

Milk Producers Council

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TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks + \$.0750 \$1.1500
Barrels + \$.0150 \$1.1150

CHICAGO AA BUTTER

Weekly Change N.C. \$1.1025
Weekly Average +.0019 \$1.1025

NON-FAT DRY MILK

Week Ending 1/23 & 1/24

Calif. Plants \$.8057 16,874,152
NASS Plants \$.8277 27,152,286

Weekly Average

Blocks + \$.0545 \$1.1245
Barrels + \$.0080 \$1.1055

DRY WHEY

WEST MSTLY AVG w/e 01/30/09 \$.1475
NASS w/e 01/24/09 \$.1659

CHEESE MARKET COMMENTS: On not much news of any kind, other than still no sales to the CCC at support price levels, prices for block cheese on the CME this week were strong – up \$.075 per lb, **finishing \$.02 per lb above the support level.** It appears that sellers (plants and brokers) made the right decision in not wanting to sell cheese at less than the support price. There is hope: that milk production will continue easing off; that consumer purchases will pick up when they see ad features and everyday low prices; that fluid milk sales will bounce up with the sharp drop in prices on February 1st; that the industry has avoided cheddar cheese sales to the CCC for another year. Dairy Market News comments that it is pizza season, which means heavy usage of mozzarella, but please note **that does nothing for cheddar prices on the CME.**

BUTTER MARKET COMMENTS: It was a quiet week on the CME for butter. Little sales activity and no price changes. The same hope mentioned above applies to the butter market, but butter manufacturers have less flexibility than cheese manufacturers in the amount of butter they produce. If the cream shows up, it must be processed. International prices, and demand, for butter and most butterfat products are depressed. Some sales from California plants to the CCC at \$1.05 per lb continued to be made this week. The national average price for butter sold the weeks ending January 17th and 24th were below \$1.08 per lb, which were 3 to 4 cents per lb below the CME price levels. Caution prevails; increases in inventories are to be avoided, if possible.

POWDER MARKET COMMENTS: Sales continue to be made to the CCC at \$.80 per lb (which is said to net about \$.78 per lb to the seller because of the cost to comply with CCC specifications). That inventory, which can be sold at \$.88 per lb has now reached 150 million lbs in four months of sales – all by California plants. Plants in the West are now offering product at the break-even price of \$.78 per lb, and the sales are slow. Reports from Australia say that Fonterra's stocks of skim milk powder are "mountainous," and the European Union has approved subsidies for exports of the product. And someone representing Leprino, the country's largest cheese producer, was recently quoted as saying the U.S. is uniquely situated to compete in the international sales arena. I say, let them do it with their mozzarella.

WHEY MARKET COMMENTS: Prices for dry whey remain low and unchanged; buyers are not buying; plants are trying to minimize the amount they produce. DMN reports that some of their contacts believe the low prices for lactose and permeates (which is the last of what is available to produce from the cheese whey stream) are very low and are outweighing the strength of the market for whey protein concentrates. Lots of hope that cheese production goes low for a long time, and that the good folks in China will begin to realize that they do not have to hide behind the lame excuse that imports are not of sufficient quality for domestic consumption.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 2009 Est: Quota cwt. \$ 11.23 Overbase cwt. \$ 9.54 Cls. 4a cwt. \$ 9.37 Cls. 4b cwt. \$ 9.56
Jan FINAL: Quota cwt. \$ 12.10 Overbase cwt. \$ 10.41 Cls. 4a cwt. \$ 9.51 Cls. 4b cwt. \$ 9.02

IS CALIFORNIA LOSING THE BATTLE FOR INTER-STATE PACKAGED MILK SALES? (By J. Kaczor) Several weeks ago, one of MPC's fellow producer trade associations, Western United Dairymen (WUD), published an article in their weekly newsletter on the volume of packaged fluid milk products that come into California compared to the volume of packaged milk that is processed in California and sold outside the state. This is part of an effort by WUD to "provide factual background data and thought-provoking information" for producers to consider as we deal with major policy decisions. The data was taken from two California Department of Food and Agriculture (CDFA) surveys, covering 2006 and 2007. (The article can be read at: <http://westernuniteddairymen.com/oldsite/html/News/Archives/2009/Jan.%202,%202009/2009-01-02.pdf>)

