Milk Producers Council

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TO: DIRECTORS & MEMBERS **FROM: John Kaczor**

BREAKING NEWS!!!

U.S. Senator Bernie Sanders Joins Two of His Fellow Senators In Introducing S. 3531, the "Dairy Price Stabilization Act of 2010"

Yesterday, Senator Bernie Sanders (Vermont) introduced S. 3531, the *"Dairy Price Stabilization Act of 2010."* Joining Senator Sanders in co-sponsoring the legislation were Senators Patty Murray (Washington) and Patrick Leahy (Vermont).

S. 3531, which can be found on **www.stabledairies.com**, is virtually identical to the legislation introduced last month in the U.S. House of Representatives by Reps. Jim Costa (California), Peter Welch (Vermont), Rick Larsen (Washington), Joe Courtney (Connecticut), and John Larson (Connecticut). That bill, H.R. 5288, is also titled the *"Dairy Price Stabilization Act of 2010."*

"The introduction of this legislation in the U.S. Senate is a huge step forward for the dairymen and organizations who have been working on the 'Dairy Price Stabilization Program' for more than a year," said Rob Vandenheuvel, General Manager of MPC. **"After almost two years of devastating losses by our nation's dairy farmers, the industry greatly appreciates the leadership of these three Senators in introducing S. 3531 and bringing this much-needed industry dialogue to the halls of the U.S. Senate.**

"S. 3531 and H.R. 5288 are specifically designed to send economic signals directly to individual dairy farmers, which will better equip our nation's dairies in balancing our milk production with the market demand for our dairy products," added Vandenheuvel. **"This rational concept is something that has been painfully missing in our industry and has resulted in chronic imbalances of supply and demand, and a devastating boom-bust nature to our milk price that has cost our nation's dairy farmers decades-worth of hard earned equity over the course of the past two years."**

Earlier this month, the National Milk Producers Federation, representing many of our nation's cooperatives, outlined their "Foundation for the Future," a package of policy proposals intended to provide the U.S. dairy industry with long-term stability. Included in that package is a "Dairy Market Stabilization Program," which is a proposal aimed at giving the industry a tool to better align supply and demand.

"As we can see with S. 3531, H.R. 5288 and National Milk Producers Federation's 'Foundation for the Future,' there is broad support amongst dairy farmers that long-term stability in the industry starts with equipping ourselves with a tool to better align milk production with demand. The *'Dairy Price Stabilization Act of 2010,'* which is based on economic analysis and industry discussions conducted over the past three years, will play a key role in shaping that important piece of our industry strategy for reducing milk price volatility and giving our dairy farmers hopes for long-term sustainability.

"Having virtually identical legislation introduced in both the House and the Senate, with co-sponsors from coast-to-coast, is a clear indication that our industry is closer than ever to taking the steps necessary to ensure our nation's dairy farmers more stability and sustainability for the generations to come," concluded Vandenheuvel.

In short, S. 3531 would do the following:

1. Each quarter, USDA will announce – ***based on a set of "triggers" clearly outlined in the legislation*** – two numbers: (1) an allowable year-over-year growth rate and (2) a market access fee.

2. The allowable year-over-year growth rate is the amount that any farmer is allowed to increase production from the same quarter of the previous year without being considered an "expansion" (under the bill, this will normally be 3% year-over-year growth in milk production).

3. The "market access fee" is a fee that dairies wishing to expand beyond the allowable year-over-year growth rate would pay for the first year after an expansion. The fees outlined in the legislation are identical to the fees outlined in H.R. 5288.

4. The market access fees paid by expanding dairies each quarter would be distributed as a dividend among those farmers who kept their growth within the allowable growth rate, serving as an incentive for those dairies to manage their production.

5. Three years after this program is established, there will be a dairy farmer referendum vote on whether to continue it. This ensures that dairymen – not the government – decide whether or not the program is working.

6. The program will be overseen by a 15-member industry board. This board will include 12 dairy farmers, elected by their fellow farmers, and 3 representatives from the consumer and processor sectors. Only in cases where the board can find broad support (a two-thirds majority) will they be able to make adjustments to the parameters laid out in the legislation.

While both S. 3531 and H.R. 5288 are based on economic analysis and modeling conducted over the past three years, additional modeling is currently in the works. Dr. Mark Stephenson *(currently at Cornell University, but soon to be at University of Wisconsin-Madison)* and Dr. Chuck Nicholson *(California State Polytechnic University in San Luis Obispo)* have been contracted by a broad coalition of dairy farmer groups and cooperatives to conduct additional economic modeling on this proposal, as well as other major proposals (like pieces of the National Milk Producers Federation's "Foundation for the Future"). Their modeling and analysis is expected to be available next month. The sponsors of both S. 3531 and H.R. 5288 are anxiously awaiting those results to determine what, if any, adjustments need to be made to make these proposals as effective as possible.

