



# MCT COMPASS

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## *Our toughest customer*

The support prices are \$1.0920 for barrels, \$1.1220 for blocks and \$1.1745 for 5-lb. process American. Yet when barrels and blocks can trade for \$1.00 at the CME, it suggests there's a 9-12¢ cost to sell product to the government.

There are substantial differences in selling cheese commercially versus selling it to CCC. The government's purchasing process has become bogged-down by an over-worked USDA lab, outdated packaging specifications and stringent grading practices.

**Testing.** Most commercial buyers allow product samples to be tested either in-house or at an outside certified laboratory. The turnaround time for commercial sampling is less than five days. However, the government will only accept product that has been tested at a single USDA lab in North Carolina. Because of the backlog, companies have had to wait two or more weeks for results.

Companies supplying USDA with product under the invitation/bid process have many labs to choose from. Curiously, CCC accepts certification from this single lab only.

**Packaging.** CCC's requirements for barrel cheese are considerably more stringent than what the industry accepts for commercial sales. Commercial sales of barrels may come in steel, fiber or corrugated. USDA will only allow fiber barrels not less than .09 inches thick. The

packaging must be a three-piece barrel with metal-strapped covers. By comparison, fiber barrels sold on the CME require a minimum of six plies and have a thickness of not less than .07 inches. The higher-density barrels for government cheese adds about 3¢/lb. to the product.

Again, these requirements are even stricter than what USDA accepts for its day-to-day business, in which commercial packaging is permitted. Some companies have asked for, and received, waivers from CCC on packaging requirements for processed cheese to facilitate sales.

**Grading.** Most manufacturers have experienced the frustration of having cheese rejected by government graders for rounded corners or other minor cosmetic reasons, rather than for quality. Some have even suggested that grading is more zealous for natural cheese than for process because the government would rather buy process cheese for its programs. All this has a tremendous cost to the dairy industry.

Of course the government should ensure the safety and quality of the product it buys. But they seem to forget that this cheese is coming from USDA surveyed and approved plants to start with.

The government shouldn't be our toughest customer. If USDA and FDA allow this cheese to be sold commercially why isn't it acceptable to CCC? □

## KEN'S CORNER



*by Ken Meyers  
President  
MCT Dairies, Inc.*

One could debate the merits of whether we should have a support program at all. But if we're going to have one, it should

be functional. Having a safety net with a hole in it is not helpful to anyone (*see story at left*).

USDA's methods could be construed as fiscal policy through grading. So instead of selling to the government, processors prefer to discount their product in the marketplace.

This practice is more than just an inconvenience. It cost the cheese industry at least \$35 million in October. By delaying CCC purchases, the CME price has fallen at least 7¢ lower than it should have. The industry prices about two-thirds of its cheese off this deflated CME price.

Further, why is there no support on mozzarella and other cheeses used in domestic programs? If the government needs these varieties, maybe it should buy them through the support program.

If the safety net has a hole in it, USDA is obligated to patch it up. Without that fix, the only true safety net we'll have is the world market price. □

## Outlook: Ugly, ugly, ugly, ugly, ugly, ugly

Blocks and barrels should move up once product starts moving to CCC, but the outlook is still bleak for the foreseeable future. After the holiday buying pull, cheese inventories will start building again. CCC will need to clear at least 50-

100 million lbs. of cheese off the market before prices can right themselves.

Butter is in a slightly better position, but still wobbly. Little excess is hanging over the market.

*(Note: These forecasts presume no changes are made to Class III or IV formulas and no butter-powder tilt.)* □

## Visit [mctdairies.com](http://mctdairies.com)

MCT Dairies launches its website, [www.mctdairies.com](http://www.mctdairies.com), on Nov. 13. The site will provide a wealth of useful tools and information.

The MCT site features an interactive offer list, a virtual marketplace where dairy product buyers and sellers can complete transactions.

Other features include spec sheets for products offered by MCT, daily prices and weekly averages, links to other dairy sites and posting of the *MCT Compass* and other company material.

For more information about the website, email [info@mctdairies.com](mailto:info@mctdairies.com). □

### MCT Forecast

	<b>Block*</b>	<b>Barrel*</b>	<b>Class III</b>	<b>Butter*</b>	<b>Class IV</b>
<b>NOV</b>	<b>1.0250</b>	<b>1.0025</b>	<b>8.54</b>	<b>1.2400</b>	<b>11.88</b>
<b>DEC</b>	<b>1.0550</b>	<b>1.0325</b>	<b>8.84</b>	<b>1.1600</b>	<b>11.98</b>
<b>JAN</b>	<b>1.0900</b>	<b>1.0600</b>	<b>9.17</b>	<b>0.9750</b>	<b>11.19</b>
<b>FEB</b>	<b>1.0925</b>	<b>1.0625</b>	<b>9.22</b>	<b>0.9500</b>	<b>10.85</b>
<b>MAR</b>	<b>1.0975</b>	<b>1.0675</b>	<b>9.27</b>	<b>0.9500</b>	<b>10.84</b>
<b>APR</b>	<b>1.1400</b>	<b>1.1100</b>	<b>9.49</b>	<b>1.0200</b>	<b>11.00</b>

\* Block, barrel and butter are monthly averages of CME prices.

## Where has all the powder gone?

While the USDA purchasing spree of cheddar cheese is just beginning, it has been gobbling up skim milk powder (SMP) in huge quantities for the last 22 months. USDA has bought more than 700 million lbs. of SMP since January 1999, and it reports no "uncommitted inventories." But this doesn't mean all that powder really has a home.

Once CCC takes possession of the powder it buys, it makes it available to other agencies within USDA to supply program needs. For example, the CCC has made available, or "committed," 155 million lbs. of powder to the Food Nutrition Service

(FNS) for use in programs like the school lunch program and military use. An additional 260 million lbs. has been "committed" to the Foreign Agricultural Service (FAS) to be used in foreign donation programs.

But neither FNS nor FAS has found homes for all the SMP that has been made available to them. It is unlikely that FAS will be able to donate more than 40 million lbs. of product without disrupting the commercial international market. Furthermore much of this product is approaching a year old. The older it gets the harder it will be to find commercial food-grade buyers.

At some point this excess product could be made available to

the commercial market. USDA might "uncommit" its offerings to FNS and FAS if supplies of powder tightened dramatically and the price jumped to, say, \$1.10. But that's a far cry from what's happening in the marketplace today.

Production year-to-date is up 9% from a year ago, while commercial disappearance is said to be down 8%. The best hope for recovery might be from the export market. The world market price is approaching the U.S. price level.

It remains to be seen whether the world market can relieve USDA of some of its commitment. □

