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DATE: April 24, 2009 PAGES: 4
TO: DIRECTORS & MEMBERS FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHEESE MARKET COMMENTS: Cheese production is reported to be at or near to plant capacities (“seasonally active,” says Dairy Market News). Manufacturers, and some buyers, seem willing to build inventories – looking for a tighter milk supply and fairly good demand later this year. Blocks added one cent per lb on Tuesday when 25 loads were bought on the CME; barrels held steady until Thursday when they lost $.0025, to bring the price to within $.0075 per lb of the support level. Those changes brought the price spread between the two to an unsustainable $.0725 per lb. On Friday, buyers tested Thursday’s prices by bidding very low, with no takers – which is a good sign, perhaps. The CME Class III futures market, which reflects the consensus of cheese buyers and sellers and market speculators, shows a $3.41 per cwt increase in the average Class III milk price (that’s Class 4b for California) from the April-June period to the July-September period. That difference appears to be a reflection of what is generally expected from CWT’s herd removal program – a lot fewer cows to be milked by July. (Decision deadline for filing bids is next Thursday.)

BUTTER MARKET COMMENTS: Cream is in demand throughout the country for butter, ice cream, and cream cheese usage. Butter sales have flattened out but, as is the case for cheese, butter plants, brokers, and major users appear to be willing – even anxious – to store butter while the price is in the low $1.20’s per lb level. Heavy buying on the CME this week, ending with a higher bid today, added $.02 per lb to the price. The current price is now at its highest level this year. The CME futures market sees butter prices reaching $1.35 by September.

POWDER MARKET COMMENTS: DMN lowered its reading of the “tone” of the market for nonfat dry milk to “steady,” following several weeks where demand pulled prices up by a total of $.02 per lb. Prices this week were unchanged. Sales to the CCC by California plants continue, although those volumes are trending downward. There are a number of things happening to suggest that the market for nonfat dry milk should continue to improve. (1), prices for dry buttermilk are strong, and the supply apparently has fallen behind demand; (2), a report this week that New Zealand recently reduced its heavy inventory of dry milks by shipping a vast amount to China; (3), Australia’s milk production appears to be heading to a level only 1% higher than last year’s output (which itself was 7% below normal levels); (4), sixteen carloads of grade A powder was purchased on the CME this week, resulting in a $.015 per lb increase (to $.865 per lb) for the week.

WHEY MARKET COMMENTS: The market for dry whey continues to show signs of solid recovery. Some buyers are reported to be eagerly accepting additional loads in the Central region and “premiaus over the market are moving incrementally higher as product becomes more difficult to obtain.” In the West, prices continue to increase at a steady rate; exports are helping. What does that mean for whey protein concentrate? Who knows? Unfortunately, not the DMN reporter. Here are some quotes on the subject: WPC is “moving rapidly” from points of manufacture to buyers; “loads that accumulate are being offered to contract buyers instead of moving to the spot market.” When asked if that is a bullish sign for spot prices (as that market is being shorted), the answers were, in effect, “don’t know, can’t say, didn’t ask.”
AN OPEN LETTER FROM A MEMBER OF THE INDUSTRY TASK FORCE:  (By Sybrand Vander Dussen, MPC President)  As MPC has reported in this newsletter, a task force was created earlier this year to examine the current state of the dairy industry and make recommendations on policies for our future.  A series of three industry-wide meetings in Modesto, hosted by Western United Dairymen, is now complete.  The people in attendance received a wealth of information, much of which can be used to bring our sick industry back to health.

As President of Milk Producers Council, I was asked to be a task force member, along with representatives from the major co-ops and trade associations.  (Western United Dairymen-Ray Souza; Milk Producers Council-Sybrand Vander Dussen; California Dairy Women-Linda Lopes; California Dairy Campaign-Joe Augusto; California Dairies, Incorporated-Richard Cotta; Land O’Lakes-Alan Pierson; Dairy Farmers of America-Glenn Wallace; Hilmar-John Jeter; Dairy Institute-Rachel Kaldor).

This task force will now take all the information presented, evaluate the responses from the survey mailed out to all who signed in, and develop a recommendation to our industry.  Our first task force meeting will be in Modesto on May 4, 2009.

I am honored and burdened to be on this task force.  Honored, because I have been presented an opportunity to affect our industry in a positive way.  Burdened, because the job is fraught with politics, egos and protectionism.  Each member of the task force comes to the table with these hindrances, and in order to proceed wisely, with the future of our industry at stake, each member may have to give up one pre-conception or another to create a greater common good.  In that sense, and in this case, compromise, compromise, compromise may be necessary to reach a position on any number of possible actions.

To develop sane industry-wide consensus on issues without informed and willing leadership is next to impossible.  It is correct and proper procedure to leave it to a few that have been exposed to all the information and have much personal experience in the industry to develop a plan to bring our industry to its senses.

Margaret Thatcher once said, “Consensus is the absence of leadership,” meaning to do away with leadership and simply follow the popular opinion.  To simply follow consensus, in this day of complexity, is foolish.  Consensus alone fails, because time, study and objectivity are not sufficiently expended.  It requires leadership to perform those tasks, then to present findings and recommendations, then consensus provides the engine to institute that change.

This is what the task force is obviously charged with; to evaluate, discuss vigorously and honestly and arrive at proposals that will actually correct some or all of our problems.

