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DATE: April 11, 2008 PAGES: 4
TO: DIRECTORS & MEMBERS FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE  CHICAGO AA BUTTER  NON-FAT DRY MILK
Blocks +$.0225  $1.8350  Weekly Change +$.0175 $1.3900  Week Ending 4/04 & 4/05
Barrels +$.0225  $1.7500  Weekly Average +$.0150 $1.3800

Weekly Average
Blocks +$.0455 $1.8540
Barrels +$.0025 $1.7435

NON-FAT DRY MILK
Calif. Plants $1.2602  15,766,855
NASS Plants $1.2490  21,505,450

DRY WHEY
NASS w/e 4/05/08 $.2554  WEST MSTLY AVG w/e 4/10/08 $.2750

CHEESE MARKET COMMENTS: The cheese market is unstable. Why? The volume of cheese exported in February was well above last February, and imports were lower. Cheese production in February on a per day basis was up 1.2%, and cheddar production was 2.5% lower. Now that's what can be called a very positive set of numbers, but prices on the CME this week looked like they were run through a wringer. It looks like, for a time at least, that the price gyrations within a single week are back. Could the spread between blocks and barrels be what is causing the instability? The week started with the spread at 5.75 cents, rose to 16 cents on Wednesday, and closed the week at 8.5 cents. Barrel prices during the week rose by 12 cents and fell by 12.5 cents. The good news: price levels held about where they started.

BUTTER MARKET COMMENTS: In contrast to cheese prices, butter prices on the CME this week advanced quietly and orderly. Good news on exports may have helped, and last week's report on heavy butter production and levels of stocks appear to have been taken in stride. The pattern of prices for butter so far this year resembles the pattern of 2007, which is not bad. Production is expected to continue to be very high for another month or so.

NONFAT POWDERS: Export of nonfat powders in February were virtually off the chart – 82 million lbs in a short month! Production in February increased on a per day basis by 31% above a year ago. Inventories are double where they were, but down slightly from January's level, and represent about 38 days of production. Heavy volumes continue to be reported by California plants and nationally. Continuing its week-to-week bobbing pattern, California plant prices this week rose by about 2 cents per lb. Mexico continues to be the number 1 buyer of U.S. powders. Production of powders for the next several months is expected to be very high.

WHEY MARKET COMMENTS: Exports of dry whey continue to lag behind last year's levels, but the prices received are still above $.50 per lb. International prices that high have not been seen since last October. Old prices on their way down, or is there a disconnect from the domestic market which benefits only a chosen few? Concentrate prices continue to be very weak.

FRED DOUMA'S PRICE PROJECTIONS…

April 11 Est:  Quota cwt. $17.55  Overbase cwt. $15.85  Cls. 4a cwt. $14.38  Cls. 4b cwt. $16.48
Last Week:  Quota cwt. $17.45  Overbase cwt. $15.75  Cls. 4a cwt. $14.33  Cls. 4b cwt. $16.29

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FEBRUARY EXPORTS OF DAIRY PRODUCTS ABSORB SURPLUS MILK PRODUCTION: (By J. Kaczor) A few weeks ago we were wondering about the anticipated increase in butter and powder production in February, and the possible impact on prices if domestic and export sales did not keep pace with that production. USDA published production figures last Friday (we reported California's February production and usage last week), and February's export figures were published yesterday. The estimated national sales of fluid milk items, which uses about one-third of the total amount produced, was down by 1.9% from last February. (January's usage was
down 1.7% from a year earlier.) Yogurt production in February was up 1.0%, but production of sour cream, cottage cheese, and frozen dairy products decreased by an average of 5.0%.

So, as expected, most of the additional milk that was produced in February was converted into butter, powders, and cheese. Production per day of all cheese increased by 1.2%, butter by 5.6%, and nonfat powders by 31.4%. The good news is in the amount that was exported. Following is a comparison of February's exports of the four basic dairy commodities that are used in milk price formulas to the average that was exported in December and January. Previously, it was noted that one of the requirements needed to keep milk prices from plunging is export volumes that are close to the December-January levels. The figures in the table are millions of lbs.

<table>
<thead>
<tr>
<th></th>
<th>Dec-Jan average</th>
<th>February</th>
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<tbody>
<tr>
<td>NFDM &amp; SMP</td>
<td>62.0</td>
<td>82.1</td>
</tr>
<tr>
<td>Butter&amp; Anhydrous BF</td>
<td>13.5</td>
<td>16.7</td>
</tr>
<tr>
<td>Cheeses</td>
<td>23.5</td>
<td>23.8</td>
</tr>
<tr>
<td>Dry Whey</td>
<td>33.3</td>
<td>30.6</td>
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February exports as a percentage of the average amount of product produced in January and February can be a rough gauge of the rate of their clearance. The figures are nonfat powder 52%, butter 10%, Cheese 3%, and dry whey 34%. These numbers are encouraging.

It is believed that more than one half of the nfdm/smp volume was skim milk powder, whose sales are not reported to CDFA or to NASS. The volumes for butter, cheeses, and dry whey are believed to be demand-driven. The reason for the surge in exports of nonfat powders could relate to the need to keep inventories from overwhelming domestic usage. The average price for the powder exports was about $1.81 per lb, which is where domestic prices were in December. Current international prices for skim milk powder are reported to be about $.40 below that level. Despite the solid export volumes, stocks of products at the end of February at manufacturing plants continue to be well above year-earlier levels: dry whey, up 51%, whey protein concentrate, up 26%, dry lactose up 78%, and nonfat dry milk up 100%.

