The Milkweed

Dairy's best marketing info and insights

Issue No. 332, March 2007

Special Report: Pages 5-8

Missing Milk Powder Million$

—Milk powder values under-reported

USDA's Milk-Pricing Fails: Producers Lose Half a Billion Dollars

by John Bunting and Pete Hardin

Since late summer 2006, unduly low prices for nonfat dry milk reported to USDA have deprived dairy farmers of about half a billion dollars in milk income they rightfully should have received through the federal milk order program.

Worst case scenario: in December 2006, dairy farmers whose milk is priced by USDA lost an average, estimated $2.77/cwt.

Class I, II and IV prices all impacted in FMMO pricing system

Failure by USDA to input accurate nonfat dry milk commodity prices has caused a systemic failure in the federal milk order pricing system.

Because of too-low milk powder survey prices, USDA's complicated milk pricing system has low-balled dairy farmers' milk prices during the past half year. During that time, USDA's Class IV (butter-powder) prices have been undervalued, because prices for nonfat dry milk have been misreported to USDA's weekly dairy commodity price survey.

Far more than Class IV prices have been understated. Undervalued milk powder prices have also lowered prices paid to dairy farmers for Class I (fluid) and Class II (cultured products, ice cream) in USDA's milk order system.

The major seller of nonfat dry milk—DairyAmerica—has improperly reported values of weekly nonfat dry milk sales for the past six months to USDA. In turn, USDA uses formulas incorporating these dairy commodity product prices to establish farm milk prices under the complex federal milk order program.

DairyAmerica is a "marketing agency" of cooperatives—the U.S. "milk powder cartel" that controls 80-85% of all nonfat dry milk produced in this nation. Member cooperatives use DairyAmerica as a single sales agency that foolishly relies on New Zealand's Fonterra—the world's largest dairy exporter and arch-enemy of American dairy farmers—as its exclusive global sales agent. (**See page** 7 for a list of DairyAmerica's members.)

USDA relies on DairyAmerica's weekly price reports as the primary basis for nonfat dry milk values. USDA's National Agricultural Statistics Service (NASS) collects weekly dairy commodity price reports from sellers of Cheddar cheese, butter, nonfat dry milk, and whey. USDA's Agricultural Marketing Service (AMS), which operates the federal milk order system incorporates the weekly reports into its pricing formulas that rely on monthly and partial-monthly averages for setting classified milk prices in the federal milk order program.

No good current estimate on nonfat dry milk prices …

Surprisingly, there has been no recognized "fair" value for nonfat dry milk since August 2006. Markets for scarce nonfat dry milk since early August 2006 have been volatile and undisciplined. Spot prices ranged as high as $2.00-2.25 per pound in the last six months. NASS' pricing system hasn't worked, not peaking above $1.00/lb. until late November 2006. Critics pan the Chicago Mercantile Exchange's higher prices for nonfat dry milk as being irrelevant, because so little volume is actually transacted at CME. What's right?

To estimate these losses for the federal milk order system, *The Milkweed* used an alternate price—the monthly mid-point for nonfat dry milk in the price range reported weekly by USDA's Dairy Market News for Midwest and Eastern markets. The difference between that Dairy Market News price and the NASS surveys has widened to as much as $.50/lb. this fall. Calculating the loss to California's dairy producers is a far more difficult task. CDFA's monthly basis for milk powder prices roughly paralleled the NASS figures.

Claims of milk producer income losses totaling over half a billion dollars apply <u>only</u> to farmers whose milk is priced by USDA's federal milk order system.

Dairy farmers in state milk order pricing systems–such as California–are suspected to have had losses , but those losses are not calculated here, due to complexity.

Problem: "old" contract prices (for exports) improperly reported to NASS

Rules for the NASS weekly dairy commodity price survey specifically prohibit the use of price data from sales contracts older than 30 days. DairyAmerica has apparently failed to comply with that regulation.

