



Milk Producers Council

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TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

SPECIAL REPORT:
**Milk Producers Council Hires Prominent
Sacramento Lobbying Firm to Fight for Dairy Families**
By Rob Vandenheuvel, General Manager

Recognizing that California's dairy families can no longer live under the status quo, this week, Milk Producers Council's Board of Directors voted to team up with a prominent Sacramento legal/lobbying firm, Nielsen Merksamer (<http://web.nmgovlaw.com/>) in an effort to strengthen dairy farmers' position in our State Capitol.

The financial struggles faced by California's roughly 1,600 dairy families are well-documented. Over the past five years, the prices paid for California-produced milk has more-often-than-not failed to cover the cost of producing that milk, resulting in massive amounts of debt being accumulated by the State's dairy families. While the general dairy markets have impacted our industry throughout the country, California's dairies have been especially devastated by the refusal of the California Department of Food and Agriculture (CDFA) to implement a fair minimum pricing structure. For example, as MPC noted in last week's newsletter, CDFA has seen fit to artificially discount our Class 4b price (the minimum price for milk sold to California cheese manufacturers) below the comparable Federal Order Class III price (the minimum price for milk sold to regulated cheese manufacturers around the country) **to the tune of \$745,000,000 since 2010.**

Despite several administrative hearings aimed at fixing this obvious problem, it has become clear that CDFA is not willing to make the changes dairy farmers desperately need. MPC and our fellow dairy producer organizations/cooperatives will be looking to our elected officials in Sacramento to make the changes we need for an economically sustainable dairy industry, and our new relationship with Nielsen Merksamer will give MPC and our producers a strong, new ally in that effort.

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0050 \$1.6500
Barrels +\$.0175 \$1.5600

Weekly Average, Cheddar Cheese

Blocks +\$.0020 \$1.6470
Barrels +\$.0065 \$1.5480

CHICAGO AA BUTTER

Weekly Change N/C \$1.5550
Weekly Average +\$.0200 \$1.5550

DRY WHEY

Dairy Market News w/e 02/08/13 \$.5800
National Plants w/e 02/02/13 \$.6476

NON-FAT DRY MILK

Week Ending 2/1 & 2/2
Calif. Plants \$1.5514 10,203,467
Nat'l Plants \$1.5378 29,398,338

Prior Week Ending 1/25 & 1/26

Calif. Plants \$1.5305 12,892,211
Nat'l Plants \$1.5492 20,906,874

MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

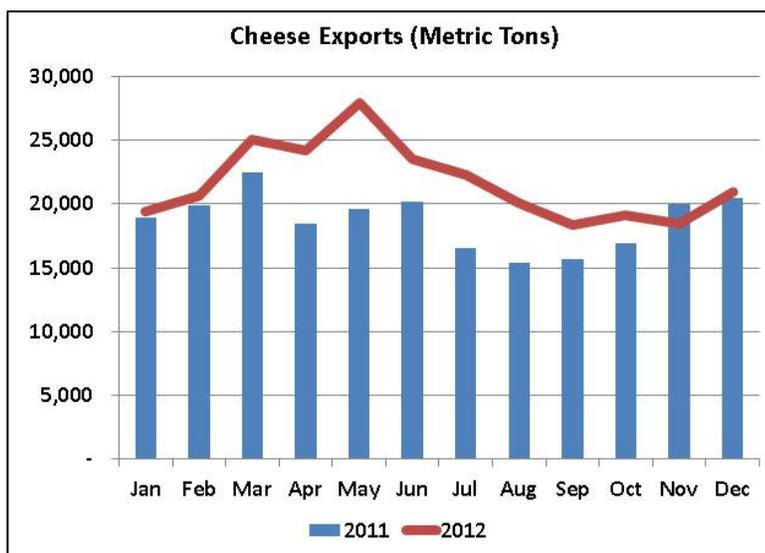
Milk prices moved higher this week, after coming under pressure early in the week thanks to the bearish Dairy Products report. Strong milk production in December translated into heavy dairy products production, and much of the excess milk ended up in the butter churn. December butter production was 173 million lbs., up a shocking

17% from November on a daily average basis. California produced 57.1 million lbs. of butter in December, up 14% from November but down 1.8% from the year before. In 2012 California produced 654 million lbs. of butter, up 5.1% from 2011. 2012 butter exports were 24% lower than 2011 as U.S. butter was priced out of the global marketplace for much of the year. Spot butter prices held steady this week at \$1.55/lb.

Please see the table for more complete details on dairy product production and exports. December production and exports were consistently higher than November, but California dairy product production was lower than December 2011.