THE LATEST “DAIRY CARES REPORT”**: (By Rob VandenHeuvel) Attached to the end of this newsletter is the March 2008 “Dairy CARES Report”, which discusses a recent announcement that EPA will be fixing a gross error on their part that left virtually every dairy in California vulnerable to air quality lawsuits. As many of you know, one of our members – C&R Vanderham Dairy near Shafter, CA – has been experiencing this vulnerability first-hand. They have been fighting the extremists on the front lines for several years while much of the industry has had the luxury of watching from the outside. This EPA announcement has been music to their ears, as the judge has held off on a final decision in their case until the EPA rule is in place. **MPC applauds EPA for stepping in and fixing this “legal loophole” that environmental extremists have exploited.** I encourage you all to read the CARES Report below – we all need to be engaged in this fight, not just those who happen to get sued.

REMINDER – LAST TWO WDR WORKSHOPS IN THE CENTRAL VALLEY: (By Rob VandenHeuvel) Next week, the final two CDQAP workshops on the “waste discharge requirements” will be held – in Kings and Merced Counties. If you haven’t had a chance to attend the workshop in your own county, please feel free to attend one of these workshops.

**Wednesday, April 16th – Kings County**
1:30 pm – 4:30 pm
Kings County Cooperative Extension Center
680 N. Campus Drive, Hanford

**Thursday, April 17th – Merced County**
9:30 am – 12:30 pm
Merced County Cooperative Extension Office
2145 W. Wardrobe Avenue, Merced

✓ And as always, if you have any questions or need assistance with any part of the new water regulations, please feel free to contact myself (909-992-9529 – cell) or Betsy Hunter, our Central Valley Representative (661-205-6721 – cell).

End
Lawsuit risk may be lower for dairies if EPA adopts plan to fix ‘stranger-than-fiction’ error

After much delay, the U.S. Environmental Protection Agency is moving to correct a bureaucratic error that left some dairy families bogged down in litigation, and many others exposed. While we had hoped EPA would act much sooner, CARES coalition members support this important action and applaud EPA for taking action to fix the problem.

To understand what happened, go back more than four years ago to September 2003. That’s when California lawmakers adopted Senate Bill 700 – ending a broad statewide exemption for agriculture from air pollution permitting.

State lawmakers said ‘yes’ to air pollution permits for large farms, but wisely chose to include limited protections as they opened the floodgates of regulation. They included measures to assist farmers with the transition and time to develop science-based regulations:

- **Only farms emitting above a certain threshold (half the federal standards) would be required to seek permits.** Smaller farms emitting below the new, stricter threshold were allowed to continue with the exemption from permits, but were still required to comply with other applicable air regulations, such as regional dust control regulations.

- **Agricultural sources would not be required to purchase pollution offset credits unless they could also bank those credits when reducing their own emissions beyond required levels.** Other regulated industries enjoy this protection, which allows businesses to recover part of their investment when they reduce emissions through technology, changes in management or other measures. This protection was especially important for dairies, because of the lack of accurate science-based emissions estimates.

In May 2004, U.S. EPA officially acknowledged passage of SB 700 and the end of the “blanket” exemption for California farmers. However, in a move that might be compared to a child’s game of “Simon Says,” EPA did not specifically say that the “blanket” was being replaced with a system that included the limitations described above.

Environmental lawyers noted the procedural error and leapt on the opportunity to file lawsuits. They claimed the protections described above didn’t exist – essentially because the federal government forgot to say they did. That meant, by their bizarre interpretation – that all farms needed permits and that farms could be required to buy offset credits even if they were not allowed to sell them.

It was as though a law, adopted by the California legislature and signed by the governor, then formally included in clean air plans adopted by the California Air Resources Board and regional air districts, suddenly meant nothing.
Not only did activist lawyers take this absurd position, but they argued that dairy operators should somehow have known better – that they should have ignored the laws on the books and applied for permits that the air district was telling them they did not need.

It might seem comical, except to the dairy families and dairy industry groups who’ve invested hundreds of thousands of dollars defending against absurd lawsuits.

At last, on February 20, 2008, U.S. EPA acted to correct the situation, publishing a proposal to revise the federally adopted State Implementation Plan for California to reflect all of the SB 700 law passed in 2003.

CARES has filed comments supporting EPA’s proposal, along with other groups representing agriculture, including the California Farm Bureau Federation. Allowing EPA to fix its mistake will allow everyone who is actually doing something to clean the air – such farmers and air quality officials – to get back to work.

Rest assured, there will be a loud cry from so-called environmental advocates as they see another opportunity dry up. They will certainly mourn losing this chance to use the courts to continue to harass dairy families, raise funds and advance political agendas. No doubt, they may try to persuade one or two news reporters to characterize this as “just another attempt by the Bush Administration to relax environmental regulations.”

**Hopefully, no one will be fooled.** Maybe news reporters will have a long enough memory to recall that SB 700 was adopted not by the Bush administration, but a bipartisan majority of the Democrat-controlled California Legislature and signed by Democrat Gray Davis. Maybe they will see clearly that this is not U.S. EPA getting in the way of California, but rather, getting out of the way as California adopts (once again) the nation’s most stringent environmental regulations.

The action EPA is proposing is simply to adopt the law everybody thought California passed more than four years ago. SB 700 is no tougher and no easier than it was then. The facts are that SB 700, burdensome as it is on California farmers, is doing what it was supposed to do.

The air is cleaner and farmers, including dairy families, are doing their part.