In late spring or early summer 2006, DairyAmerica signed a long-term export contract with Fonterra, New Zealand's dairy export monopoly. Worried about a long-term build-up of surplus nonfat dry milk, DairyAmerica committed to massive export sales of U.S. milk powder—possibly for one year. Rumored price for the milk powder sales contract: around $.86/lb.

But almost as soon as the ink was dry on that export contract, reality changed. An intense heat wave baked the U.S. dairy industry—especially California—in the second half of July 2006. Globally, dairy production has also constricted. Global prices for nonfat dry mlk (and other dairy proteins, such as whey derivatives) skyrocketed. DairyAmerica reportedly exported 100 million pounds of milk powder (or similar dairy proteins) to Fonterra in July-August 2006. That move, in tandem with lower U.S. milk powder output due to bad weather, suddenly "shorted" supplies of nonfat dry milk for users of the product. Prices for nonfat dry milk in the U.S. zoomed up. "Street" prices for nonfat dry milk climbed as high as $2.00-2.25/lb in October and November 2006--the peak season for U.S. milk powder demand by baking and candy industries.

And all that time, the NASS monthly average price for nonfat dry milk (derived from weekly surveys) never rose above $1.0677 by the end of 2006.

Starting in August/September 2006, the NASS average weekly price for nonfat dry milk diverged from its historic, close relationship with other measures, such as the CME prices for nonfat and the weekly price range reported by Dairy Market News (USDA's most capable industry analysts). Great puzzlement spread through the dairy industry. Why was the NASS price for nonfat dry milk so low? Obviously, DairyAmerica was reporting low-ball figures to USDA.

Missing Milk Powder Money (Half a Billion or So)

Lost Producer Revenue in Federal Milk Order Pricing System, August 2006 – January 2007
Dairy Market News vs. NASS (Difference between Monthly Milk Powder Averages)
By Class of Milk

Month	Class I	Class II	Class IV	Monthly Total	Avg. Loss/Cwt.
Aug. 2006			$ 3,780,216	$ 3,780,216	$ .0376
Sept. 2006	$19,671,750	$10,486,455	9,649.901	39,808,106	$ .4595
Oct. 2006	5,493,863	18,650,008	19,052,993	43,196,864	$ .43
Nov. 2006	68,232,241	35,829,795	31,035,331	135,097,367	$ 1.42
Dec. 2006	180,504,080	57,356,449	28,951,534	266,812,063	$ 2.77
Jan. 2007	52,328,055	32,745,878	18,656,606	103,730,539	$ .986
Totals:	**$326,229,989**	**$131,490,564**	**$128,876,739**	**$592,425,155**	

Estimated losses for producer income

A

Mi$$ing Milk Powder Million$

by John Bunting and Pete Hardin

SPECIAL INVESTIGATION: Missing Milk Powder MILLION$

The "Missing Milk Powder Millions" scandal is a systemic failure that has stolen about half a BILLION dollars of legitimate, direly-needed income from U.S. milk producers whose milk is priced by USDA. The federal milk marketing order program has disastrously malfunctioned. Losses grow each month.

During the second half of 2006 … and into early 2007 … while the nation's dairy farmers' finances were bathed in tanker loads of red ink, bumbling USDA dairy bureaucrats failed to use appropriate, higher prices for nonfat dry milk powder into federal milk-pricing formulas.

U.S. dairy farmers have lost legitimate milk income—hundreds of millions of dollars worth—at a time when returns for milking cows have been at their lowest since the Great Depression of the 1930s. These projections do not factor in any similar losses suffered by producers whose milk prices are set by state programs, such as in California, Virginia and Montana.

