

Confusion Reigns Over the World of Milk Powders

by John Bunting

We live in confusing times, particularly regarding market information provided to dairy farmers by government, cooperatives and many others in the dairy industry. Based on January-August 2008 U.S. dairy export data available last month, one could reasonably conclude that skim milk powder/nonfat dry milk (SMP/NFDM) prices were falling mainly due to world economics and the Chinese melamine scandal.

But, now we have data through October 2008 milk powder exports. Amazingly, milk powder exports were up 27.3% in September 2008 when compared with September 2007.

But, October 2008 exports remained 24% higher than exports for October 2007. In the first 10 months of 2008, the U.S. exported 73% more to Mexico and 53% more to the Philippines.

Altogether, the U.S. exported 24 % more milk powder in October 2008 than was exported in October 2007. For the year, January through October 2008, the U.S. exported 71.6% more milk powder than was exported year to date in 2007.

Additionally, the export price for U.S. milk powders gained six cents per pound in September 2008 over the export price of August 2008.

The average of the first 10 of export prices compared to the first 10 months of 2008 NASS survey prices indicates the exports averaged \$.33 per pound more than the NASS survey. Who pocketed the \$.33 per pound is obscured by a deliberate smokescreen. The exporters of the milk powder are in name, dairy co-ops. Obviously, the members don't know about the \$.33 a pound and the management of the co-ops knows little or could care less about democracy.

the cash in hand. However, the \$.7975 per pound price was immediately reported to both California Department of Agriculture and NASS. This shenanigan in effect drove the raw milk farm price down faster.

The need to drive down raw milk price to American farmers was in large part brought about by the world financial crisis.

Although many people continue to refer to the financial crisis as a mortgage crisis, the truth of the matter is, as the late economist John Kenneth Galbraith noted in the 1990s, behind every financial bust is a leverage problem. That is to say, more money was borrowed than the market value of whatever the money was borrowed against. For certain milk powder producing cooperatives, Galbraith's wisdom means that co-ops are up to their eye-balls in milk powder and debt.

Complicating this issue – and adding to the confusion of the global financial world – is a massive shortage of transparency which yielded uncertainty.

Therefore, many, many people needed liquidity, which meant, essentially, dollars, while others moved capital into U.S. dollars to avoid further risk.

Hence, as financial bubbles were bursting in 2008, the dollar, along with the Japanese yen, was skyrocketing in value brought on by increasing demand for those currencies.

No one thinks the current high value of the U.S. dollar will last. America is, after all, is largest debtor nation in the world with a current national debt of \$10.6 trillion and that number could go up by as much as 50% as a result of funding the bailout of the financial crisis.

Fonterra, the near-monopoly New Zealand co-op, is the world's leading trader of milk powder. Dairy products are traded worldwide in dollar denominations. In other words, the world value of NFDM/ SMP is quoted as U.S. dollars per pound.

So, just looking at the currency exchange rate difference, milk powder from the U.S. has to be less than \$.95 per pound to be competitive on the world market. Perhaps, selling powder to the CCC through a broker was considered the fastest means of crashing the farm milk price going into dairy powders.

12/04: USDA halts indirect surplus purchases

These events bring us to a notice published in the *Federal Register* / Vol. 73, No. 234 / Thursday, December 4, 2008, which primarily covers the Milk Income Loss Contract (MILC) program. On page 73765 is the following:

“This rule amends § 1430.2, “Price Support Levels and Purchase Conditions,” to ensure that the Dairy Product Price Support Program supports dairy producers by ensuring that manufacturers have sufficient incentive to pay the support rate to producers. **CCC will only purchase dairy products from the manufacturer of the product. CCC will no longer purchase eligible dairy products from nonmanufacturers, as the program is not intended to provide a speculative market for third parties.**” (Emphasis added.)

In other words there'll be no more sales of nonfat dry milk to the CCC by Clofine Dairy Products. Furthermore, since DairyAmerica is a marketing-agency-in-common and not a manufacturer, DairyAmerica will, in all probability, not be allowed to sell to the CCC either.

In the paragraph immediately following the new role on selling to the CCC is the following statement:

“These regulations are exempt from the notice and comment requirements of the Administrative Procedure Act (5 U.S.C. 553), as specified in section 1601(c) of the 2008 Farm Bill, which requires that the regulations be promulgated and administered without regard to those provisions, the Statement of Policy of the Secretary of Agriculture effective July 24, 1971 (36 FR 13804) relating to notices of proposed rulemaking and public participation in rulemaking.

Therefore, these regulations are issued as final.”

Uncle Sam slammed the door hard on second-hand sales to the CCC. Informed sources have indicated from the beginning, at the CCC really does not wish to purchase and store nonfat dry milk.

USDA ties private surplus powder auction

In Dairy Market News for the week of December 1-5, 2008 is very interesting statement, “Additional supplies of NDM are being offered onto the market through a barter initiative as a firm is taking electronic bids for CCC-owned NDM. Monies will be used to purchase processed food for feeding assistance programs.” No further information was given regarding what firm is operating the program, or the price paid to the CCC.