More details on S. 3531 and H.R. 5288 are available at **www.stabledairies.com**. Milk Producers Council will also continue to examine these bills in upcoming issues of our weekly newsletter.

CALL TO ACTION FOR ALL DAIRY FARMERS: As we mentioned in last week's newsletter, a dairy farmer petition is being circulated. **That petition is attached to the end of this newsletter**. If you support the efforts of H.R. 5288 (and now S. 3531) and want to send that message to your cooperative, your trade association, and your member of Congress, **please fill out the petition and fax it in to (909) 591-7328**. **Take the petition to your neighboring dairy and ask him or her to sign it too**. **Dairy farmers need to speak up and be heard**. **It's the only chance dairy farmers have at successfully securing your future!**

And as always, if you have any questions about H.R. 5288 or S. 3531, you can check out ***www.stabledairies.com*** *or give us a call at (909) 628-6018.*

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*+$.0050*	$1.4100
Barrels	*+$.0100*	$1.3950

Weekly Average

Blocks	*+$.0075*	$1.4005
Barrels	*+$.0230*	$1.3800

CHICAGO AA BUTTER

Weekly Change	*+$.0850*	$1.7200
Weekly Average	*+$.0785*	$1.7005

DRY WHEY

WEST MSTLY AVG	w/e 6/18/10	$.3875
NASS	w/e 6/19/10	$.3718

NON-FAT DRY MILK
Week Ending 6/18 & 6/19

Calif. Plants	$1.2888	6,981,808
NASS Plants	$1.3059	9,462,607

CHEESE MARKET COMMENTS: Losses for blocks and barrels early in the week on the CME were off-set by traders stepping in today. Both styles ended higher for the week. The virtual explosion of buying activity last Friday was not explained. *Dairy Market News (DMN)* reporters are finding sales to be flat and buyers not willing to go much higher on prices. Stocks of American cheese in storage at the end of May were reported to be 31 million lbs higher than a year ago and 8 million lbs higher than at the end of April. Stocks of other natural cheese, mainly Mozzarella, were 12 million higher than last year. Today, the highest class III milk futures price on the CME for the next twenty-four months was $14.68, which needs a NASS price for block cheese to reach $1.56 per lb for that month. It's depressing.

BUTTER MARKET COMMENTS: The word is spreading: there's competition for cream as the supply begins to move seasonally downward and usages for other than butterfat products are moving seasonally upward. Butter prices on the CME finished the week with another solid increase and are now higher than they have been in a year and a half. DMN reports both sides of a transaction seem to believe that prices for cream and/or butter will be higher than now in the second half of the year. Stocks of butter are being held with confidence. Tuesday, USDA reported butterfat products in storage at the end of May were 42 million lbs lower than a year earlier and 5 million lbs higher than at the end of April. DMN reports that international prices for butter are firm ($1.84 per lb in New Zealand-Australia (NZ-A) and $2.04 per lb in Europe). Europe continues to release government-held butter, at below-market prices without affecting prices for current supplies.

POWDER MARKET COMMENTS: Average prices reported for sales of nonfat dry milk last week again moved slightly higher. Volumes remain very low. Stocks are growing. The price for extra grade powder on the CME edged downward by a half-cent per lb mid week. Internationally, there's a $.17 per lb difference between Europe's $1.30 and NZ-A's $1.47. A major problem could be brewing in Europe; officials rejected another set of bids for a portion of the powder they have held in storage for more than a year. When USDA released some of its old powder for other than human usage earlier this year, the effect was felt in the dry whey market. The markets and prices for dry buttermilk and dry whole milk continue to look rather good. Dry buttermilk is selling for the same price as nonfat dry milk. The major question right now is how high will Dairy America allow its stocks to rise before turning away from the market. It's scary.

WHEY PRODUCTS MARKET COMMENTS: Domestic demand for dry whey is holding steady but DMN reports that the recent increases in the U.S. currency value is causing a slowdown in exports. Spot prices were slightly lower this week in the East and West, but unchanged in the central region. The weekly NASS average price is holding in what looks to be a range of $.36 to $.38 per lb. Shipments to China are reported to be on-going, as officials attempt to resolve the issue over proper certifications. The markets and prices for whey protein concentrates and dry lactose continue to hold steady, if not firm.

