

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0100 \$2.0100
Barrels +\$.0025 \$1.9125

CHICAGO AA BUTTER

Weekly Change +\$.0250 \$1.3150
Weekly Average +\$.0160 \$1.3060

NON-FAT DRY MILK

Week Ending 10/26 & 27

Calif. Plants \$2.0272 16,268,483
NASS Plants \$2.0434 17,314,837

Weekly Average

Blocks +\$.1030 \$2.0055
Barrels +\$.0025 \$1.9185

DRY WHEY

NASS w/e 10/27/07 \$.4340 WEST MSTLY AVG w/e 11/02/07 \$.4200

CHEESE MARKET COMMENTS: Prices on the CME posted more gains this week, as cheese buyers appear to be scrambling to fill customers' orders they knew would occur. It looks like the gamblers may have lost this year, while the businessmen made out. USDA reports that most manufacturers still are not building inventories -- a continuing positive sign for future prices. And don't be alarmed by expected reports of heavier imports; that usually happens this time of year as offshore suppliers fill their annual quotas. The extra supply is not significant. Current prices should remain strong until there is a reason for them not to be. That's elementary.

BUTTER MARKET COMMENTS: Here's something we haven't heard for some time: **the butter market appears to be firm.** It shouldn't be, because butter sales since April have been lower than last year and inventories continue to grow. The strength may be because of a seasonal increase in commercial use of cream that is temporarily slowing butter production. There is also belief that extra exports of butter may continue (the low end of the price range in Western Europe is \$2.58 per lb!), but that volume also is not likely to have much of an impact on U.S. inventories. Butter prices are about where they were a year ago, and that's o.k.

NONFAT DRY MILK: Last week's prices reported nationally and by California plants continued to move downward towards the \$2.00 per lb level. USDA reports that inventories continue to increase as product backs up in the commercial pipeline. Production appears to be somewhat lower as plants and buyers share cost savings by using more condensed skim, but it still doesn't pencil out for cheese plants to fortify their vats with \$2.00 nfdm.

WHEY MARKET COMMENTS: Market news regarding whey prices continues to be encouraging. Prices continue to edge upward. USDA reports that buyers appear to have acknowledged that the price bottom was reached about 3 weeks ago, and are now starting to place orders for longer periods. The sharp increase in prices earlier this year for all whey-based products may have caused the long-term loss of a sizable part of the U.S. market, so exports continue to be the major factor in determining just how much upside can be expected. WPC and lactose prices continue to be very weak.

FRED DOUMA'S PRICE PROJECTIONS...

Nov 02 Est:	Quota cwt. \$21.68	Overbase cwt. \$19.99	Cls. 4a cwt. \$20.99	Cls. 4b cwt. \$19.11
Last Week	Quota cwt. \$21.06	Overbase cwt. \$19.36	Cls. 4a cwt. \$21.32	Cls. 4b cwt. \$17.65

COMMENTS ON THE CALIFORNIA HEARING PROCESS: *(By John Kaczor)* Last week some ideas were promised on possible improvements to the CDFA hearing process. The reason we should be seriously discussing improvements stem from the recent CDFA decision that has been well documented by this newsletter in recent issues (http://www.milkproducerscouncil.org/friday_updates.htm).

There is a growing debate between the California dairy industry and CDFA's Dairy Division – and even within the industry itself – regarding the extent to which members of the CDFA hearing panel may completely disregard specific primary Legislative directives in favor of their views on what they think should be done. The reason for the concern is the growing tendency of the hearing panel, supported by CDFA's Undersecretary, to discredit or reject specific proposals by producers and handlers and instead decide on something completely different. Too often, the Department's conclusions appear to be pre-conceived ideas they have of what should be done. It has reached the point where recent hearing panel discussions have stated that **it is their opinion that there is nothing in the statutes that implies any particular standard or guideline is more important than any other**. If that is the case, maybe there should be a second opinion.

They base their opinion on what seems to be an incorrect, or at least an over-reaching, understanding of the extent to which the Legislature has given the Secretary discretion in authorizing amendments to the Stabilization and Marketing Plans. The relevant language reads: "It is the intent of the Legislature that **the powers** conferred in this chapter shall be liberally construed." The hearing panel members and the Undersecretary obviously believe that liberal use of those powers includes the right to interpret a **Legislative directive to use a specific pricing standard** to simply mean the specific standard **need not be used** when it serves their purpose.

The industry itself is partly to blame for this because of its numerous encouragements in the past to have the Secretary use his "broad discretion." But who now can really disagree with the contention that industry testimony and evidence is of minimal importance to the hearing panel or the Undersecretary in reaching a decision? And who really believes that what is now happening is the best way to administer the leading dairy industry in the country?

So, in the absence of a change of opinion or a change of personnel, there are several other ways to improve the accountability of CDFA's Dairy Division to the industry it serves as well as to the general public. Following is a brief discussion of some procedures that could greatly improve our hearing process and result in an improved forum for considering well thought out ideas for our industry.

1. **Reinstate cross-examination of witnesses by members of the audience.** Members of the hearing panel recently have shown little interest in asking questions, much less probing questions. As a result, hearings have turned into a somewhat meaningless parade of proposals that bypass public examination and receive little scrutiny from the hearing panel. This has played into the hearing panel's interests. Cross-examination by interested, informed members of the industry is the most effective way to bring out both the weakest and the strongest points of every proposal.

2. **Restrict the hearing panel to consideration of only those proposals submitted prior to the hearing and, where specific changes are proposed, limit the scope of their recommendations to either accepting or rejecting the specific change.** A change like this could improve the quality of proposals and the quality of reasoning on the part of the hearing panel.

