April 29, 2003

MCT COMPASS

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Searching for the Fix

Supply management proposals have become a permanent fixture of dairy pricing cycles: prices rise, prices fall, producers start talking about supply management. This year's down-cycle is no different.

In two weeks, the members of National Milk Producers Federation will vote on whether to accept "Cooperatives Working Together" – CWT for short – a three-pronged plan to rein in supply while boosting sales.

The provisions are still being hammered out behind closed doors, but the general concept proposed is to collect 17.9¢/cwt. from producers to pay for production reduction and culling programs that would knock supply down by 1.6%, while paying bonuses to exporters to ship 100 million lbs. of cheese and 30 million lbs. of butterfat offshore.

By straightening out supply and demand, NMPF says, milk checks will be enhanced by 82¢/cwt., net the assessment and lower MILC subsidies resulting from higher prices. Of course, that's just an average. Because reduced MILC payments affect small producers more than large producers, a 100-cow dairy will see a net benefit of about 54¢/cwt, while a 1,000-cow dairy will see a net benefit of almost twice that much.

NMPF's plan is based on getting full participation from all its member co-ops, which represent about 70% of the nation's milk supply, or 120 billion lbs. That provides a budget of nearly $215 million. NMPF also is actively soliciting non-member co-ops and independent producers in hopes of pushing the coverage closer to 80%. NMPF is targeting a June start date, with the war chest divvied up in the following fashion:

1. About half the assessment will pay for a herd/bred cow buy-out program, in which farmers will bid for the right to cash out and retire their entire herds, or be paid $1,000/cow to send their bred cows to slaughter. NMPF projects it can remove 125,300 head this way, equivalent to a reduction of about 2 billion lbs. of milk over the next 12 months.

2. About one fourth of the assessment will pay for a privatized DEIP, in which exporters and

Continued on page 2

KEN'S CORNER

by Ken Meyers
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At this writing, NMPF's CWT plan is the hot topic in the industry, but it's still too early to tell the plan has legs or it ends up just being talk.

The devil's in the details, and, of course, there are unanswered questions: Is this type of organization permissible under Capper-Volsted? Is the export component permissible under the WTO? And how will it affect DEIP? What will a buy-out do to heifer prices? And most importantly, will smaller producers from the Eastern half of the country – who see the nation's oversupply situation as a Western problem – have enough incentive to belly up to the bar?

Either way, NMPF should be applauded for the effort. I'm a strong proponent of personal responsibility and it's great to see industry groups attempt to find solutions on their own, rather than turning to the government at every sign of trouble. ❐

Higher prices ahead

With production growth finally slowing down, cheese and butter prices are poised to move higher over the summer and autumn. In the first quarter of 2003, total U.S. milk production increased just 1.3% – half the growth rate of 2002.

We look for cheese prices to start climbing next month, rising into the low-$1.30s by September. This will push Class III prices above $11.50 this fall.

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV
APR	1.1200	1.1000	9.40	1.0930	9.75
MAY	1.1525	1.1225	9.70	1.1150	9.80
JUN	1.2100	1.1800	10.20	1.1275	9.90
JUL	1.2650	1.2350	10.90	1.1500	10.20
AUG	1.3000	1.2700	11.40	1.1750	10.35
SEP	1.3300	1.3000	11.70	1.2000	10.50

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

Heavy butter stocks will limit price gains for the foreseeable future. With modest seasonal gains over the next six months, butter prices are expected to approach $1.20 by Labor Day. ❐

Searching for the Fix ...

Continued from page 1

manufacturers will bid for bonuses to subsidize exports of cheese and butterfat. NMPF projects the milk equivalent (total-solids basis) of this effort will be 1.2 billion lbs. over the next year.

3. About one-sixth of the assessment will pay for a voluntary plan to reduce milk marketings, in which producers would be paid $5 for each hundredweight less milk they produce this year vs. last year. NMPF projects a reduction of 700 million lbs. of milk over the next year through this program.

It's easy to dismiss CWT because all supply-control efforts since the Whole Herd Buyout in the mid-1980s have failed to gain the necessary broad support. Dairymen have been notoriously wary of cutting back on production if they think another farmer somewhere else isn't doing so as well. Previous plans also have been derailed because the market has turned around before producer groups can get a program off the ground.

Still, NMPF leadership is hard at work, campaigning down to the wire for support. The key is whether they can entice enough of the large producers in the West to play ball.

Some fear CWT could have an even greater effect on pricing than projected.

In 2002, the 11 continental states West of the Rockies realized a 6.3% increase in milk production, a gain of 3.9 billion lbs. Production increased fractionally (+395 million lbs., +0.4%) in the other 39 states in the Union. In California, Idaho and New Mexico alone, producers have added 96,000 cows in the last year. Therefore, the success of CWT hinges on whether Western producers are willing to put their expansion plans on hold.

On paper, the program has some appeal for dairy producers, who are languishing with the lowest pay prices in more than two decades. NMPF projects the plan will result in an average increase in the All-Milk price of $1.30 over the next year. But some fear that if CWT works as planned, it could have an even greater effect on milk and product pricing than projected.

In recent history, when milk supply has declined by more than 1%, the product shortages that followed usually triggered a dramatic increase in prices. In the last 14 years, there have been 24 months in which milk production has trailed year-earlier levels by at least 1%. In those 24 months, the BFP/Class III price was, on average, $1.46 higher than the prior year. ❐

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