



# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0300 \$1.7200  
Barrels N/C \$1.6900

### CHICAGO AA BUTTER

Weekly Change +\$.0250 \$1.8600  
Weekly Average +\$.0445 \$1.8585

### NON-FAT DRY MILK

**Week Ending 10/14 & 10/15**  
Calif. Plants \$1.5102 10,994,494  
NASS Plants \$1.5231 15,316,595

### Weekly Average

Blocks +\$.0155 \$1.7185  
Barrels - \$.0160 \$1.7050

### DRY WHEY

DAIRY MKT NEWS w/e 10/21/11 \$.6300  
NASS w/e 10/15/11 \$.6193

*John Kaczor is unavailable this week to provide commodity comments.*

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### FRED DOUMA'S PRICE PROJECTIONS...

Oct 14 Est: Quota cwt. \$18.96 Overbase cwt. \$17.26 Cls. 4a cwt. \$18.29 Cls. 4b cwt. \$15.79  
Last Week: Quota cwt. \$18.90 Overbase cwt. \$17.21 Cls. 4a cwt. \$18.26 Cls. 4b cwt. \$15.70

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**THE 'DAIRY ADVANCEMENT ACT'; WHAT'S IN IT? WHO'S SUPPORTING IT?:** (By Rob Vandenheuvel) While MPC and numerous dairy farmer organizations around the country have been supporting the "Dairy Security Act" (H.R. 3062), a bill introduced last month by Congressmen Collin Peterson (D-Minn.) and Mike Simpson (R-Idaho), another piece of legislation was introduced last week in the U.S. Senate. The "Dairy Advancement Act" (S. 1682) was introduced on October 12<sup>th</sup> by Senator Robert Casey (D-Pennsylvania). It includes no co-sponsors at this point.

Here are a few quotes that were released to the media after the introduction of S. 1682:

- "Now we are getting somewhere."
- "The Dairy Advancement Act offered by Senator Robert Casey (D-PA) moves the dairy industry toward consensus on a path forward."
- "We applaud Senator Casey's inclusion of critically needed risk management tools, particularly his call for an expansion of the Livestock Gross Margin-Dairy program. Instead of having its funding cut even further as was done for FY 2012, LGM-Dairy is the type of program that our government should encourage."
- "We would like to work with Senator Casey and his staff on other elements of the legislation that do not, in our opinion, go as far as needed to reduce, reform and simplify the burdensome regulations that stymie dairy industry growth."
- "Senator Casey has taken the real first step in the right direction for our nation's dairy industry."

**So who made these statements?** If you guessed that they came from a dairy farmer organization, **you would be WRONG.** These quotes are straight from a press release put out by the **International Dairy Foods Association (IDFA)** (full press release can be found at <http://www.idfa.org/news--views/headline-news/details/6496/>).

Those of you that read this newsletter regularly know very well who IDFA is. For those of you that don't already know, **IDFA is the main lobbying organization representing our nation's dairy product processors** – the folks that buy our dairy farmers' milk. The same folks that recently put out a **shameless press release accusing dairy farmers of attempting to deprive poor women and children of having access to dairy products**. The same folks that **recently advocated that Class I differentials – a premium paid to dairy farmers for milk sold to fluid bottling plants – be eliminated over the next several years**. The same folks that **continue to state that any tool that would have raised milk prices paid to dairy farmers in 2009 (a year our dairy farmers lost an estimated \$10 BILLION) would create a burden on the U.S. government and should be rejected**.

So now that we have that straight, let's get back to S. 1682. IDFA's supportive comments should be enough to send producers running to Congress to oppose the bill, but let's take a look at what is actually being proposed in the legislation:

- **The bill repeals the Dairy Price Support Program** (the program that buys cheese, butter and nonfat dry milk at levels to “support” about a \$10 per cwt price for dairy farmers). This provision is also in the Dairy Security Act (H.R. 3062 or the “Peterson-Simpson Bill”), which MPC and many dairy organizations around the country support.
- **The bill promotes the “Livestock Gross Margin Insurance for Dairy” program as an alternative to the Milk Income Loss Contract (MILC) program**. The LGM-Dairy program is a program that allows dairy farmers to “insure” a margin for their dairy by combining risk management tools for income and feed costs. The program relies on prices reported for Class III (milk sold to cheese plants), corn and soybean meal from the Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT). The program includes premiums that must be paid by the dairy farmers to participate. It also includes a subsidy to help offset these premiums, although only on the first 3,000,000 lbs of milk produced per year per dairy (roughly the same production limitation that currently exists in the MILC program).
- **The bill mandates that USDA modify Federal Milk Marketing Orders (FMMOs) to include only two classes – a fluid milk class and a manufacturing milk class**.
- **The bill includes loan guarantees for dairy product processors in the amount of \$30,000,000 per year**.
- **The bill creates daily reporting by dairy processors of sales and inventory information**.

