

Testimony of
Mary Keough Ledman
On Behalf of
New Mexico Milk Producers

FMMO Hearing

Docket No. AO-14-A77, et al.; DA-07-02

Week of April 9, 2007

My name is Mary Keough Ledman. I reside at 1642 Old Barn Circle, Libertyville, Illinois 60048. I am an agricultural economist that provides consultation to the dairy industry. My previous public service includes employment with USDA's Federal Order 30, Glen Ellyn, Illinois, and the Foreign Agricultural Service and the National Agricultural Statistic Service in Washington, D.C... My private sector experience includes: Manager of Dairy Economics for Kraft Foods and Director of Materials Planning for Stella Foods. For the past 12 years, I have been employed by Keough Ledman Associates, Inc a dairy economic consulting firm that provides:

- Monthly dairy product and milk price forecasting
- Economic, financial and policy analysis
- Dairy product and milk sourcing strategies
- Domestic and international market information
- Expert Witness Testimony

I appear here on behalf of New Mexico Milk Producers in support of using dairy product prices transacted at the Chicago Mercantile Exchange rather than surveyed dairy product prices as published by the National Agricultural Statistical Service (NASS) for the calculation of the monthly Class I, II, III and IV prices.

- Background: How and why did the NASS prices evolve?
- Expansion of NASS Prices with Federal Order Reform
- NASS Prices validate Chicago Mercantile Change Cheese and Butter Prices
- NASS Nonfat Dry Milk prices do not track the current cash nonfat dry milk prices
- The U.S. nonfat dry milk market is unique because there are few sellers.
- One entity markets more than two-thirds of the nation's nonfat dry milk production
- Key challenges with NASS surveyed prices include:
 - Circularity
 - Disincentive to Obtain or Report Higher Product Prices
 - Disincentive to Produce Surveyed Products
 - Timeliness/Unnecessary Lag

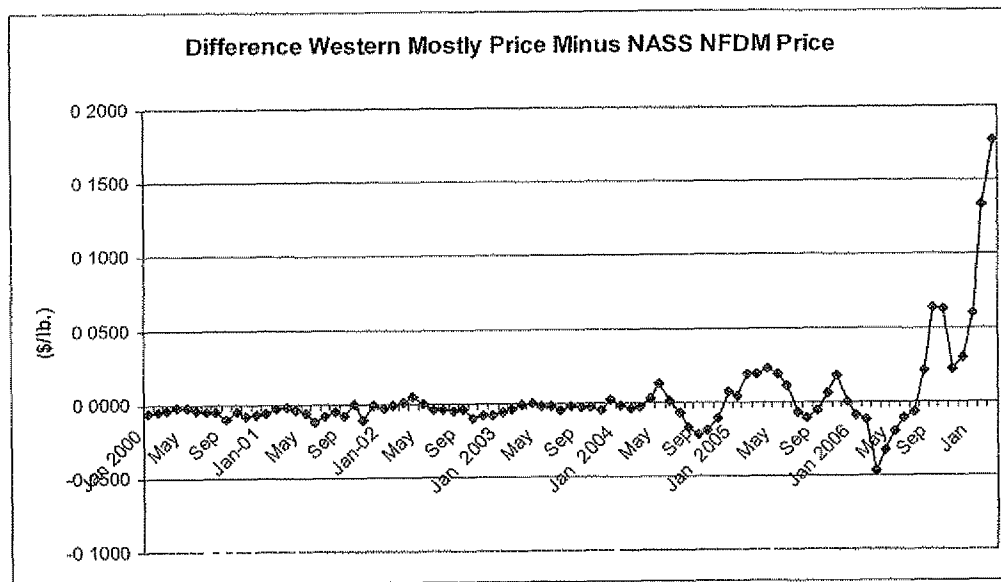
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- Surveyed population limited to known producers of bulk product
- Growing difference between the NASS nonfat dry milk price and the nonfat dry milk prices reported by Dairy Market News as well as the CME nonfat dry milk price.
- NASS may have obtained mandatory reporting for dairy product prices in the 2002 Farm Bill but it does not have audit authority. Therefore, it is difficult for NASS to know if the product prices being reported adhere to the reporting instructions.
- Figure 1 below illustrates the growing difference between the Western Mostly NFDM price and the reported NASS NFDM price.
- The difference between the Central States Mostly NFDM price and the reported NASS NFDM price is even greater.
- During Q1 2007, the monthly NASS NFDM price averaged \$0.12 per pound less than the average Western Mostly Price. That translates into a \$1.03 per cwt lower Class II and Class IV prices.
- The Western Mostly Price ranged from \$1.1725 to \$1.75 per pound for the week ending March 30th. The NASS price for that week was \$1.2378 per pound.

Figure 1. The Difference between the Western Mostly Price and the NASS NFDM Price



The Chicago Mercantile Exchange is a preferred price discovery mechanism:

- The CME is a public forum for both buyers and sellers to enter the market place
- The CME has expanded its dairy complex since 1997
- Use of CME prices provides more timely market signals.
- CFTC oversight
- As the dairy industry moves towards a more market-oriented pricing environment, it is even of greater importance to have timely and transparent pricing data for all market participants.