- Dairy Forward Contracting -

MYTH: *Other commodities like wheat, corn, pork and beef utilize forward contracts, milk should too.*
FACT: Milk is unlike other commodities in that the federal government guarantees a "minimum price" via the FMMO. Due to the perishable nature of milk, it cannot be stored like other commodities for future sale. Furthermore, dairy producers currently utilize forward contracts on the CME, which is milk not regulated by the FMMO and therefore not guaranteed a minimum price. The dairy forward contracting pilot program was of FMMO-regulated milk.

MYTH: *Forward contracting will increase competition in the dairy marketplace.*
FACT: If forward contracting becomes law, milk handlers will have a captive supply of milk which reduces, not increases competition. Captive supply in other agricultural sectors has translated to significantly reduced competition and lower prices. Forward contracting decreases demand in the open (spot/cash) market by allowing processors to lock in supply in advance and allows processors to push down the price paid to producers by not having to buy milk on the cash market.

MYTH: *Forward contracting does not conflict with the Federal Milk Marketing Order (FMMO) system.*
FACT: Dairy forward contracting will undermine and eventually eliminate the FMMO system because all milk handlers will have a captive supply of product. The FMMO was established years ago to ensure the orderly marketing of milk, but once forward contracting passed, milk will be bought and sold under contract and the FMMO will be obsolete.

MYTH: *The forward contracting pilot program was effective in achieving stable and reliable prices.*
FACT: For nearly two out of the four year pilot program, contract prices were significantly below the non-contract price and the federal minimum price. The pilot program was effective in achieving stable and reliable prices to processors, not producers.

MYTH: *Cooperatives have a special advantage in forward contracting.*
FACT: Dairy producers own their cooperatives and cooperatives must be paid the minimum price under the FMMO system. Therefore, producers belonging to co-ops receive the minimum price - directly or indirectly.

MYTH: *Forward contracting of milk will provide a stable and reliable price to help secure bank loans, needed credit and make investments in the future.*
FACT: A forward contract is no guarantee that a bank will offer favorable loans or credit to producers. Due to variable input/cost of production expenses, a forward contract cannot and does not provide assurance that a dairy operation will remain profitable in the future.

MYTH: *Producers will have a choice and option as to whom and how to lock in their price. Producers should have the choice to utilize futures contracts and options and forward contracting with their cooperatives or an independent processor.*
FACT: Producers will have no choice but to enter into forward contracts due to pressure from milk handlers. As has occurred in other sectors of agriculture, processors will cherry pick the largest operations to offer favorable forward contracts, thereby jeopardizing the future of smaller operations.

MYTH: *Proprietary plants are at a disadvantage in the marketplace because they are unable to offer forward contracts to producers.*
FACT: Today, proprietary plants offer and engage in forward contracts and options with producers, on the Chicago Mercantile Exchange (CME). As of Friday, April 20, seven billion pounds of milk were recorded under futures contracts at the CME. These plants support federal forward contracting because it will enable them to pay producers less than the minimum producer price.

400 North Capitol Street, N.W. - Suite 790 - Washington, D.C. 20001 - Phone (202) 554-1600 - www.nfu.org