

## **Western PA nutritionist presents milk-pricing plan at Butler forum**

**By SHERRY BUNTING  
Special for Farmshine**

BUTLER, Pa.— During the Dairy Solutions Forum at the fairgrounds here on October 5, Butler area dairy nutritionist Harry Stugart presented a milk pricing system he has been working on for years. In fact, his milk pricing proposal was published in 2006 and is currently listed at the Hoard's Dairymen website along with seven other proposals that are circulating.

Stugart's plan uses average milk prices for previous years and projects them as a trend line. He proposes that 90% of the milk supply be priced on that trend line and the other 10% be priced by open bidding, which would reflect the market signals of supply and demand back to the farm.

"There is not one scenario or list of issues out there that my proposal does not address," said Stugart. "When you look at these graphs, you can see the roller coaster we've been riding. Right now we have a totally ridiculous system of extreme volatility."

Stugart noted that if the pricing system he describes had been implemented in January of 2006, then the trend line blend price for milk would have been at \$16 this year, not \$10 to \$12.

"The milk price is just as volatile on the up side as it is on the down side," he stressed, adding that a trend line method of pricing 90% of the milk would stabilize prices paid to farmers. "You can see how this evens out the fluctuations to have a much more workable system."

During the Butler, PA forum, Stugart provided a copy of his milk pricing proposal to Rep. Kathy Dahlkemper.

Essentially, Stugart's plan is a two-tiered pricing system. He does not believe that a single-tier pricing system can achieve stability nor reflect appropriate supply and demand signals for future milk production.

"My idea is to allow producers to contract 90% of their previous year's production at the current trend line price and let the production that is over that 90% base be priced at the market price," Stugart explained.

"This plan is different from anything else out there," he said. "The over-base milk would have a system that develops the true market for every area of the country instead of pricing everything off the CME as one large market."

Stugart referenced milk production maps showing that there are more states in the East that are now deficient in per-capita milk production compared with 10 years ago.

"We keep shoving the cows West in the current pricing system," he said. "Our dairy farms are probably losing a couple dollars per hundredweight in what it is costing to haul that milk back East to the markets."

Specifically, Stugart's plan would use the Federal Milk Marketing Orders to develop a system for processors to "bid" for the "over-base" milk within the first 20 days of the month. It would also force unregulated areas of the country to form Orders or join existing Orders, but still use their pricing history for their respective regions.

On the 20<sup>th</sup> day of the month, after the bids are in for the over-base supply of milk, the Market Administrators would look at what is normally shipped in the Order and take the bids from the top-down for the 10% of supply that is over base. Then, if a bid is not high enough for a

processor to secure the additional milk, that processor might have to buy from another Order and pay the hauling.

“If it costs \$5 to do that, then maybe the next month that processor would put in a higher bid to get the local milk,” Stugart said.

In this way, “The processors help to build the true market for every area of the country based on what price they can buy the milk for or what cost they can haul the milk in for,” he explained. “This bidding process on at least 10% of the milk would quickly reflect the true differentials, which need to be adjusted anyway. Having at least 10% of the milk go through this bid process is far better compared to having less than 1% of cheese traded on the CME essentially setting the price.”

The price on the milk at-bid would still be volatile, Stugart explained. “However, that volatility would be affecting 10% of the supply, where right now the volatility is affecting all of the milk supply. Under this plan, the dairy farmer would still get 90% of what he ships paid at the trend line price, and that last 10% would be priced and move at the market, which would send the right signals to cut production.”

The way this would play out on the farm, says Stugart, is that a dairy producer “would decide to cull a handful of cows instead of losing the farm.”

“My system would pick up on the areas where there is too much milk, and their prices would go down accordingly instead of all prices going down,” he added.

Since December, Stugart has been sending his proposal out to every politician he meets. “I know dairymen like this idea because it is 100% market based,” he said. “By using the previous five year histories and basing the price for 90% of the milk supply on that trend line, we can bring in stability. We can also have a true market—signaling supply and demand—with the bidding process on the other 10% of the milk supply. At the same time, because the trend line would continue, producers would be able to project the milk price they would receive on 90% of their milk 12 months ahead at the end of each month. That is a huge advantage for financial planning.”

To learn more details about Stugart’s plan and to post questions about it, visit his blog at <http://ration-allmilkpricing-harry.blogspot.com/>

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## **CAPTIONS:**

### **Chart(Stugart)Butler:**

This chart shows Harry Stugart’s trend line and the corresponding histories for the Class III milk price on which it is based. It also projects where the blend price would be this year if his pricing plan were implemented.

### **8337(Stugart)Butler:**

Dairy nutritionist Harry Stugart presents the milk pricing plan he has been working on for years during the Dairy Solutions Forum in Butler, PA on October 5.