



Highlights of [GAO-07-707](#), a report to congressional requesters

### Why GAO Did This Study

The Chicago Mercantile Exchange (CME) is home to the spot cheddar cheese market, which impacts the prices of virtually all cheese traded in the United States, producer milk prices, and milk futures contracts. The spot cheese market, formerly the National Cheese Exchange (NCE) in Wisconsin, has been and continues to be the subject of concerns about price manipulation. GAO was asked to examine (1) the market's structure and ongoing concerns about price manipulation; (2) market oversight and efforts to address potential manipulation; and (3) how the market impacts federal milk pricing. In response, GAO compared the markets at NCE and CME, analyzed trading data, collected information about the Commodity Futures Trading Commission's (CFTC) oversight, and met with industry participants, academics, and agency officials.

### What GAO Recommends

GAO recommends that the U.S. Department of Agriculture (USDA) seriously consider all industry proposals, including one to eliminate the National Agricultural Statistical Service (NASS) survey of cheese prices, in the minimum federal milk pricing formula. If USDA continues to use the survey, GAO recommends that USDA audit the survey data. In written comments, USDA agreed to audit the survey data. USDA did not agree to proactively consider a proposal to eliminate the survey but would give due consideration to all industry proposals.

[www.gao.gov/cgi-bin/getrpt?GAO-07-707](http://www.gao.gov/cgi-bin/getrpt?GAO-07-707).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Orice Williams at (202) 512-8678 or [williamso@gao.gov](mailto:williamso@gao.gov).

## SPOT CHEESE MARKET

# Market Oversight Has Increased, but Concerns Remain about Potential Manipulation

### What GAO Found

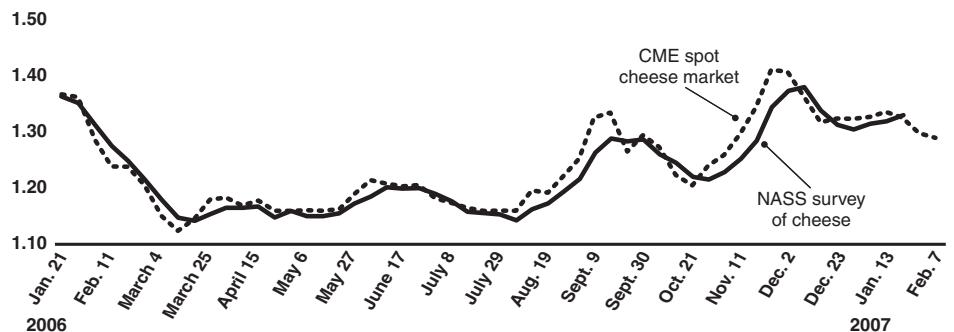
Because the CME spot cheese market remains a market in which few daily trades occur and a small number of traders account for the majority of trades, questions exist about this market's susceptibility to potential price manipulation. The structure and operations of the CME spot cheese market are comparable to NCE's, including trading rules, products traded, and market participants. However, there are differences, including daily trading at CME versus once-a-week trading at NCE.

CFTC and CME provide oversight of the CME spot cheese market that did not occur on NCE. Both engage in activities that may detect and deter potential price manipulation at this market. CFTC, as part of its responsibility for regulation of commodity futures markets, monitors cash markets, including the spot cheese market, and can act on indications of manipulative activity. In addition, CME conducts daily surveillance and regularly reviews trading data and market trends. According to CFTC and CME officials, they have both made efforts to address allegations of the potential for price manipulation by examining the activities of participants in the spot cheese market. As of June 2007, none of these reviews have led to an instance of CFTC taking legal action against a market participant.

CME's spot cheese market impacts federal minimum milk pricing through the NASS survey of cheddar cheese prices, which as shown below are highly correlated to the CME cheese prices. CME spot cheese prices are used to set long-term contracts, which are then captured by the NASS survey of cheese prices—a significant commodity component in USDA's minimum milk pricing formulas. According to USDA, the agency uses the survey, in part, because it captures more transactions than occur at the CME spot cheese market. However, in addition to largely capturing CME price data, it introduces a 1- to 2-week time lag between when data are reported by NASS and when certain transactions captured in the survey occur. Moreover the survey is not currently audited to ensure the accuracy of the information. These factors may contribute to milk prices paid by dairy market participants that are either not completely accurate or not current.

**CME Spot Cheese Market and NASS Cheese Survey Block Cheese Prices**

Dollars per pound



Source: USDA