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FRED DOUMA'S PRICE PROJECTIONS…

June2010 Final:	**Quota cwt. $ 15.30**	**Overbase cwt. $13.60**	**Cls. 4a cwt. $15.67**	**Cls. 4b cwt. $12.23**
Last week:	**Quota cwt. $ 15.16**	**Overbase cwt. $13.47**	**Cls. 4a cwt. $15.27**	**Cls. 4b cwt. $12.24**

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IDFA DARES CONGRESS TO ENNACT A MILK PRICE STABILIZATION PROGRAM: *(By J. Kaczor)* It's been an interest month, which is appropriate in that June is designated as "National Dairy Month." First, National Milk Producers Federation (NMPF) released its "Foundation for the Future" proposal for revamping state and federal milk pricing and milk price support programs. A week later, Connie Tipton, President and CEO of the International Dairy Foods Association (IDFA), offered a few words in her welcoming address at IDFA's Washington Conference about one aspect of NMPF's proposal, the Dairy Market Stabilization Program. That's the program NMPF said would swiftly correct brief imbalances between milk supply and milk demand. (Others are working on similar proposals – see breaking news at the beginning of this newsletter.)

Actually, Tipton's comment wasn't necessarily addressed to NMPF's specific proposal, or to any other specific proposal to help stabilize milk prices for producers. Instead, it was directed at *all* such programs of any kind, anywhere, at any time. Here's what she said: "The growing interest among some dairy groups to move toward a government-mandated milk supply management program…has become increasingly troubling to me in the last few months." The clear reason for her troubled state appears to be a concern that such a program – any of those presently being considered – will actually work. She's right on that, but wrong on her reasons for concern, which border on being silly and hysterical.

Ms. Tipton is a highly regarded, very knowledgeable, astute person. She most likely realizes how foolish IDFA's position is on these programs, particularly because at one point she acknowledges they are intended to reduce price volatility. According to Tipton, here's list of what IDFA definitely "knows" what will happen if any kind of supply stabilization program is enacted:

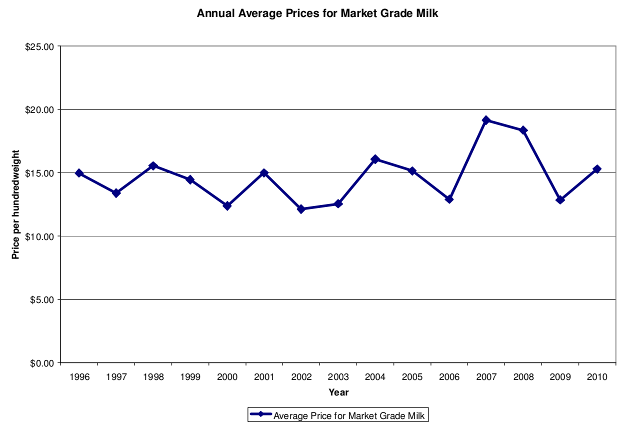
- It will pit producers against producers
- It will "kill" the growth of the U.S. dairy industry
- It will prevent companies from adding jobs
- It will "stop" dairy exports
- It will cost the U.S. government hundreds of millions of dollars
- It will lead to more, not less, price volatility
- It's intended to limit growth and increase prices

Regarding the first item on that list, there likely will be disagreements between producers, just as there is now and always have been, but I don't recognize the killing, preventing, stopping, and costing conclusions that are in the next four items. And I'm not at all clear on how any well-conceived program to reduce volatility will actually do the opposite, big time. We need clarification on that point. In fact, if anyone can actually describe how a single program would cause that particular combination of results in that list, I'd like to buy it for a small sum and offer it to New Zealand for free. Tipton would have people who read that nonsense believe that producers and producer representatives don't know what IDFA is really trying to accomplish – split the industry and maintain programs that generate periodic milk shortages and surpluses – or even, persistent surpluses.

Mr. Paul Krause, CEO of Blue Bell Creameries, in his statement a year ago on behalf of IDFA to the House subcommittee on Dairy, Livestock, and Poultry, was far more moderate in his discussion about one particular price stabilization idea. After stating "price volatility makes it very difficult for folks in our industry to plan long term investments," he concluded the program he was reviewing would "raise domestic milk prices and make U.S. dairy products less competitive on world markets" and would also "limit the industry's ability to modernize, innovate and grow." Those seem like reasonable comments provided the rise in milk prices he was referring to was substantial – quite unlike the hysteria in Tipton's comments. "Less" and "limit" became "kill" and "stop." But Krause then blew it by offering the now famous half-truth: "By 2008, the total quantity of U.S. dairy product exports had more than doubled, without any export subsidies."

