

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

by Pete Hardin

Sometimes ... time is required for the pieces of the puzzle fit together. For months, John Bunting and I have puzzled why there are so much 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 serious 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 (dead) storm for future federal dairy policy. 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 mil. 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 statute), the CCC released this powder while prices 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 later appeared as cheese ... and contributed to our cheese inventory glut.

Keep in mind: 2009 was one of the greatest cheese sales years in history. Cheese sales at retail establishments soared – the greatest such gains ever – as Americans prepared more meals at home and used lots of cheese in their foods. And during the second half of 2009, Mozzarella production showed that Americans were back enjoying the fare at pizza parlors. From July through December 2009, Mozzarella production gained 5-6% above same-month, year-ago levels figures.

So why all this cheese? Blame USDA's disposal of nonfat dry milk surpluses. There were no significant aging problems with inventories – most of which had not been purchased prior to early fall 2008. Blame NMPF also – the dairy co-op lobby cheered on Tom Vilsack's decision to dump nearly 200 million pound of nonfat dry milk on the domestic market, (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 Milkweed* 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: (In early 2009, Vilsack was just weeks into his new post as the nation's farm/food chief. Given Vilsack's relative lack of knowledge about dairy, he relied then, as now, on NMPF for policy guidance.)

In early 2009, a charitable relief organization based in Eastern Europe sought to buy all 200 million pounds of surplus milk powder held by USDA's Commodity Credit Corporation. A U.S.-based representative of this charity worked with Liberty Milk Cooperative, a small, Wisconsin-based dairy co-op, in trying to gain the attention of USDA's higher-ups for sale of the surplus U.S. milk powder to the international charity.

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 gullets 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 Dickinsen, 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 ... Dickinsen was contacted by a (then recently) retired USDA official from the CCC. That official explained to Dickinsen 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.