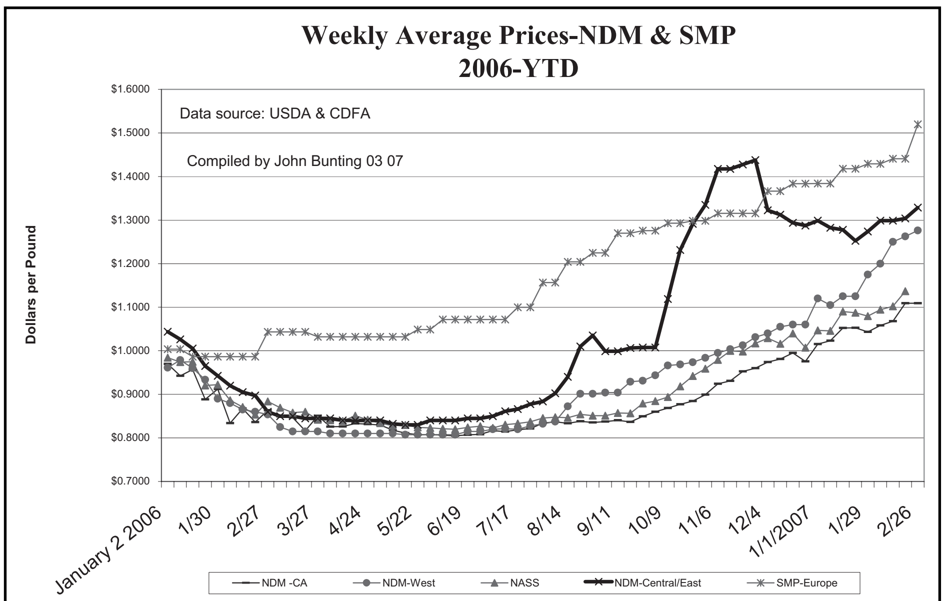
Worst of the worst: December 2006 milk producer revenues for the average dairy producer in the federal milk order system lost $2.77/cwt. Two dollars and seventy-seven cents per cwt. lost milk income for December 2006! That's astronomical! For most dairy farmers, that money would have been the difference between modest profit and ruinous red ink.

Why these losses? Because DairyAmerica—the milk powder marketing agency for cooperatives producing 80-85% of the nation's nonfat dry milk—misreported lowball prices for nonfat dry milk to USDA's statistics-gathering branch, the National Agricultural Statistics Service (NASS). Each week, NASS conducts a mandatory price survey for dairy commodities—Cheddar cheese, butter, nonfat dry milk, and whey. These weekly surveys are used by the Dairy Division of USDA's Agricultural Marketing Service (AMS) to calculate the monthly values for different uses (classes) of farm milk sold to processors, through the federal milk order program.

The bone of contention: NASS' weekly survey clearly specifies that reported sales may not be based on sales contracts older than 30 days. Specifically, the weekly NASS "Dairy Products Prices Nonfat Dry Milk" form states, among its exclusions:

"Forward pricing sales: sales in which the selling price was set (and not adjusted) 30 or more days before the transaction was completed. This exclusion does not include sales thorough the Dairy Export Incentive Program (DEIP)."

NASS' weekly form for reporting nonfat dry milk advises nonfat dry milk producers, in part: "Response to this survey is **mandatory** under **Public Law No. 106-532.**"



Two important trends here: 1) Early in 2006, global skim milk prices take off above U.S. milk powder prices. 2) In July-August, other measures of U.S. milk powder prices rose above NASS.

How Low-ball Milk Powder Quotes Devalue Class I, Class II & Class IV Prices in USDA's Milk Orders

Here's an explanation of how milk powder prices influence the value of most classes of milk regulated by USDA's pricing system:

***Class IV (butter-powder)—**Nonfat dry milk prices from NASS' weekly commodity price surveys are a key element in the monthly federal milk order Class IV price. Higher reported nonfat dry milk prices reported to NASS survey would have boosted Class IV milk prices.

***Class II (ice cream, cottage cheese, yogurt)—**Monthly Class II skim base price is determined by USDA by adding $.70 per hundred pounds of milk to the Class IV price advance milk pricing factor, plus a butterfat element, Class IV prices are THE base for Class II prices in USDA's milk pricing system.

***Class I (fluid)—**Each month's Class I milk prices in the federal order are based upon NASS survey data from the first two weeks of the **prior** month. (Example: December 2006 Class I prices were based on NASS survey for the first two weeks of November 2006). USDA then selects the "Class I mover" from the "higher of" either the Class III (cheese) or Class IV (nonfat dry milk) values. For much of the second half of 2006, both Class III and Class IV prices remained stuck in the doldrums—despite tight farm milk supplies, tight global/national milk powder supplies, and sky-high prices on the street for nonfat dry milk.