So let's review. S. 1682 would give dairies an alternative to the MILC program – an alternative that relies the CME to “hedge” a margin. Subsidies would be available under that program, but only at levels that would fully cover dairies producing less 3 million lbs of milk per year (the rest of the dairies that are milking more than roughly 150 cows would have to pay higher premiums under the program). And S. 1682 would provide \$30,000,000 a year in loan guarantees for processors to invest in their operations. Playing in the futures/options market on the CME/CBOT and loan guarantees for processors – that's what the bill is proposing to strengthen our Federal safety net policies?

What is in this bill that will help empower dairy farmers to avoid another devastating 2009-level wreck in the industry? What is in this bill that will prevent billions of dollars from being ripped out of dairy farmers' pockets in the next downturn? **No wonder IDFA jumped out so quickly to support this bill.**

**WITH ALL THE ACTION IN CONGRESS, IDFA MUST BE SMILING FROM EAR-TO-EAR:** *(By Rob Vandenheuvel)* While the Peterson-Simpson bill (*H.R. 3062, the Dairy Security Act*) is still the only major dairy reform bill that has been introduced with broad support in the industry and a bi-partisan list of co-sponsors, the fact that bills like the Dairy Advancement Act above have been introduced is playing right into the hands of IDFA. I've said it many times before, but it's worth repeating: IDFA is counting on dairy farmers doing what we do best – using differences in size, regions and ideologies to prevent us from unifying behind a single proposal that will improve our Federal safety net policies.

The main objection IDFA has with the Peterson-Simpson bill is the portion known as the “Dairy Market Stabilization Program.” This portion of the bill would create a stand-by program that is dormant most of the time, but when dairy farmer margins are severely compressed, would create a financial incentive for dairy farmers to temporarily cut back their milk production to help bring supply and demand back into balance.

In describing the Dairy Market Stabilization Program, IDFA uses terms like “limit growth,” “curtail exports,” and “hinder job creation.” They’ve also labeled the program as a threat to national feeding programs aimed at providing dairy products for women and children.

Sifting through their rhetoric and propaganda, let’s take a look at what the Dairy Market Stabilization Program would actually do.

- **Most of the time, it would be inactive.** In fact, if the program had been in place over the past 10 years, it would have activated during only two periods of time – the 2002/03 milk price downturn, and the now-infamous 2009 milk price devastation.
- The reason it would have triggered in during those two periods of time are because supply/demand imbalances drove estimated national dairy farmer margins (a calculation of milk price minus feed costs) below \$6 per hundredweight. When that occurs, the program is designed to temporarily activate and create a financial incentive for dairy farmers to cut back 2-4% of their milk production in an effort to quickly bring balance back to the industry.
- Once that estimated milk-price-over-feed-cost is restored to levels above \$6 per hundredweight, the program de-activates.

So how exactly does this program “limit growth”? The program sits dormant most of the time and allows our nation’s dairies to continue the phenomenal progress we’ve made in improving the efficiency of our national dairy herd. Only during limited periods of time when our milk prices are significantly below our operational costs will the program swoop in and provide temporary relief.

How does the program “curtail exports”? Maybe if we assume that the only way to export dairy products long-term is to sell them at prices that result in losses to the dairy farmers.

And how does the program “hinder job creation”? Our nation’s processors have gotten used to a continuous supply of inexpensive milk, and they believe that any attempt to restore supply/demand balance in the industry threatens that continuous supply of inexpensive milk. Notice they don’t ever mention the decades worth of equity that dairy farmers saw wiped out during the devastation of 2009. Those kinds of losses don’t appear to register on their list of priorities.

The fact is that this debate has **NOTHING** to do with the merits of the Dairy Market Stabilization Program. This debate is about **CONTROL of the industry**. It’s been said before that “he who controls the milk supply controls the industry.” IDFA is terrified of a plan that would give dairy farmers the ability to collectively respond to supply/demand imbalances by temporarily cutting back milk production – even if that only occurs twice in a 10 year period. They like the situation we have now – **60,000 dairy farmers that have every incentive to produce as much milk as we can, whether or not that milk is profitable for the dairy farmer.**

Unfortunately for the dairy farming side of our industry, it’s a whole lot easier to stop a dairy reform proposal than to promote one. Propaganda and rhetoric are strong tools when it comes to “educating” our elected representatives in Washington, DC. And when dairy farmers fail to unite behind a common proposal, **we are aiding and abetting IDFA in their efforts.** So if you are a member of a trade association or cooperative that has sat on the sidelines during this critical debate, call your board members and **ask them what they are waiting for.** IDFA is counting on our nation’s dairy farmers to sit on the sidelines and just milk our cows. It’s worked for them before, and they are sure hoping it will work for them again. **We must prove them wrong.** **Our future depends on it.**