A point that apparently has been completely lost, presumably by all 220 members of IDFA, is the fact that one of the principal requirements for a large, continuing, robust dairy product export program is a foundation of relatively stable milk prices, based on supply-demand balance. That's the win-win part of a successful price stabilization program.

Another very important point is the need for higher prices for U.S. producers. While the analyses of the various price stabilization programs are not yet completed, apparently one of the off-shoots from some of those programs could be somewhat higher milk prices. Take a look at the chart below which reports the U.S. annual national average price for market grade milk for the past fifteen years. This is the period after the Minnesota-Wisconsin grade B price series was dropped as the basis for setting basic prices in federal order areas. It's important to note that these are "nominal" prices, which means they are what were paid out to producers during those years. *(A chart comparing "real" prices would have annual prices after 1996 adjusted downward for the effects of inflation.)* The prices shown are f.o.b. ranch locations; hauling costs should be deducted to reflect what producers actually received.



Except for the extraordinary world-wide combination of circumstances that occurred in 2007 and 2008 which caused milk prices to reach record highs during a major economic recession (and which Mr. Krause should have explained was the reason why dairy product exports doubled) prices received by producers have been virtually flat on a trend-line basis (although the annual data greatly understates the full degree of volatility when looking at month-to-month or quarter-to-quarter data). Are producers to go another fifteen years without a price increase? **Will Congress dare to cross the "line in the sand" drawn by Tipton or the IDFA board or whoever is running that ship, and do the one thing for U.S. milk producers that is needed to help control milk price volatility?**

MPC EXTENDS OUR THOUGHTS AND PRAYERS TO THE RICO FAMILY: *(By Rob Vandenheuvel)* Yesterday, Margarito Rico, a long-time familiar face in the Southern California dairy industry, passed away at the age of 89. Margarito was the oldest brother of Ralph Rico, who is also a familiar face for many of the dairies in Southern California and Bakersfield.

Margarito's memorial service has not been scheduled yet, but will likely be held late next week at Pierce Brothers Crestlawn Memorial Park & Mortuary (11500 Arlington Avenue in Riverside, CA). Anyone interested in attending Margarito's memorial service can call MPC's office next week or check the Inland Valley Daily Bulletin for the date and time. Our thoughts and prayers are extended to Ralph and the rest of the Rico family as they lay a loved one to rest.

MPC EXPRESSES CONDOLENCES TO MARY PARENTE AND HER FAMILY IN PASSING OF MARY'S SON LUIS: *(By Rob Vandenheuvel)* This past Monday, Luis P. Parente, son of long-time Chino dairywoman Mary Parente, passed away at the age of 52.

A memorial service will be held for Luis on Saturday, July 3rd at 10:00 a.m. at St. Elizabeth Ann Seton Church, which is located at 2713 S. Grove Avenue in Ontario, CA. Donations in Luis' name can be made to:

- American Cancer Society For Lunch Cancer Research
  6355 Riverside Drive, Riverside, CA 92506
- U.C. San Diego Foundation to Support Moores Cancer Center
  200 W. Arbor Drive, MC 8982, San Diego, CA 92103-8989)

MPC extends our thoughts and prayers to Mary Parente and her family during this difficult time.

DAIRYMEN PETITION IN SUPPORT OF H.R. 5288, THE "DAIRY PRICE STABILIZATION ACT OF 2010

(Introduced by Reps. Jim Costa, CA; Peter Welch, VT; Rick Larsen, WA; Joe Courtney, CT; and John Larson, CT)

Introduction/Summary: There is little argument among dairy farmers that the boom/bust nature of our milk price has become much more extreme in recent years. The "booms" have contributed to stamping out demand for U.S. dairy products, while the "busts" have forced dairy farmers to accumulate a mountain of debt. Over the past two years, dairymen have lost decades-worth of hard-earned equity and have accumulated billions of dollars in debt. It is clear that something needs to change.

We, the undersigned dairy farmers, have reviewed H.R. 5288, the "Dairy Price Stabilization Act of 2010," which was recently introduced in the U.S. House of Representatives *(information on H.R. 5288 can be found at www.stabledairies.com)*. **We recognize that H.R. 5288 empowers dairymen to control our own future, and WE URGE OUR INDUSTRY LEADERS TO ENDORSE THE LEGISLATION.**

Name *(please print)*	**Name of dairy farm**	**Address**	**Phone number/ email**	**Cooperative**	**Signature**

PLEASE FILL THIS OUT AND FAX IT TO (909) 591-7328.