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The three meetings, (February 19, March 18, and March 31) provided a vast amount of information.  Following are thumbnails of the content and my take-aways:

**February 19, 2009**

**Subjects:**
California Base programs, CWT program, Canadian Quota System, Growth Management Plan

- Co-op bases have had a positive effect, but have much untapped potential.
• **CWT**: A tiger, but perhaps toothless, because of the reluctance to pay whatever it takes to remove enough cows. (That reluctance is because of all the griping and whining directed at CWT and a parasitic 30% of the industry.)

• **Canadian Quota**: Not for us.

• **Growth Management Plan**: A great, simple, likely-successful program to stabilize the relationship between supply and demand, but will require support from all leading producer organizations.

**March 18, 2009**

**Subjects:**
Federal Milk Marketing Orders (FMMO), California State Order, Interstate Compacts

• **FMMO**: Should be explored. No one is blindly saying we need a federal order, but some are blindly saying we don’t. Researching how it would work in California (the pro’s and con’s: problem by problem, and item by item) seems to be a no-brainer, doesn’t it?

• **California Order**: We’ve done well under it, but times change. Is it time for change/revision/enhancement? (Problem by problem, item by item). Our state order is simply incapable of stopping the flow of out-of-state milk, and our neighboring states know it. Dairies and processors near our Arizona and Nevada borders have invested millions of dollars to serve the California markets, essentially betting that our industry will never get together to actually address out-of-state milk.

• **Interstate Compacts**: The one dairy compact in history existed in the late 1990’s in New England and was politically popular there but could not sustain the support of Congress and expired when its temporary legal authority terminated in September of 2001. An interstate dairy compact that included California would not only need authorizing legislation from the U.S. Congress, it would also need supporting legislation from the California legislature and at least the Nevada and Arizona state legislatures. The dairy industries in those two states in particular, currently profit handsomely from the state of California’s inability to regulate interstate commerce. Why would they support ending that advantage? Needless to say, this would be an extremely uphill climb.

**March 31, 2009**

**Subjects:**
U.S. Dairy Position in Global Markets, Ingredient Opportunities, California’s Global Opportunities, Product Innovation

• All these can be summed up easily. We are **infantile** in our progress in global sales, product development and advertising.

• So far we have developed an ice cube; but an iceberg is available to us if we have courage and vision.

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I state publicly that I come to the May 4th task force meeting ready to support just about any of the ideas that are out there, such as marketing our product better, developing global markets, investigating an FMMO so long as what is proposed solves the problem it supposedly addresses. Let’s avoid “solutions” that don’t solve anything. **But far and away, I remain convinced that if we do not adequately address supply and demand, any other action taken will be akin to getting a manicure while we are bleeding to death, which is happening now.**

A boxer, when overwhelmed by his opponent’s onslaught is said to be “on his heels”. Our industry, always insisting to produce more milk without regard to demand, creates situations where our co-ops are “on their heels” – rendering them incapable of thoughtfully advancing milk and milk product sales, and achieving a fair price.

Ok, fellow dairy producers. There you have the report. The task force will do its job, but how quickly and aggressively will only be determined by the task force’s sense of support existing in the industry. We’ll do our job. **Now you do yours.**
Dairymen can be divided in two groups; the first group likes what is happening now; they simply have more equity they are willing to convert to bank loans, and believe when enough other dairymen are mortally wounded financially, they will be better off. That group needs do nothing. That program is underway.

The second group are those who realize that what we have done in the past, (completely ignore market demand, produce like fools, and let the chips fall where they may) just doesn’t work anymore, and we need to intelligently address supply and demand in a way that is not “more government, less freedom for producers.”

Please, second group – the task force needs to hear from you. Let your thoughts, gripes and frustrations be known to me and my fellow task force members. Fax those comments to Western United Dairymen, 209-527-0630 or to MPC at 909-591-7328.

CENTRAL VALLEY WATER BOARD APPROVES ONE-YEAR EXTENSION ON “WASTE MANAGEMENT PLAN” SUBMISSION: (By Rob Vandenheuvel) Yesterday, the Central Valley Regional Water Quality Control Board (“Regional Board”) unanimously agreed to allow dairies an additional year to submit your Waste Management Plans (WMP) for approval. This decision comes after CARES requested the delay on behalf of the dairy industry.

Under the original “General Order” approved in 2007, the written WMP (which must be signed-off by an engineer), had to be submitted to the Regional Board before July 1, 2009. That plan then has to be fully implemented by July 1, 2011, which could require facility modifications, depending on what your written WMP outlines.

The change made by the Regional Board yesterday is that the July 1, 2009 submission deadline for the written WMP is now July 1, 2010. (Important note: the July 1, 2011 deadline for implementing the plan was not changed, so producers that submit their written WMP on July 1, 2010 will have one year to implement it, rather than the two years that was assumed in the original General Order. Also, an annual report will still need to be sent in for each dairy by July 1, 2009. That report just doesn’t need to include your WMP submission.)

CARES requested the one-year delay due to the current economic condition of the dairy industry. Hiring an engineer to draft a WMP can cost thousands of dollars per dairy, so the Regional Board was willing to allow dairies an extra year to put this together. This delay will have no effect on water quality, since the actually implementation of the WMP is still under the original schedule of July 1, 2011.

Our thanks to CARES staff for bringing this item to the Regional Board and getting it through the approval process. CARES continues to be a valuable asset for dairy producers, and MPC is proud to stand side-by-side with our fellow producer groups that make up CARES. You can also check out CARES’ April 2009 column, which expands on this decision by the Regional Board. You can read it at: http://www.milkproducerscouncil.org/cares/apr09.pdf.

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