While the article did not specifically mention any policy options being addressed, it was clearly aimed at the current debate over how to deal with the increasing flow of unregulated milk into California from neighboring states. It is this debate that has led many, including MPC, to take a serious look at what a California Federal Milk Marketing Order (FMMO) could provide in regulating the out-of-state milk that is taking more of our Class 1 market each year.

In their article, WUD points out that **the amount of packaged milk sales "captured" by out-of-state plants in 2006 and 2007 is virtually identical to the amount that California plants sell outside of California.** There was no further analysis beyond this. End of report – form your opinions on the matter.

But before you do that, let's take another look at the report. By including all the data contained in CDFA's surveys, analyzing some of the data, considering current events, and adding some perspective, a completely different picture emerges on the current status of inter-state packaged milk sales competition.

- The 21.6 million gallons of packaged organic milk that moved into California in the two years covered by CDFA's surveys, noted only by footnote by CDFA, was shown in WUD's report but was removed from their inter-state comparisons, without explanation. The presumption: organic milk is a special case. However, in recent years, attempts to provide special considerations for pricing, pooling, and transportation subsidies for organic milk were rejected by virtually all California producers and processors, and by CDFA, on the basis that organic milk is milk, period.
- Virtually all of the packaged milk moving out of California is by vertically-integrated operations; the stores that receive that milk own the California milk plants, those transactions have been going on for decades, and are made for the purpose of maximizing operational efficiencies rather than for competitive purposes. The vast majority of those sales are to stores in Hawaii and Nevada. On the other hand, virtually all of the packaged milk coming into California is of fairly recent origin, virtually none is vertically-integrated, and is definitely competitive in nature. (Some packaged organic milk does originate on ranches owned by California plants; that is, it is downward integrated.)
- A report using data from a recent two-year period for the purpose of influencing opinions on a subject of great concern to California producers and processors, without looking at what was happening earlier, or what is happening now, or what the situation may be four to eight months from now, doesn't seem to be complete, completely objective or even helpful.

The following table shows the average monthly gallonage of packaged milk entering and leaving California for selected time periods from 2002 through 2009. The volumes shown for 2006 and 2007 are taken from CDFA's surveys for those years, and include packaged organic milk. The volumes shown for December 2002, 2008, and 2009 are estimates based on information derived from public hearings, market data, and other sources.

	Leaving	Entering
December 2002 (est.)	1,786,242	940,000
2006, 12 month avg.	1,872,371	2,797,930
2007, 12 month avg.	1,958,011	3,004,950
December 2008 (est.)	2,068,560	3,728,301
December 2009 (est.)	2,163,713	5,058,790*
<i>* The December 2009 estimated volume incorporates the captured 1.7 million gallons per month from 57 box stores.</i>		

Organic milk accounts for about 180,000 gallons of the increase in imports from 2006 to 2007. The current rate of that increase may be much lower. The volumes estimated for exports from California for the three Decembers are based on the rate of change CDFA found between 2006 and 2007. The volume shown for imports for December 2002 is based upon information from public hearings and other sources; the projections for imports in December 2008 and 2009 are based on the rate of increase from 2006 to 2007, plus the volume associated with the number of major “box stores” in northern California that have been targeted by a new bottling plant located in northern Nevada. **The losses began in August 2008 and are expected to total just under 1,800,000 gallons of fluid milk per month once the conversions are completed.** But that may not end the losses. The plant in northern Nevada is said to have plans to expand, and there are two fully unregulated bottling plants in southern Nevada that could be used to supply the southern California market. It’s really happening, folks.