Therefore, any understated value for the NASS survey's weekly prices for nonfat dry milk would directly translate into "lost" value for fluid milk—money that should have been in the milk producers' pay check, but wasn't.

DairyAmerica's low-balling of weekly milk powder prices has caused dramatic understatement of USDA's monthly Class IV (butter-powder) prices, which in turn have pulled down values for milk utilized as Class I (fluid) and Class II (yogurt, ice cream and cottage cheese).

In that worst-case scenario in December 2006, *The Milkweed* estimates that understatement of milk prices to NASS by DairyAmerica resulted in the following lower incomes for various classes of milk in the federal milk order program:

Fluid milk (Class I): ***MINUS $4.68/Cwt.***
Yogurt/Ice Cream/Cottage Cheese (Class II): ***MINUS $5.16/Cwt.***
Butter-Powder (Class IV): ***MINUS $2.62/Cwt.***

(In the analysis of the authors, actual losses to producers would be even higher, if milk powder prices had been correctly reported to NASS. That's because the value for milk processed into cheese—Class III—would have climbed substantially, if the value for all other classifications for milk use had experienced big price jumps through the federal milk order milk pricing system.)

What this article uncovers is a corrupt, incompetent failure of the cooperative dairy marketing system … that in turn has corrupted USDA's milk pricing system. In these dire times, failure to honestly value dairy farmers' milk prices in the second half of 2006 will lead to another "failure"—financial failure of many U.S. dairy farmers. And their forced exit from milk production threatens the nation with a failure to be able to produce adequate supplies of milk to meet demand posed by the nation's consumers of dairy products.

Systemic Milk-Pricing Failure: DairyAmerica Underreports Powder

Here's how the dairy marketing/pricing system has failed dairy farmers:

The failure by DairyAmerica to honestly value U.S. nonfat dry milk has a long tail. In late spring or early summer 2006, DairyAmerica booked a long-term contract to export U.S. nonfat dry milk. Fonterra—New Zealand's dairy export near-monopoly—is the exclusive exporter of nonfat dry milk produced by DairyAmerica's members.

By signing a long-term, export contract for dry dairy proteins with Fonterra, at prices which were below world market prices for nonfat dry milk and skim milk powder at the time, DairyAmerica gutlessly undervalued the price of a huge amount of milk powder for the life of that contract (estimated to be one year). DairyAmerica committed to long-term, lowball sales contract. A sharp rise in the value of milk processed into butter-powder would have resulted in DairyAmerica's member co-ops losing huge amounts of money on fixed-price contract sales to Fonterra. Consequently: once those lowball export prices were contracted, DairyAmerica's members' financial stability rested on reporting low prices for nonfat dry milk sales to USDA and California's state milk-pricing agency.

U.S. Milk Powder/SMP Exports & Prices/lb.–2005-2006

	Exports of NFDM/SMP	Price /Pound		Exports of NFDM/SMP	Price/Pound
Jan-05	61,303,312	0.9340	Jan-06	30,203,020	0.9643
Feb-05	75,644,235	0.8754	Feb-06	50,335,427	0.9721
Mar-05	79,636,766	0.8782	Mar-06	51,384,817	0.9408
Apr-05	49,019,281	0.9149	Apr-06	58,364,580	0.9281
May-05	65,926,358	0.7607	May-06	66,828,040	0.9435
Jun-05	41,329,636	0.9054	Jun-06	62,645,914	0.9489
Jul-05	38,240,992	0.9285	Jul-06	76,402,618	0.9140
Aug-05	54,795,333	0.9535	Aug-06	63,307,294	0.8804
Sep-05	40,377,249	0.9857	Sep-06	53,796,649	0.8863
Oct-05	38,547,431	0.9866	Oct-06	58,214,668	0.9226
Nov-05	37,822,118	0.9947	Nov-06	35,103,846	0.9598
Dec-05	35,707,906	0.9870	Dec-06	37,352,538	0.9603

Data Source: USITC Compiled by: John Bunting

Look carefully. Note how in every month for the second half of 2006 the average price for exports of nonfat dry milk and skim milk powder from the U.S. was LOWER than the same months in 2005.