	December-11	November-12	December-12	Change from November 2012	Change from December 2011	Total 2011	Total 2012	YOY Change
U.S. Butter Production (1,000 lbs.)	165,866	143,297	173,201	17.0%	4.4%	1,808,383	1,857,090	2.7%
California Butter Production (1,000 lbs.)	58,087	48,325	57,057	14.3%	-1.8%	622,408,000	654,195,000	5.1%
U.S. Butter Exports (Metric Tons)	3,298	2,854	3,503	18.8%	6.2%	63,669	48,642	-23.6%
U.S. Cheese Production (1,000 lbs.)	930,599	914,441	949,260	0.5%	2.0%	10,597,030	10,861,073	2.5%
California Cheese Production (1,000 lbs.)	195,627	185,058	194,578	1.8%	-0.5%	2,245,051	2,246,118	0.0%
U.S. Cheese Exports (Metric Tons)	20,436	18,431	20,901	9.7%	2.3%	224,467	260,034	15.8%
U.S. NDM/SMP Production (1,000 lbs.)	186,781	160,577	195,423	17.8%	4.6%	1,960,425	2,156,432	10.0%
California NDM Production (1,000 lbs.)	73,970	46,585	65,887	36.9%	-10.9%	764,254	842,284	10.2%
U.S. NDM Exports (Metric Tons)	33,524	29,479	32,454	6.5%	-3.2%	435,081	444,727	2.2%

2012 U.S. cheese exports were record large. Cheese exports were higher than a year ago in every month of 2012 except November, when spot Cheddar prices topped out at well over \$2.00/lb., making U.S. cheese uncompetitive. This week, spot cheese prices bounced back, albeit from much lower price levels. Cheddar blocks settled a half cent higher at \$1.65, and barrels added 1.75¢, moving to \$1.56. This was the first weekly increase in spot Cheddar prices in five weeks. The cheese market appears to be feeling around for a bottom, and some end users have been tempted to make purchases at these levels. Class III futures rallied significantly on Wednesday following a strong spot session, as traders wondered if the spot market action indicated a change in sentiment in favor of the bulls. However, cheese supplies remain plentiful and the market is caught in a low demand period between the Super Bowl and Easter. Cheddar prices moved slightly lower at the Global Dairy Trade Auction, averaging \$1.60/lb.



Nonfat dry milk (NDM) prices held steady at the CME spot market this week, but buyers were present with occasional bids below the market. Milk powder prices moved notably higher at the Global Dairy Trade auction. Skim milk powder averaged \$1.66/lb., an increase of 0.5% from the previous event. Whole milk powder moved up 5.4% to \$1.57. The increase in milk powder prices is particularly impressive as this was the first auction since news broke about non-toxic levels of DCD in New Zealand's milk powder supplies. The California Weighted Average Price for NDM for the week ending February 1 was \$1.5514, up from \$1.5305 the prior week.

For the week ending January 26, dairy cow slaughter was 64,651 head, up 9.3% from the same week in 2012. Year to date dairy cow slaughter is up 6.7% from last year.

The California Department of Food and Agriculture reported a case of tuberculosis in a dairy herd in Tulare County, which likely pressured milk prices briefly. Bovine tuberculosis does not threaten the quality or safety of meat or milk.

California dairy producers are not alone in their struggles with painful profit margins. Dairy producers in Australia are rallying to protest negative profit margins as dairy product prices are pressured by global surpluses. Farm gate milk prices are down 15% from last year. Australian producers also have to contend with a strong currency that discourages exports and record floods that have damaged dairies in some areas. Banks have identified a sizable proportion of loan holders who may be forced out of business.

Much of New Zealand's North Island was on the verge of drought, but rains earlier this week temporarily alleviated soil moisture deficits. Still, drier than normal conditions suggest that the waning New Zealand milk production season will not be nearly as strong as last year.

Grain and Hay Markets

USDA's World Agricultural Supply and Demand Estimates pressured the soybean complex Friday. USDA estimated the Argentine soybean crop at a larger than expected 53 MMT, down 1 MMT from their January projection. Most private forecasts of Argentine soybean production are converging around 49-50 MMT. Heavy rains at the beginning of the crop year delayed planting, meaning much of the soybean crop entered the filling stage later than normal and suffered from moisture deficits in the fall. Northern and northwestern Buenos Aires received only an inch of rain in January. The forecast for Argentina and southern Brazil will likely be the most prescient indication of soybean and corn prices over the next few weeks. For now, some rains are possible, but coverage looks light and scattered, and confidence in this forecast is low. Nonetheless, soybean prices dropped significantly on Friday.

