



## CSCE Considers Changes In BFP Milk Contract

NEW YORK, N.Y. — In anticipation of possible changes in the United States Department of Agriculture's (USDA) Basic Formula Price (BFP) for milk, the Coffee,

Sugar & Cocoa Exchange, Inc. (CSCE) recently announced that as a temporary measure it will list no new BFP milk contract months beyond March 1999. The Commodities Futures Trading Com-

mission (CFTC) has recommended that the Exchange address the need for potential contract amendments in preparation for a shift to a new federal milk pricing system.

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"The decision not to list new contract months beyond March 1999 is a necessary and timely step to ensure that our contracts will continue to meet the evolving risk management needs of the dairy industry," said CSCE President James J. Bowe. "New contract months will be listed, after the Board decides upon appropriate contract amendments to accommodate potential changes in the benchmark pricing mechanism for milk. By anticipating evolving market conditions, the Exchange seeks to provide an orderly transition from the current BFP to any new USDA cash pricing series for milk," added Mr. Bowe.

The CSCE has worked closely with the dairy industry from the beginning of the decade to develop effective risk management tools. The demonstrated promise of its BFP cash-settled contracts led the Exchange to create, develop and submit a proposal upon which the USDA based its proposed Dairy Options Pilot Program (DOPP). The initial proposal was designed by the CSCE to help dairy farmers learn how to use BFP put options to establish a price floor. The CSCE's consideration of possible changes in the BFP contract also takes into account the need to protect the viability of this important educational program.

Listing of months will resume when the Exchange Board of Managers determines whether the contract needs to be amended to reflect any new milk pricing mechanism. The current contract, which calls for listing in each month of a 13-month cycle, is cash settled against the BFP which is announced monthly by the USDA.

Since 1995, the BFP has served as the dairy industry benchmark for pricing milk that is sold under the Federal Milk Marketing Order System. The USDA has proposed various alternative formulas to replace the BFP as the price of Class III milk (milk used to make cheese and other "hard" dairy products) and is currently examining extensive public comment on those proposals. The Department will make a decision on replacing the existing pricing mechanism by April 1999.