

## Sen. Specter Calls

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has been used by the USDA as a major factor in determining the Basic Formula Price (BFP) of milk. The BFP sets a standard from which farmers are paid for their milk. The BFP replaced the Wisconsin-Minnesota price series that had been used to calculate farmer milk prices.

Based on findings by his staff, Specter said the price of cheese reported at the NCE was 16 cents too low and that correlated to a \$1.60 per hundredweight price difference in the price of milk.

Mostly just shying away from outright accusations of collusion by the major cheese manufacturers involved with the NCE, a number of organizations and individuals have suggested strongly that the cheese price at the NCE was made artificially lower than what it should have been by cheese manufacturers dumping product on the market and buying it back at an apparent loss.

That apparent loss was on what amounts to less than 2 percent of the cheese manufactured in the United States, and it dropped the price of milk dramatically.

Up until the NCE price drop, dairy producers were receiving prices around \$16 per hundredweight.

Cheese manufacturers and other dairy processors purchase milk from farmers in a delayed payment system — the farmer pays to have the milk hauled to the processor and then, at the end of the month, the processor pays the farmer based on what the USDA determines is a fair price.

The benefit to cheese manufacturers to take an apparent loss by selling cheese and purchasing it back at a lower price is apparent — the amount of cheese sold at a loss is minor compared to the profits the companies could enjoy by purchasing milk at much lower prices.

While the federal Legislature approved the 1996 Farm Bill with the intent of abandoning government price supports and price-setting, the BFP was and is retained as a pricing tool until it is eventually phased out.

In the meantime, some farmers groups had been calling for a different method of determining milk price — one that guarantees a break-even return on the investment cost of production.

However, every dairy farm operates with a different cost of production. According to a founder and president of a 2-year-old dairy farmer organization, the cost of production was calculated at \$17 per cwt.

Others have reported being able to produce milk for under \$11 per cwt.

Instead of that type of cost-of-production formula, Sen. Specter said that he favors abandoning the NCE in favor of using a different testing system of the cheese market.

Though calling for including production costs in the formula for farmer milk prices, Specter said Tuesday that he doesn't know how a price of production could be determined. "We're looking into that," he said.

Since the nationwide outcry to the price of cheese at the NCE in Green Bay, Wis., and calls for an anti-trust investigation, the organizers of the NCE have since dropped the Green Bay trading operation and received permission to move it to the Chicago Board of Trade, where it can receive federal oversight and potentially additional buyers.

Specter said Tuesday that he believed that calls for anti-trust investigations did pressure the NCE to move its activities from

Green Bay to the CBT.

He also noted that many agricultural processing industries — such as commercial slaughter and meat packing businesses — are very close to needing scrutiny for anti-trust activities.

"I think the Department of Justice needs to look at (anti-trust among United States agricultural processors)," Specter said.

Specter said Tuesday that he intends to introduce legislation to get the cost of production included in the BFP and criticized Secretary Glickman for not acting quickly enough to use his emergency authority to make a correction.

However, while the U.S. Secretary of Agriculture does have such authority, it can not be used without first holding public hearings and receiving public testimony. Secretary Glickman began a public call for comment on the BFP and milk pricing in late January and set the public testimony period to end March 31.

It can be assumed that it would take a couple of weeks to compile and review the testimony before coming to a specific decision as to

what is to be done.

Specter said his staff submitted its research to Glickman, but, as of April 1, nothing was yet done.

From the standpoint of the agriculture secretary, testimony from Specter must be considered equally with that of all citizens.

Though the headquarters of two of the state's main agricultural organizations — the Pennsylvania

a Farm Bureau and the State Grange — were not made aware of Tuesday's meeting, about 35 people attended the event, some indicating their representation of those farm organizations.

Bob Junk, of the Pennsylvania Farmer's Union was present, though he also noted that notice was made to him almost too

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## BFP Milk Futures

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month to the nearest cent.

Position Limits: 1,000 contracts net on the same side of the market in any one month. 250 contracts net for the period extending from the first Exchange business day of the week containing the third Friday of the expiring contract month to and including the last trading day. Combine published "futures equivalent" ratios of option positions. Exemptions may apply for hedge, straddle and arbitrage positions. Contact the Exchange for more information.

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and options contracts, along with market commentary, are available dairy via the Exchange's Home Page at <http://www.csce.com>. Educational materials on the new BFP milk futures and options markets, including a product brochure, hedging strategies, market information and a pamphlet detailing the cash settlement process, are available from the Exchange. Contact the CSCE Marketing & Communications Department at 1-800-HEDGEIT or (212) 742-6100, fax (212) 748-4321, or e-mail the Exchange at [csce@ix.netcom.com](mailto:csce@ix.netcom.com).



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