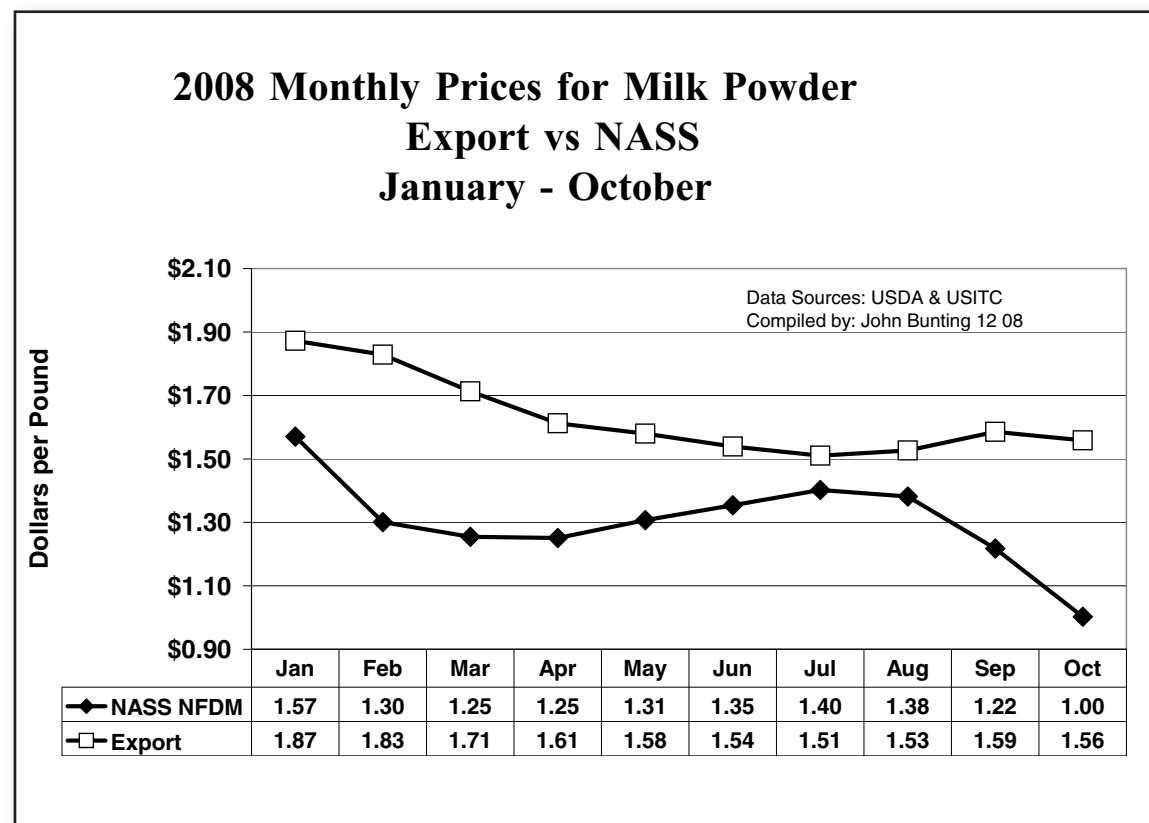
Without a doubt, there remains a market for NFDM. Without a doubt, that market will be supported on the backs of American dairy farmers being paid far less than the cost of the production for milk going into NFDM.

The \$9.90 support price which translates to \$.80 a pound for sales to the CCC is an insult. Perhaps the greater insult is the fact that the manufacturers of NFDM, still get a cost of production plus a profit through the make allowance built-in to federal and state milk marketing order pricing formulas. For California, the make allowance for NFDM is \$.156 per pound: 19.5% of total value.

The NFDM market was driven down primarily by two manufacturers, Land O Lakes and California Dairies Inc., both of which claim to be co-ops operating under the Capper-Volstead Act. No reasonable person with an understanding of the ordinary meaning of the words found in the Capper-Volstead Act would feel this activity should be exempt from antitrust action.

Hopefully the incoming Obama administration will take note of the “fixed” milk powder pricing and other antitrust violations in dairy.

2008 Monthly Prices for Milk Powder Export vs NASS January - October



October '08 exports at \$156/lb.

At the same time, the co-ops were exporting more milk powder at higher prices, at least two co-ops (California Dairies, Inc. and Land O' Lakes) were ordering special bags necessary to sell NFDM to USDA's Commodity Credit Corporation (CCC) at the support price of \$.80 a pound..

As of December 5, 2008, 85,439,161 pounds of NFDM had been sold to the CCC. The primary seller, as reported in November 2008 issue of *The Milkweed* was Clofine Dairy Products of Linwood, New Jersey for \$.80 a pound. Industry sources indicate that Clofine purchased the NFDM from two co-ops at \$.7975 per pound.

In recent days, DairyAmerica has sold NFDM to the CCC for \$.80 a pound. Initially, the co-ops' motivation for selling NFDM through Clofine Dairy Products – instead of directly to the CCC – was to gain 10 days of having

New Zealand Dollar vs U.S. Dollar January 1 - December 1, 2008