Any significant up-tick in costs of raw milk processed into nonfat dry milk represented a huge financial threat to DairyAmerica's member co-ops. They would be financially crucified if costs of Class IV milk in the federal milk order system, or costs for 4a milk in California's state milk pricing scheme, reflected reasonably current nonfat dry milk powder values during the life of the huge Fonterra export contract.

The long-term export contract for U.S. milk powder (and skim milk powder—a dry dairy protein that contains about two percent less protein than nonfat dry milk) locked in DairyAmerica to an apparent fixed price for an unknown period of time that is rumored to be as long as one year.

Whatever export price DairyAmerica contracted for its milk powder export deal with Fonterra, it was below world market prices, then and now. World market prices for nonfat dry milk were already about 20 cents above the U.S. government's "support price" of $.80 per pound early last summer. The world faces significant shortage of dairy proteins … and DairyAmerica gutlessly dumped huge quantities on the world market at lowball prices, starting in July 2006.

Continued on page 6

AB

SPECIAL INVESTIGATION: Missing Milk Powder MILLION$

Continued from page 5

Powder Markets in Tumult in 2006's Second Half

Massive exports of dry dairy proteins from the U.S. started in July 2006 and continued at unprecedented levels for the following three months. During July-October 2006, DairyAmerica exported more than 60% of all dairy proteins produced in the U.S.—disrupting supplies available to regular domestic customers just at a time when annual needs were peaking. U.S. markets for nonfat dry milk went bonkers in the second half of 2006, due to product shortages.

* DairyAmerica broke contracts with domestic buyers to sell scadzillions of pounds of nonfat dry milk to Fonterra from July through October.

* Prices skyrocketed at the Chicago Mercantile Exchange, where cash trading of nonfat dry milk occurs each business day. But the CME daily prices—which climbed up to as high as $1.65/lb. for Grade A nonfat—are not viewed as good measures of the market by dairy pros, because so little volume actually changes hands there.

* "Spot" prices for nonfat dry milk, during the fall of 2006, rose to as high as $2.00 to $2.25 per pound for nonfat dry milk.

* Dairy Market News—USDA's market information branch that most capably covers the domestic and global dairy trends—reports multiple measures of milk powder prices each week. The figure *The Milkweed* has selected for its nonfat dry milk price estimates is the monthly "mid-point" of Dairy Market News' estimates for nonfat dry milk in the Central/ Eastern States price for low/medium heat milk powder. That monthly mid-point peaked $1.5202/lb. in November 2006. If anything, this price modestly reflects current milk powder values.

* Some milk powder brokers—"middlemen" with contracts to buy monthly volumes of nonfat dry milk from DairyAmerica and contracts to sell those volumes to end-users—got squeezed hard. Some brokers were sued for failure to deliver contracted volumes of nonfat powder to their customers … after DairyAmerica breached its contracts to supply those companies with milk powder. Chaos.

By any measure, the NASS price failed to reflect reality in milk powder prices in the second half of 2006. After all, DairyAmerica's overseers couldn't afford to have prices paid to dairy farmers for milk processed into nonfat dry milk reflect current domestic conditions.

Throughout most the second half of 2006, as every other price measure

U.S. Milk Powder/SMP Production & Exports–2006

	NFDM	SMP	Total NFDM & SMP	Exports	% Exported
Jan-06	107,254,000	29,334,000	136,588,000	30,203,020	22.11
Feb-06	117,466,000	25,628,000	143,094,000	50,335,427	35.18
Mar-06	128,269,000	19,989,000	148,258,000	51,384,817	34.66
Apr-06	129,225,000	12,411,000	141,636,000	58,364,580	41.21
May-06	132,262,000	18,144,000	150,406,000	66,828,040	44.43
Jun-06	117,049,000	22,356,000	139,405,000	62,645,914	44.94
Jul-06	88,227,000	29,344,000	117,571,000	76,402,618	64.98
Aug-06	75,860,000	24,088,000	99,948,000	63,307,294	63.34
Sep-06	64,888,000	21,343,000	86,231,000	53,796,649	62.39
Oct-06	72,283,000	27,395,000	99,678,000	58,214,668	58.40
Nov-06	80,018,000	24,981,000	104,999,000	35,103,846	33.43
Dec-06	114,743,000	15,356,000	130,099,000	37,352,538	28.71

