

DPAC – Milk Pricing Reform Objectives (Mar. 11, 2010)

Framework of Action – Focus on Achievable Goals

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

- I. **Reduce the influence of the thinly-traded Chicago Mercantile Exchange (CME)** spot market for butter, powder—and especially cheese—on the farm milk price. The key to this is implementing USDA’s electronic reporting of daily-negotiated trades for market transparency and price discovery.
 - a. **Fund and Implement USDA Electronic Reporting**, which is already authorized in the 2007 Farm Bill section 1510 of the dairy title:
 - i. Use electronic reporting to increase the frequency of dairy product price reporting (daily) and increase the frequency of audits (quarterly) associated with this reporting.
 - b. **Once implemented, expand USDA Electronic Reporting authority in the next Farm Bill to:**
 - i. Include more products:
 1. Move beyond storable commodities to include daily-negotiated trades on other manufactured products, like yogurt and mozzarella cheese.
 - ii. Reconcile product inventory, milk production, and milk movement for greater accuracy:
 1. *Product inventory reports:* Inventories of cheese, butter, powder and whey are already reported monthly by USDA, but are voluntary reports. Electronic reporting can be used to facilitate mandatory reporting of inventory, with auditing.
 2. *Milk production reports:* Milk production is currently reported by USDA on a monthly basis via surveys. Explore the use of milk marketing totals associated with the mandatory promotion assessment that is currently collected on all milk.
 3. *Sources and Uses reports:* Use electronic reporting vehicle to develop a quarterly “sources and uses” report to provide the market with a better grasp of milk movement.
- II. **Eliminate Dairy Product Support Price purchases**
 - a. Elimination of government support purchases would force manufacturers to share market risk with dairy producers. The current government support purchases (combined with ‘make allowances’ embedded in the pricing formulas) 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. As a function of the national school lunch program and other government nutrition programs, purchases of commercial products (like mozzarella and yogurt) could support the dairy industry in the same way USDA currently purchases ground beef and pork and other food products via manufacturer bid.
 - e. Government support purchases should be replaced with incentives 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). Without the government support price, a method of stabilization would be needed for the Class I ‘Mover.’
 - i. Create a price discovery process for regional Class I markets (i.e. Possible retail surveys)
 - ii. Update Class I location differentials
- 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 milk and this could either eliminate the ‘make allowances’ or have the ‘make allowances’ become variable instead of arbitrary. (Current Federal Order pricing system embeds arbitrary ‘make allowances’ within the product formula pricing for current Class III and IV).