USDA increased its forecast of Brazilian corn and soybean production, offsetting the smaller than expected reductions in Argentina. Brazilian crops look to be in good shape, although rains in northern Brazil are delaying the harvest there and preventing early soybeans from reaching the export market in size. U.S. soybean export sales were very strong this week, but when South American supplies are available, U.S. soybean exports will likely fade quickly.

U.S. corn exports remain infinitesimal, prompting USDA to reduce its estimate of corn export demand by 50 million bushels to 900 million bushels, the lowest annual corn export figure since the 1971-1972 crop year. USDA upped its estimates of feed wheat demand, as low wheat prices relative to corn have prompted some livestock producers to substitute wheat for corn in their rations. USDA also increased its estimates of the soybean crush and corn for food, seed and industrial use. All told, changes to the domestic balance sheets held no surprises.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 8 Est:	Quota cwt. \$18.23	Overbase cwt. \$16.53	Cls. 4a cwt. \$17.80	Cls. 4b cwt. \$15.40
Last Week:	Quota cwt. \$18.18	Overbase cwt. \$16.49	Cls. 4a cwt. \$17.70	Cls. 4b cwt. \$15.37

LET THE POLITICAL BATTLE BEGIN: *(By Rob Vandenheuvel)* This week, the Dairy Institute of California (representing many of California's milk processors) published a one-page flyer titled, "AB 31 takes another slice out of California's economy." If you haven't seen the flyer yet, you can find it on Dairy Institute's website at: http://www.dairyinstitute.org/pdf_members/AB%2031%20Fact%20Sheet-web.pdf.

As we've reported in the past, AB 31 is a bill that was introduced in December 2012 by Assemblyman Richard Pan (D-Lodi). The bill, which MPC has endorsed (http://www.milkproducerscouncil.org/120512_dairybill.htm), would begin to close the huge gap between the California Class 4b and the Federal Order Class III prices, which would result in California's cheese manufacturers paying a milk price that is closer to what is being paid for comparable milk around the country. *It's worth noting (since the processors apparently aren't pointing this out)*

that even under AB 31, California's cheese manufacturers would continue to enjoy a lower regulated milk price than their out-of-state competitors.

The flyer published this week by the Dairy Institute was the first public offensive put out by the State's processors against the bill. The statements made in that flyer give us a look at some of the political arguments processors will be using when lobbying California's Legislators to oppose the legislation. Let's look at a few of those arguments.

- **Claim:** *“By arbitrarily inflating the cost of milk, AB 31 devastates California's multi-billion dollar cheese industry – a vital and growing part of our agricultural economy.”*
- **Reality:** As stated earlier, AB 31 would only partially close the gap between what California cheese manufacturers must pay for their milk and the prices being paid for comparable milk around the country. Even if the bill passes, our State's cheese plants will continue to enjoy a competitive advantage to their out-of-state competitors. Further, it's our California **DAIRIES** that are being financially devastated **RIGHT NOW** from the State-sponsored discount on milk currently being lavished upon the California cheese manufacturers.
- **Claim:** *“AB 31 will force many California cheesemakers out of business and prevent others from expanding, cutting off markets for dairy farmers and costing thousands of jobs and millions in lost revenue. Some cheesemakers will be driven to relocate or expand in other states like Wisconsin, which will be eager to welcome them.”*
- **Reality:** There is absolutely no evidence to support this claim. In fact, AB 31 includes a “credit” that would actually **lower** the current Class 4b price for the first 3 million pounds of milk per month purchased by each California plant. Recent information from CDFA indicates that at least 50% of California's cheese manufacturers purchase less than this amount of milk each month, meaning that for those cheesemakers, the cost of their milk will actually go **down** under AB 31. Further, it's well-known that Wisconsin's cheese manufacturers are not only paying for their milk based on a higher Federal Order Class III price, but are also often paying significant premiums above that Class III price. **So what are the facts that Dairy Institute has to support the claim that California cheesemakers will choose to expand or relocate to an area where their milk costs will be higher, even if AB 31 is ultimately approved?**

