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MCT COMPASS

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Gridlock!

One of the challenges that comes with working in an industry so heavily controlled by the government is that we spend a lot of time looking over our shoulders waiting for policy-makers to make decisions. Unfortunately, the government decision-making process is achingly slow and rarely transparent. What's a company to do?

Tilt: Yes or No?

The industry began speculating on a new butter-powder tilt within a few months of the last one – the one that dropped supports on powder to 90¢ in June 2001. Ten months ago, USDA announced that it wasn't making a tilt at that time, but reserved the right to do so sometime in the future.

So we wait. We waited for the Farm Bill discussions to be over. The Farm Bill came and went, and still no word, yea or nay, from USDA. Now we're waiting for next week's elections to be over. Will USDA announce a tilt then? It's anybody's guess. If USDA has a plan for the dairy industry, it's chosen not to share it.

The crash of the butter market complicates the situation a bit. If USDA drops powder supports by a dime to 80¢, it would effectively raise the butter support price to about $1.05. Over the last five months, the butter price has averaged $1.01, and huge butter inventories make it unlikely the market can sustain a move too far above that level for the foreseeable future.

So here are USDA's choices: Make a tilt and they'll start buying and storing butter, plus incur the wrath of dairy producers and cream users. Don't tilt and they'll continue spending $11 million per week to take powder off the market and store it away until it rots. Do a small tilt (say, a nickel) and they'll take political heat from everybody.

DEIP-freeze

On the other hand, one could speculate that the partial allocation of DEIP is a sign that a butter-powder tilt is imminent.

Here's why: with the world powder price at about 60¢/lb., the government has to pay bonuses of about 30¢/lb. for our product to be

Continued on page 2

KEN'S CORNER

by Ken Meyers
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"Trust me, I'm from the government and I'm here to help," goes the old bromide – but maybe we're relying on Uncle a little too much these days.

This issue of the MCT Compass provides a progress report on several stalled government programs that are causing gridlock in the dairy industry. The mind-numbing complexity that smothers the dairy industry is great for keeping consultants, lawyers and lobbyists employed, but it's a real detriment to the dairy industry.

When we wait for other entities to make decisions that impact our business, we become poor planners and passive managers. When we wait for others to bail us out of trouble, we fail to take responsibility for solving our own problems. All this stifles innovation, hampers investment and causes misallocation of resources.

Maybe instead of putting so much trust in the government, we should learn to trust each other and ourselves. It's our industry. Maybe it's time we took it back and started resolving some of our own issues. ❑

Rally falls flat

Cheese prices are back below support after a five-week run, but we believe holiday demand will drive the market higher over the next month. Milk supplies are finally tightening in response to the low prices of 2002 and that should put a crimp in cheese production next year. We look for blocks to approach $1.30 in the first quarter of 2003. That'll translate into Class III prices slightly above $11.00.

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV
OCT	1.1925	1.0975	10.70	1.0325	10.47
NOV	1.1050	1.0800	9.65	1.0675	10.66
DEC	1.1500	1.1250	9.70	1.0650	10.74
JAN	1.2275	1.1975	10.50	1.0500	10.37
FEB	1.2500	1.2225	11.00	1.0750	10.18
MAR	1.2650	1.2350	11.15	1.1200	10.14

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

Large inventories will keep the butter market from advancing over the near term. However, the potential for a butter-powder tilt *(see story, p. 1)* will put an effective floor near $1.05 on the market. ❑

Gridlock! ...

Continued from page 1

competitive. But if USDA reduces powder supports by a dime and the market follows, bonuses will only need to be 20¢/lb. On the balance of the DEIP volume – 112.8 million lbs. – that dime saves the government $11.3 million on bonuses.

Unfortunately, this strategy carries a large risk. By withholding DEIP, USDA is undermining years of market development efforts by U.S. exporters to convince buyers they can be reliable suppliers. Erasing this reputation has been an uphill battle since the end of the Uruguay Round. Exporters have been working overtime since then learning to become commercial exporters. But now, customers are grumbling about our fickle supply capabilities and awarding the business to steadier suppliers instead.

The government *has* cranked up its food aid donations. Since July 1, the United States has approved donations of 70.4 million lbs. of SMP through Food for Progress and 416(b) programs. Last year during the same period, 46.0 million lbs. was donated.

This policy is keeping some powder from piling up in CCC caves, but it's not really a substitute for DEIP. And in the meantime, exporters don't know when, or if, USDA will invite bids for the remaining SMP allocation.

Domestic MPC production

Speaking of spitting into the ocean, USDA finally made some progress last week on its SMP sellback for casein program. After coming up empty on three previous tenders, USDA agreed to accept 26¢/lb. from American Casein Co. for 336,931 lbs. and 30¢/lb. from Dairy Farmers of America for 773,134 lbs.

The 1.1 million lbs. will make only a tiny dent in CCC's 1.1 billion lb. inventory, but it's a start. It relieves the government of 2-3 year old powder that wouldn't have lasted much longer. And now that a price level has been established, USDA should receive additional bids going forward.

Another avenue gaining support in the dairy producer community is the creation of a subsidized domestic milk protein concentrate (MPC) program. The Alliance of Western Milk Producers, the main proponent, explains that rather than buy and store SMP, CCC could instead use its funds to subsidize the domestic production of MPC and casein, with CCC making up the difference between the world price and the domestic cost of production.

While USDA has not made any decision on whether or not it supports a domestic MPC program, the Department does have the authority under Section 5 of the CCC Charter Act to use CCC funds to increase consumption of domestic agricultural commodities by expanding or aiding in the expansion of domestic markets or by developing or aiding in the development of new and additional markets, market facilities, and uses for such commodities. ❑

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