Data source: USITC & USDA Compiled and Analyzed by: John Bunting 03 07

Talk about giving away the store! From May 2006 thru October 2006, DairyAmerica exported half of all U.S. production of nonfat dry milk and skim milk powder! Nuts.

for nonfat dry milk skyrocketed, the NASS survey price groveled along in the sub-$1.00/lb. price range. NASS' weekly price broke the $1.00/lb. barrier in late November, and concluded 2006 a couple cents above that $1.00/lb. mark. DairyAmerica's volumes are the vast majority of reported to NASS each week.

Systemic Milk-Pricing Failure: USDA Personnel *KNEW* NASS Data Bad

Computer geeks have an acronym: GIGO ("Garbage In, Garbage Out"). Surely, *somebody* at USDA *should* have known that lowball prices for nonfat dry milk sales reported weekly to NASS were literally "garbage" going into USDA's milk pricing system. In fact, more than one "somebody" at USDA knew the NASS survey prices were obviously illegitimate:

* In recent months, in weekly issue of Dairy Market News, USDA's market reporters noted that NASS' weekly milk powder data implied long-term contracts." Dairy Market News analysts acknowledged the impact of long-term export contracts in holding down the NASS survey. Implicitly, farmers' revenues through USDA's milk pricing program were understated, the way USDA's milk-pricing program works.

* Better yet … on February 12, Congressman Roscoe Bartlett (a former dairy farmer himself) convened a meeting of dairy producers and USDA personnel about milk pricing issues in Frederick, Maryland. At that meeting, Eric Rasmussen, the market administrator of the Northeast federal milk marketing order, was asked a question about the legitimacy of milk powder prices being used to calculate Class IV prices in the federal milk order system. Rasmussen's reply: That the Class IV prices were being held down by long-term contracts and would not substantially increase until those contracts worked through the system. "Work through the system"? Did Rasmussen, the Northeast federal milk market administrator, do anything about this milk pricing inequity???

Systemic Milk-Pricing Failure: Who's Responsible? DairyAmerica? USDA?

Who is responsible for this milk-pricing failure, resulting from improper, unduly low dairy commodity pricing data submitted to USDA?

DairyAmerica? In obvious violation of USDA's mandatory price reporting rules, DairyAmerica reported lowball prices for weekly nonfat dry milk sales. NASS' survey seeks to collect reasonably current prices—that's the reason for disallowing any prices based on sale contracts older than 30 days. In this whole matter, the AMS Dairy Division performance has suffered badly under the regime of Dana Coale, the current administrator. Coale couldn't pour Scotch for old Herbert Forrest, the long-ago czar of the milk order program.

USDA? NASS personnel have repeatedly accepted from DairyAmerica, without apparent question, weekly price reports that were far lower than prevailing market prices during the wild second half of 2006.

Within USDA, it is clear that comments by AMS personnel (at Dairy Market News and the Northeast market administrator) knew about the NASS survey's "short-changing" dairy farmers' milk prices.

Systemic Milk-Pricing Failure: Damages to Producers in the Hundreds of Millions

There is no perfect measure of nonfat dry milk prices in the U.S., particularly since mid-summer 2006. From that time to the present, prior, fairly close correlation among various measures of nonfat dry milk prices has flown off in all directions.

USDA's NASS survey price is clearly a joke.

The CME cash market price is not taken seriously by industry analysts, because so little product actually changes hands at CME.

