Elimination of government support purchases would create an environment where dairy manufacturers share market risk with dairy producers. The current government support purchases (combined with ‘make allowances’ embedded in the pricing formulas) often encourage plant expansions that are not always based on what the market wants and consequently send the wrong signals.
 - b. At their current levels, these dairy product support prices do not benefit producers because they support the milk price at \$9.90/cwt., which is not a sustainable milk price for dairy farmers.
 - c. Government support purchases – especially powder – cause inventories to build and overhang the market, which slows recovery.
 - d. Government support purchases could be replaced with actual nutrition program buying of commercial products (as is currently done with school lunch ground beef and pork purchases by manufacturer bid).
 - e. Investment in government support purchases should be replaced with backing for low interest loans that spur innovation.
- III. **Stabilize Class I “Mover” and evaluate the Location Differentials**
 - a. The Class I ‘Mover’ is currently based on the ‘higher of’ Class III or IV (cheese or powder). In the absence of a government support program, more attention will need to be paid to stabilization of Class I fluid as well as domestic. One aspect is to look at milk classification as a way to partition global volatility as a potential growth market that moves at global prices as a consistent supply, while domestic market utilization and expanded product price discovery settle at a more stable and sufficient price.
 - b. Utilization percentages should be evaluated: Current pooling regulations and use of transportation credits often erode the value of current Class I location differentials for local milk within a high Class I utilization order by diluting the true utilization. This needs to be evaluated.
- IV. **Evaluate the benefits of having two milk classes** (simply fluid and manufacturing) instead of the current four-class system.
 - a. Included in this would be consideration of a competitive pay price where all manufacturing uses would vie for the same milk and this could eliminate or make variable the ‘make allowances.’ (Current Federal Order pricing system embeds arbitrary “make allowances” in the product formula pricing for Class III and IV).