

CWT Rolls Out Export Assistance Plan

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President

To implement the second year of Cooperatives Working Together (CWT), the National Milk Producers Federation board of directors decided the program would utilize two of the elements used in last year's CWT – export assistance and herd retirement.

By utilizing the Export Assistance program, CWT hopes to prevent a reduction in farm milk prices by lowering domestic stocks of butter and cheese. Since farm milk prices are tied to wholesale cheese and butter prices, lowering domestic stocks of those products will decrease supply, which in turn, should increase prices.

The Export Assistance target prices, set 10 cents higher this year at \$1.40 per pound for cheese and \$1.30 per pound for butter, were raised because last year, only a small amount of cheese (3 million pounds) and no butter were exported during CWT's first year of operation.

When the CWT program decided to raise the target prices, block cheese prices had previously dropped on the Chicago Mercantile Exchange (CME) from April's high of \$2.20 per pound to under \$1.40 in early July. Unfortunately, this downward pricing trend is forecasted to continue through the end of the year.

If those prices fall below the Export Assistance program price targets, CWT's goal is to export up to a total of 20 million pounds

of cheese and 7 million pounds of butter. Together, that represents an equivalent of 332 million pounds of milk.

Exports will occur when overseas buyers are found for butter and cheese, and CWT members will bid to be compensated for selling those products to the importers. CWT officials have found there is an existing demand for American dairy products in foreign markets and will use the Export Assistance program to meet that demand.

It was interesting to see CME block cheese prices react immediately to CWT's mid-July target price increase. On the Friday that the announcement was made to implement Export Assistance and set the price for cheese at \$1.40, CME cheese prices were at \$1.39 1/2 for blocks and \$1.36 for barrels. The following Monday, 88,000 lbs. of cheddar cheese was accepted in the Export Assistance program and shipped to the Netherlands. That same day, CME cheese prices for blocks and barrels both moved to just above \$1.40.

So far, it appears CWT's Export Assistance made an immediate impact on the marketplace. However, we will have to wait and see how long the markets are able to keep cheese and butter prices just above the CWT price targets. As I am writing this article, cheese prices are still above the \$1.40 CWT target price, with blocks at \$1.48 and barrels at \$1.45.



A second portion of CWT will consist of another herd retirement program. While preparations are underway to roll that portion of the program out, the committee decided to wait until milk prices are lower, in an attempt to avoid any public backlash. Efforts are currently underway to inform the public, via the media, that the milk price paid to the farmer has dropped and may drop further, to the point that many farms may once again experience financial difficulties.

The second year of CWT began July 1 this year, collecting 5 cents per hundredweight from participating producers on their milk production through June 2005. The assessment will help reach CWT's goal to reduce domestic milk supply by 1.2 billion pounds through the two supply reduction programs. If that goal is met, it is estimated the program will result in an additional 61 cents per cwt., which equates to a total dairy farmer income increase of \$1.3 billion.

We will keep you updated on CWT through this column and other communications. If you have any questions about CWT, please contact me in the Novi office.

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