For the purposes of this analysis, *The Milkweed* uses the monthly average of the "mid-points" of weekly price ranges for nonfat dry milk in the Central States and Eastern Region, as generated by USDA's market reporting branch—Dairy Market News. Persons in the milk powder trade warn that even that price measure is unduly held down by using DairyAmerica's price quotes, which constitute much of the low side.

The purpose of this article is to point out, to a reasonable degree, the amount of money U.S. dairy farmers have lost from August 2006 through January 2007 by the overt under-reporting of nonfat dry milk values to USDA's NASS. Like horseshoes and hand grenades … "close" is good enough to begin ferreting out the damages in this illegitimate milk-pricing maze.

The table at the top of page 7, using Dairy Market News' data on milk powder prices, lays out in stark detail the clear losses to dairy farmers.

What would happen if the Dairy Market News "Mid-point" Central/Eastern States data for low/medium heat nonfat dry milk were substituted for NASS prices in the monthly Class I, II and IV price calculations in the federal milk order program? Here's a summary of the data analyzed by *The Milkweed*, which projects how higher nonfat dry milk prices would have boosted dairy farmers' incomes:

Average Monthly Producer Revenue Losses for all federal milk orders:

August 2006	**$ .0376/cwt.**
September 2006	**$ .2325/cwt.**
October 2006	**$ .3825/cwt.**
November 2006	**$ 1.42/cwt.**
December 2006	**$ 2.77/cwt.**
January 2007	**$ .986/cwt.**

As dairy farm families sit around their kitchen tables, comprehending the above-cited shortfalls of monthly milk income during the last six months, tears will flow … because Uncle Sam's milk-pricing system screwed up … big time.

By *The Milkweed's* estimates, the aggregate losses total almost $600 million, for August 2006-January 2007. These losses continued in February 2007, and will continue in March 2007. But it's too early to add up those latest months' producer income losses. At a period of time when most U.S. dairy producers added up record amounts of red ink, goodness knows, they could have used this "lost" income.

These calculations include zero higher values for Class III (cheese) milk. Therefore, in areas with higher cheese milk utilization (than the national FMMO average), the losses would be somewhat less (example: Wisconsin). For producers in federal orders with high Class I/Class II utilization, the losses would have been greater than we've projected. For December 2006, Florida dairy producers probably lost over $4.00/cwt., due to the defective pricing system.

Systemic Milk-Pricing Failure: Who has been Harmed?

Dairy farmers: Obviously, U.S. dairy farmers have been harmed by failure of the federal milk pricing system to properly measure current nonfat dry milk values and translate those values into farm milk prices. The price tag: Half a billion dollars, give or take … and rising, each month.

Businesses serving the dairy farmers: The amount of unpaid bills owed to businesses serving dairy farmers—feed mills, veterinarians, machinery parts and repair services—is astronomical. The amount of receivables being carried

SPECIAL INVESTIGATION: Missing Milk Powder MILLION$

Additional Income Per Cwt. in USDA's Milk Orders, Aug. 2006-Jan. 2007
(Using Dairy Market News' Central States/Eastern Low/Medium Heat Price Midpoint)

	2006					2007
	Aug	Sep	Oct	Nov	Dec	Jan
Class I price @ base zone	0	$.51	$.14	$1.75	$4.68	$1.29
Class II price	$.27	$.84	$1.45	$2.81	$5.16	$2.55
Class III price	0	0	0	0	0	0
Class IV price	0	$1.54	$2.77	$4.61	$2.62	S1.87

by businesses in dairy country is destabilizing to local economies. Egad, in the Northeast, some dairy farmers haven't paid for last spring's corn planting expenses … and this spring is looming!

Taxpayers: There's another victim, however: the U.S. taxpayer. Taxpayer revenues pay for MILC and MILCX, the original and extended versions, respectively, of the Milk Income Loss Contract program authorized by Congress. That's USDA's "safety net" for eligible dairy farmers, who receive government payments during months when the Boston federal order Class I milk price falls below the benchmark Class I price of $16.94 per cwt.