MANAGERS NOTE: *(By Rob Vandenheuvel) Once again, John has does an outstanding job providing in-depth analysis of how our Class 1 market is being quickly eroded by out-of-state milk. This industry greatly benefits from this kind of research and reporting.*

While WUD’s analysis of the package milk exported out of California is interesting, it is essentially irrelevant to the debate at hand. California bottlers that buy California milk are paying the Class 1 minimum price for that milk supply, regardless of where that packaged milk is ultimately sold. Obviously, California producers have no problem with that.

What producers do have a problem with is when packaged milk is being imported into California, undercutting our local bottlers. Not only are these out-of-state bottlers not required to buy their milk from California producers, but even if they do, they are not required to pay the Class 1 minimum price. The unregulated imports are what concerns producers.

There are several major policy issues currently facing both the California and national dairy industries. With milk prices across the nation near government-support levels, the entire industry is looking for long-term solutions to the problems we are facing. We appreciate the questions raised by WUD, and encourage them and others to raise more questions as we move forward. MPC has brought several options to the table, such as a Growth Management Plan to address the national milk price volatility, or a potential California Federal Order to address the growing volume of out-of-state milk flowing into California. We need all leaders in our industry to bring alternatives to the table, and engage in an open dialogue about the pros and cons of the various alternatives. The time for this debate is now.

FARM SERVICES AGENCY SCHEDULES TOWNHALL MEETING IN CHINO TO DISCUSS MILC PAYMENTS: *(By Rob Vandenheuvel) With February being the first month in 2009 an MILC payment is issued, many producers will be filling out the appropriate FSA documentation to begin receiving this payment. Producers interested in signing up for February as their start month will have until February 27th to submit their forms.*

As I’ve mentioned before, some economists have looked at the futures market and made estimates on what the MILC payments might be for upcoming months. National Milk Producers Federation

(http://www.nmpf.org/milk_pricing/milc_payments), the Cornell University Program on Dairy Markets and Policy (<http://dairy.cornell.edu>), and the University of Wisconsin Dairy Marketing and Risk Management Program (http://future.aae.wisc.edu/collection/software/current_MILC_est.xls) have all published estimates.

For producers in San Bernardino and Riverside Counties, your local FSA offices are hosting a “Town Hall Meeting” on **Thursday, February 5th** to provide producers with more information on the upcoming program. The Town Hall will be held at the **Chino Fairgrounds from 10 am – 12 pm.**

As always, if you have any questions or would like assistance in completing these forms, please contact the MPC office at (909) 628-6018.

A REQUEST BY THE SANTA ANA REGIONAL WATER BOARD: *(By Rob Vandenhoevel)* The deadline for producers to submit your 2008 annual report to the Santa Ana RWQCB was January 15. There are currently a number of producers who still need to submit this paperwork, and could be subject to mandatory minimum penalties if you do not immediately send in your report. The RWQCB has sent out a reminder letter to those producers who have not responded. If you need any help submitting this report, please contact the MPC office at (909) 628-6018.

A REMINDER FROM THE CENTRAL VALLEY REGIONAL WATER BOARD: *(By Rob Vandenhoevel)* The Central Valley RWQCB has requested that producers remember to pay careful attention to possible contamination issues if you apply manure or wastewater to cropland that may be used to grow crops intended for human consumption.

General Specification B.4. of the General Order requires that “Wastes and land application areas shall be managed to prevent contamination of crops grown for human consumption. The term ‘crops grown for human consumption’ refers only to crops that will not undergo subsequent processing which adequately removes potential microbial danger to consumers.”

Additionally, the Central Valley Water Board asks that irrigation water (e.g., well water and ditch water) used on crops grown for human consumption not be conveyed through irrigation systems that are also used to convey dairy waste. It also asks that if “subsequent processing” is relied upon to prevent microbial contamination, that those practices be carefully reviewed to ensure that consumers are protected.

End