Did '09 Failure to Export Surplus Powder Cause Current Cheese Glut?

by Pete Hardin

Sometimes … time is required for the pieces of the puzzle to fit together. For months, John Bunting and I have puzzled why there are so many U.S. cheese inventories building, relative to farm milk supplies and strong demand.

Why, we’ve wondered, do cheese inventories keep accumulating, in light of solid consumer sales and lower milk output? The current estimate by USDA of one billion pounds of cheese in private storage is a seri-
ously ominous barrier to upwards progress for Cheddar prices at the Chicago Mercantile Exchange (CME).

Elsewhere in this issue, we reference an analysis by dairy consultant Marvin Hoekema about National Milk Producers Federation’s latest brain trust (dead) storm for future federal policy. In one of Mr. Hoekema’s “throwaway” tidbits in his seven-page analysis offers a likely explanation about why there’s so much cheese in U.S. inventories. He wrote:

“The primary failure of the price support system in 2008-2010 was the creation of the cheese for powder swap program created by the USDA and supported by NMPF. In that program, nearly 200 million pounds of CCC NFDM were bartered at rates of 40-50 cents/lb for cheese procured by the USDA for delivery form 2009-2010. Instead of wanting to sell the stocks back when the prices rise (as is the standard procedure), the USDA offered these cheese prices for milk that had continued near support levels, just over the 90 cent level, while the participating processors pocketed the difference and surged cheese inventories to their current record-high levels of 1.0 billion pounds. If the program worked as designed (and as seen in the EU with their tender program), the powder stocks would not have been released until prices lifted. This factor alone is the single biggest reason the support program failed so at least this should be documented."

Thank you, Marvin Hoekema.

To summarize Hoekema’s analysis: USDA failed to dispose of its surplus nonfat dry milk holdings by statute, and the resulting disposal kept most of that product inside the country, where the proteins by statute, and the resulting disposal kept most of the surplus nonfat dry milk abroad … and did so with the urging of NMPF CEO Jerry Kozak! (Editor’s note: Confession – The Milkweed was not properly skeptical of this event at the time.)

USDA ignored export buyer’s request

In early 2009, the method USDA Secretary Vilsack chose to clear USDA’s surplus milk powder holdings was not the government’s only option. As reported in the Chicago Mercantile Exchange (CME) at the time, USDA Secretary Tom Vilsack ignored an opportunity to sell the surplus nonfat dry milk abroad … and did so with the urging of NMPF CEO Jerry Kozak! (Editor’s note: Confession – The Milkweed was not properly skeptical of this event at the time.)

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Hoekema Analyzes NMPF’s FIFTF, con’t

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points to as a major source of the 1.0 billion pounds of U.S. cheese inventories.

Losing the domestic “floor” price for dairy commodities, at a time that the European Union maintains its support price program, will make the U.S. more vulnerable to global price downturns.

What’s to be done about the Fonteria/DairyAmerica relationship to prevent the New Zealanders (Fonterra) from dumping and distorting U.S. prices for nonfat dry milk and skim milk powders?

- Eliminating both the price support program and MILC-type programs would put the main burden on three groups: small dairy farmer, dry milk balancing plants (usually cooperatively owned), and big importers of imported Milk Protein Concentrate products when U.S. markets fall. NMPF’s level of $4/cwt for milk income over feed costs is inadequate. “I don’t have a single client that a $4 IPC/cwt margin would not represent at least a $4/cwt. loss in addition to the premium charged for the program.”

What will IOFC premiums cost? Hoekema implies NMPF’s estimates for costs are unduly low. NMPF’s history of operating such “milk/ feed price margin” programs is poor.

- Why would not dairy farm production bases as proposed – be transferable?

- Re: NMPF’s proposals for federal milk marketing order “reform” – Hoekema notes that, “The basic premises of FMMO reform in the proposal seems to center around three objectives 1) Prices have to be lower than current 2) Price risk in the milk supply chain shifts even further to the producers and 3) There is no recognition of the growth, now or in the future under the premises of the program.”

- Referring to NMPF’s “supply management” component, Hoekema notes: “The premises is a growth management program (GMP) without any definition on costs, pricing, or expected outcomes/scenarios.” He further criticizes the lack of base transferability, the huge impact on costs of production that might occur in the unlikely event of a butterfat spill. It is inappropriate to treat butterfat as if it poses any nominal potential environmental impact weighs any nominal potential environmental impact.

Abruptly stated: USDA officials never gave that charity the time of day. Rather than clear the surplus milk powder out of the country and into the guts of hungry children in Eastern Europe and the Caribbean, Vilsack (acting in part on the advice of NMPF) dumped the surplus in a manner that has haunted the milk prices received by dairy farmers for the past year-plus. Perhaps USDA would have had to be a bit “creative” in unloading the 200 million-pound order to a foreign-based charity … but USDA was certainly “creative” in the powder-for-cheese swap.

Kevin Dickinson, manager of Liberty Milk Co-op, tells this follow-up tale of efforts he was involved in to export that surplus nonfat dry milk:

A few months after that possible deal died, and USDA’s surplus nonfat dry milk had been committed to domestic use … Dickinson was contacted by a (then recently) retired USDA official from the CCC. That official explained to Dickinson that Vilsack, at the urging of NMPF’s Kozak, had deep-sixed the international hunger charity’s offer to buy up all that surplus milk powder.

So … here we are, more than a year later … with incomprehensible levels of cheese inventories. Maybe, just maybe, if Tom Vilsack had exported the surplus nonfat dry milk, dairy farmers’ milk would have improved by now … instead of being depressed by this glut of cheese inventories for which no easy explanations arise, using the old-fashioned “logic” – consumer demand and farm milk supplies.

Latest CWT Export Scam

Cooperatives Working Together® (CWT) on July 6, 2010 announced another export assistance for Cheddar cheese to the Middle East. According to the press release, “Since they get the key reactivated the Export Assistance program on March 18, 2010 it has assisted members in making export sales of Cheddar, Monterey Jack, and Gouda cheese totaling … 39 million pounds.”

Block Cheddar on the Chicago Mercantile Exchange has averaged $1.39 per pound, March 2010 through June 2010. The Class III price for the same time period averaged $13.18. So, by the time they get through enhancing yield with imported dairy proteins, the cheese probably cost in the area of $1.30 per pound.

Then CWT enhances the deal at $1.40 per pound. They could landfill the stuff and make $0.10 a pound. World Cheddar price has averaged $1.78 per pound in the in the March through June time frame. According to the U.S. International Trade Commission data for the latest available month, April 2010, the export price for cheese was $1.51 a pound. Where is the compelling need for export assistance?

CWT is nothing but a subsidy on the major dairy co-ops’ inefficiencies.

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