MILCX payment rates ranged from $0.4284 to $0.4386 per cwt. during the last three months of 2006, with declining payment rates for January and Febuary 2007. Some critics scorn MILC as "welfare."

The Milkweed contends that if nonfat milk powder had been properly valued, higher Class I milk prices in the Boston order would not have triggered the need for MILC/MILCX payments to dairy farmers from the public treasury.

Systemic Milk-Pricing Failure: Who are the Beneficiaries???

Fonterra: A primary beneficiary from this scandal must be Fonterra, New Zealand's virtual dairy export monopoly. In mid-2006, Fonterra gained a contract from DairyAmerica for large quantities of dry dairy protein exports, in the price range of $.85 to $.90 per pound.

At the time, that price was significantly below the price for milk powder cited by Dairy Market News for Western Europe. Since early last summer, Fonterra has gained export title to over 300 million lbs. of U.S. nonfat dry milk and skim milk powder in the second half of 2006—at lowball prices. Global prices for nonfat dry milk have climbed since mid-2006. Dairy proteins are scarce, globally, and prices have been rising steadily.

Fonterra has made a bundle, no doubt propping up its demised financial condition and operations in New Zealand.

Milk Processors: Lower input costs have benefited all dairy processors in the past six months. If milk prices had been higher, sales volumes and profits might have been dented.

Consumers: With some of the profits being extracted by processors and supermarkets, it's hard to argue that consumer dairy products at retail have been cheap. But, compared to the raw milk prices that should have resulted from such high nonfat dry milk prices, consumer dairy product costs would have been driven higher … if dairy farmers had received what they were legitimately due.

"Missing Milk Powder Millions": Conclusion

There are several conclusions which may be drawn from the NFDM pricing fiasco. The first and the obvious is the pricing system is broken and needs to be replaced. The next, and also obvious, is that the major players are operating under the Capper - Volstead Act. Capper – Volstead needs a set of dentures.

Finally, USDA bears the lion share of the guilt. USDA has enough economists to start a small war, and indeed you could say they have waged war on America's dairy farmers. Collectively, those economists have the mental capacity to understand a market system needs price input signals from many sources.

This issue is properly seen as a concentration and antitrust issue, not to mention matters of integrity and intelligence.

What Co-ops Belong to Dairy America?

DairyAmerica consists of a handful of U.S. dairy cooperatives, but those co-ops control between 80% and 85% of all nonfat dry milk produced in the country. California is the largest single state producing nonfat dry milk in the U.S.

DairyAmerica's members include:

California Dairies, Inc. (CDI—DairyAmerica's biggest member, in terms of milk powder production.)

Land O'Lakes

Dairy Farmers of America (DFA—the usual suspect. If dairy farmers' milk prices are being screwed with, DFA is usually involved.)

United Dairymen of Arizona

O-AT-KA (Located in western New York, controlled by UpState Dairy Co-ops and Dairylea Co-op.)

Agri-Mark (The predominant, incompetent dairy co-op in the New England market.)

Maryland & Virginia Milk Producers Assn.

St. Albans Co-op (Vermont)

Ironically, these organizations—which purport to operate on behalf of their dairy farmer owners—have, through DairyAmerica, virtually conspired to dramatically undervalue prices for farm milk in the federal milk order system.

Internally, the past six months have not been easy for DairyAmerica:

* Some member co-ops have expressed distress about the NASS prices and values received for exporting nonfat dry milk to fulfill the contract with Fonterra.

* In the East, actual production of milk powder virtually ceased for much of the past six months, except for in-house needs. Instead, co-ops shifted to production of condensed skim milk—which was sold (at premiums) to dairy and food processors … *if and when* farm milk was available.

* **Projecting impossibly tight U.S. milk supplies later in 2007, DFA has notified DairyAmerica that it will make available no more milk powder for sale through the agency. All of DFA's in-house nonfat dry milk production is being inventoried for internal needs, later in 2007.**

Looks like some of the big rats are starting to jump ship. Already in 2007, U.S. milk powder supplies are becoming very tight and later in 2007, domestic supplies will be even tighter than they were in 2006.