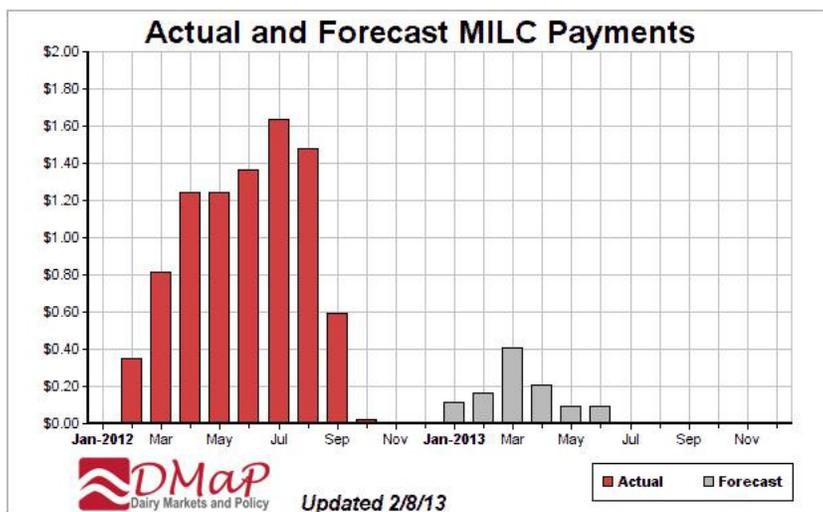
And finally, this may be my favorite.

- **Claim:** *“Artificially raising the price of milk in California could flood the market, creating a surplus of milk that could force prices to plummet, with dairy farmers ultimately earning less for their milk, not more.”*
- **Reality:** According to this “logic” from the Dairy Institute, they are actually doing dairy farmers a favor and trying to protect us from ourselves by maintaining a “cheap milk policy” in California. This ridiculous claim doesn't even warrant a response.

As the Legislative process heats up in the coming weeks/months, more of this rhetoric will undoubtedly be coming out. MPC stands ready to work with our fellow producer groups/cooperatives in educating our elected officials on the **facts** and the need for meaningful changes to our California pricing structure that will result in a fair price for California-produced milk and real chance at a sustainable dairy farming sector in our State.

CONTINUING TO WATCH THE FORECASTED MILC PAYMENTS: *(By Rob Vandenheuvel)* As we reported last week, dairies that are enrolled in the Milk Income Loss Contract (MILC) program have the ability to select any month (October 2012 – September 2013) as their “start month.” **However, the flexibility to consider previous or current months as a start month is only available until February 28th.** Since nearly all California dairies will exceed the 2.985 million pounds of milk covered by the MILC program, the selection of a “start month” can have an impact on the possible payout under the program.

While no one knows what the future holds, there are several projections that are published and updated regularly (one such projection is included on the next page). Those projections rely on best estimates for what the outlook is for not only dairy products, but also feed products (since feed costs can also impact MILC payments). While the projections can differ in their actual projected payouts, there seems to be general agreement that using the current dairy market levels, March 2013 will generate the highest monthly payout, with April 2013 projected to generate the next highest payout. **However, these projections can change on a weekly or even daily basis,**



so dairies can use the flexibility provided in this year’s MILC program and wait a couple more weeks before making final decisions. Dairies just need to make sure that if they ultimately want to choose February or March as their start month, that paperwork will need to be filed with the Farm Service Agency by no later than February 28, 2013.

Any MPC members with questions about this can contact the office at (909) 628-6018.

PANEL DISCUSSION ON FEDERAL ORDERS AND CALIFORNIA SCHEDULED FOR FEBRUARY 13TH AT THE TULARE FARM SHOW: *(By Rob Vandenheuvel)* A panel discussion on the issue of a Federal Milk Marketing Order (FMMO) in California is scheduled for next Wednesday, February 13th at the Tulare Farm Show. The discussion, will feature economists from the three major cooperatives in California: Dr. Eric Erba from California Dairies, Inc., Elvin Hollon from Dairy Farmers of America and Tom Wegner from Land O’Lakes.

The issue of a California FMMO has been gaining interest as the California Department of Food and Agriculture (CDFA) has refused to bring our minimum prices – particularly our Class 4b (milk sold to cheese plants) price – within a reasonable relationship to the FMMO prices that are used to price milk sold in most of the rest of the country.

A flyer about the panel discussion can be found at: <http://www.milkproducerscouncil.org/2013farmshow.pdf>. It will be held on Wednesday, February 13th at 9:30 am in the VIP Tent at the World Ag Expo (Expo Lane between S and T streets). **All California dairy farmers should make every effort to attend. California dairy farmers cannot afford to continue being the source of the lowest-price milk in the country, and all options to change that should be on the table and looked at very seriously.**

Additional Note: We have been informed that for those that are unable to make it for the 9:30 am discussion, Progressive Dairymen has announced that they will be replaying the discussion later on Wednesday at 3:00 pm in their seminar room (Expo Lane and S Street).