3. **Restrict the hearing panel's recommendations to what is contained in the hearing record and require specific citation of each fact that was considered in reaching each decision.** These requirements would preclude use of a statement like the following, which was the sole defense for doing nothing over a period of about eight months prior to the recent hearing: "Since the Secretary does in fact take into consideration many pertinent factors when making milk pricing decisions in California, the panel believes that the Secretary has been in compliance with the law."

4. **Interested persons should be prepared to ask specific questions on how numerous exhibits introduced by**

reference only into the hearing record on behalf of CDFA will be considered by the panel members. This should not be considered an exercise in civil disobedience or delay; in fact, it can be an effective tool in helping to shape testimony, rebut opposition, and give the panel members a better understanding of the full scope of what needs to be considered. This exercise should probably be undertaken prior to receipt of proposals, and should be made part of the hearing record.

Unfortunately, except for the fourth suggestion, adoption of any of the others would require agreement by the Dairy Division and, even then, would not remove the lack of confidence in the administration that is believed to be held by the majority of the industry. Got Ideas, anyone?

USDA PUBLISHES SEPTEMBER'S DAIRY PRODUCT PRODUCTION NUMBERS: *(By John Kaczor)* The amount of milk produced in the U.S. in September was 2.6% higher than a year earlier. Following are the numbers for production of the major dairy commodities:

	Nationwide	California
Butter	+ 7.3%	+12.5%
All Cheese	- 1.4	- 4.1
Cheddar Cheese	- 8.4	-25.3
Nonfat Dry Milk/ Skim Milk	+22.1	- 5.0

Inventories of dry dairy products are also reported for the U.S. The amount of nonfat dry milk has increased 100%, dry buttermilk 113%, lactose 19%. Dry whey inventories are 5.3% lower and whey protein concentrate is 1% lower.

It's a little puzzling about where the 3.3% increase in California's milk production went, considering that almost two-thirds of it is used to produce cheese and nonfat dry milk. CDFA's report should be available by next week to help answer that question.

A FRIENDLY REMINDER ABOUT THE NEW CENTRAL VALLEY WATER REGULATIONS: *(By Rob VandenHeuvel)* It's been mentioned in this newsletter several times, but as a reminder, Central Valley dairies must sample their domestic and ag well water by **TOMORROW, November 3rd**. There are also several monitoring requirements that dairies must start immediately if you haven't already begun, and an "Existing Conditions Report" must be filled out and sent to the Regional Water Board by December 31st. MPC members are encouraged to call Betsy Hunter, MPC's Central Valley representative, for assistance in complying with these new regulations. Betsy can be reached at (661) 205-6721.

MPC REVAMPS ITS WEBSITE: *(By Rob VandenHeuvel)* If you haven't visited the MPC website lately, I encourage you to take a look. www.milkproducerscouncil.org. This site is a great resource for our members and the general public. And continue to check back as more information is added regularly.

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Also attached is latest monthly newsletter from CARES.



Dairy CARES Report

October 2007

www.dairycares.com

Fresno puts an end to era of ‘by-right’ dairies

The Fresno County Board of Supervisors on October 23 adopted a historic new ordinance for existing, expanding and new dairy projects in the county. For the first time, the county will now require “conditional use permits” for dairy projects. Though it may not seem obvious at first glance, this is a good move for the dairy industry and Fresno County.

Fresno was the last major dairy county in California to end ‘by-right’ dairy projects. Most other important dairy counties began requiring conditional use permits several years ago. Virtually all new dairy projects already require air pollution permits and waste discharge requirements issued by the Regional Water Quality Control Board. But lack of a permitting process in Fresno County left in doubt which agency was in the “lead” for determining the overall environmental impacts of a new or expanding project. This lack of a leader didn’t make it easier for dairies – it just caused a lot of confusion.

With its new ordinance, Fresno County becomes the clear “lead agency” for approving dairies. Experience shows that county governments are best suited to the job of weighing the economic benefits of new dairy projects against their potential impacts and finding a balance.

Passage of the ordinance makes the process for upgrading, expanding or building new dairies in Fresno County more sensible on paper. But serious issues remain related to continued attacks by anti-dairy activists. Before the supervisors this month, and before the Planning Commission in September, activists packed the hearing room to insist the county require more stringent controls on dairy projects. We can expect similar behavior as dairy projects come forward.

Fortunately, a majority of supervisors understood that dairies in Fresno County are already under the nation’s most stringent air and water quality regulations, enforced by regional air and water quality authorities. They also understood that all new and expanding dairies must comply with the California Environmental Quality Act (CEQA), which means a project must prepare an Environmental Impact Report and undergo public hearings before it can be approved.

For the past year, CARES coalition members worked closely with Fresno County government and the Fresno County Farm Bureau to ensure the fairest ordinance possible, one that encourages development of environmentally friendly dairies. We explained carefully and repeatedly the complex regulations dairies already face. Not everyone listened, but many did and ultimately, these efforts were successful. CARES will continue to work hard to educate valley communities about the efforts California dairy families have made to achieve the highest levels of environmental performance anywhere.

CARES is a statewide coalition supporting economic and environmental sustainability for California’s dairy industry. CARES members include the Alliance of Western Milk Producers, Bank of the West, California Dairies Inc., California Dairy Campaign, Crystal Cream & Butter, Dairy Farmers of America-California, Dairy Institute of California, Hilmar Cheese Co., Joseph Gallo Farms, Land O’ Lakes, Milk Producers Council, Saputo Cheese, Turlock Dairy & Refrigeration, Western United Dairywomen, and others. For information about CARES, visit our web site at www.dairycares.com, write dairycares@aol.com or call 916-441-3318.