

Land O'Lakes Opposes Proposal Fifteen

The Dairy Farmers of New Mexico propose that the CME Price series be substituted for the NASS Price Series for the purpose of calculating the Class I mover and the Class II, III and IV prices. This issue was fully discussed in the 2000 Hearing and the 2003 Final Decision ruled that the NASS survey was superior to the CME for purposes of setting class prices.

In their December 22, 2006 letter to AMS, the proponents state "price circularity in the NASS survey" as their rationale for forwarding their proposal. They correctly state that proponents of changing the make allowances at the 2006 hearings argued that manufacturers were unable to pass on increased costs to customers because all price increases were captured in the NASS survey and ultimately returned to dairy farmers through increased class prices.

The proponents fail to support the obvious solution to price circularity, a timely and fair updating of the make allowances. Fixed make allowances guarantee that all commodity price increases are passed to the dairy farmers through increases in class prices. Failure in the system which guarantees the dairy producer participation in commodity market occurs when the Department fails to set realistic make allowances. Inability to pass on price increases by manufacturers to customers becomes a non-issue when make allowances are fairly and regularly set.

In 2003, the Secretary determined that the CME is a thinly traded market and that the NASS price survey better represents the weekly sales prices of commodities. The following chart is gleaned from summing the weekly NASS sales transactions between January 8, 2005 and December 31, 2005 and the total CME transactions for 2005, as reported on page 14 of Dairy Market Statistics, 2005 Annual Summary.

Comparison of NASS and CME Sales Volumes – 2005

	NASS Volume	CME Sales	CME Volume
Cheddar Blocks	440,873,732	805	33,810,000
Cheddar Barrels	528,957,699	190	7,980,000
Butter	168,058,411	1,545	64,117,500
NFDM	900,700,849	5	217,500

Updated evidence, concerning the scope of current market transactions between the NASS and CME surveys, does not change the conclusions of the 2003 Final Decision. (67 FR 67912)

Additionally the Final Decision noted that the NASS is a national price survey, while the CME's is geographically defined market. Sales specifications require that CME butter transactions occur only in approved facilities located in Chicago, that cheese be transacted within 300 miles of Green Bay, WI and that NFDM sales be delivered to approved facilities within 300 miles of Chicago. Cheese and NFDM transactions may be executed at other approved facilities, if a freight allowance is paid. (http://www.cme.com/clar/contract_specifications) Setting a Federal order class price based on a survey of national manufacturing production costs require that the commodity pricing series be national in scope.