

Sally Blakeslee  
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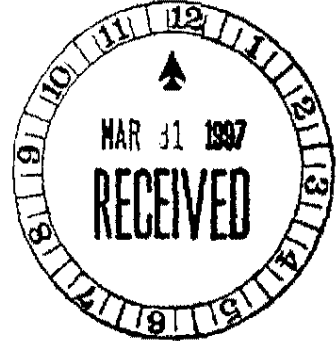
Bill Brooks



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FOR-1353

# FAX COVER SHEET



DATE: March 31, 1997

TO: Attn: BFP Evaluation

FROM: John Wilson

This FAX message has 5 pages including this cover sheet. If you have any questions, or if all pages are not received, call the person who sent you the FAX message from Mid-Am. Our telephone number is 417 865-7100; FAX number is 417 831-8145.

COMMENTS: \_\_\_\_\_  
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## Where Quality Starts Fresh Twice Each Day!

**MID - AMERICA DAIRYMEN, INC.**

3253 E. CHESTNUT EXPWY

• SPRINGFIELD, MISSOURI 65802

• A.C. 417/865-7100

March 31, 1997

Dairy Division, AMS  
USDA  
Attn: BFP Evaluation  
Room 2968-S  
P.O. Box 96456  
Washington, DC 20090-6456

On January 29, 1997, Secretary of Agriculture Dan Glickman requested industry comments on whether National Cheese Exchange price data should be used in the determination of the Basic Formula Price used in Federal milk marketing orders. This letter states the position of Mid-America Dairymen on this issue.

Mid-America Dairymen, Inc. is a dairy cooperative representing over 17,000 dairy farmers located in more than 30 states across the continental United States. During 1997 we will market more than 22 billion pounds of milk (approximately 14% of the national milk supply).

Mid-America Dairymen, Inc. is a major producer and marketer of a variety of cheeses. We market cheese produced in our own facilities in a number of varieties and package sizes to a broad customer base throughout the United States with some International sales. In addition to the cheese we produce, we buy significant quantities of cheese from outside sources. Cheese is purchased in two ways: 1) a portion of the cheese is bought from firms on a regular committed basis which is supplemented with additional spot purchases from either those firms or other

suppliers; and 2) Mid-Am buys significant quantities of cheese at the National Cheese Exchange. The reason Mid-Am buys cheese from outside sources is because it's sales and marketing program has advanced to the point where more cheese is sold than produced internally.

Mid-Am supports the use of the National Cheese Exchange price in calculating the BFP. The National Cheese Exchange has for many years provided a barometer of supply and demand and provides an open-market forum where both buyers and sellers of cheese determine a cash-market opinion. The market opinion established through this process is used widely as the basis for establishing buying and selling prices for cheese transactions made routinely throughout the year. We believe the National Cheese Exchange has served as a valid price discovery mechanism that reflects supply/demand conditions for block and barrel cheese.

The National Cheese Exchange has come under severe criticism in recent years. Part of this criticism has been due to the small percent of cheese that is traded on the Exchange in relation to total cheese produced and marketed. While the percentage is small, the firms who buy and sell cheese on the National Cheese Exchange represent a high percentage of the total production and utilization of cheese in the United States. Therefore, as supply and demand conditions change, those firms and their actions are an accurate reflection of market conditions and thus the price discovery mechanism flowing from those conditions do reflect the reasonable and actual value of cheeses to such participants.

The National Cheese Exchange is expected to discontinue trading on April 25, 1997. The Chicago Mercantile Exchange is expected to open a cash market on May 2, 1997. At this point in time it is anticipated that other than anonymous trading, current rules of the NCE will be adopted by the CME, therefore allowing substitution of the CME cash cheese price for the NCE price in the BFP calculation.

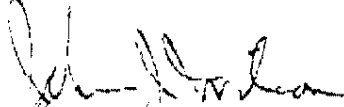
Regarding the use of a cheese price survey by USDA's National Agricultural Statistics Service, we are not ready to support this survey for immediate use in calculating the BFP. There are several potential problems with the survey. Perhaps the most significant problem is its voluntary nature. If cheese plants know their cost of milk is going to be increased when the survey prices go up, there is an inherent conflict of interest built into the system. The incentive from a cheese manufacturer's perspective is to report low cheese prices and not report high prices. There is no audit procedure to assure the accuracy of prices reported. Also, since cheese is made and sold to many different specifications, it may be difficult to arrive at a comparable price. Another concern is the amount of time required to perform such a survey. It is unlikely the results would be available by the 5th of the following month when the BFP is due. The industry needs time to evaluate how such a survey would work and whether it would, in fact, be an improvement or a more accurate reflection of supply and demand than what is presently offered through the NCE/CME.

In summary, we believe that the NCE/CME is a viable mechanism for price discovery and therefore is the best price currently available for use in calculating the BFP. We believe it is a reflection of supply and demand conditions for the product traded. The volatility that has been

experienced in this market, as well as other dairy product markets in recent years, is a reflection of conditions that will prevail as we move toward a more deregulated market. We support any action that will result in improvements in the price discovery tools used in the dairy industry.

Respectfully submitted,

MID-AMERICA DAIRYMEN, INC.



John J. Wilson  
Vice President of Fluid Milk Marketing/  
Economic Analysis

JJW/dr