



# Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018  
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549  
222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801  
Fax (909) 591-7328 ~ [office@milkproducers.org](mailto:office@milkproducers.org) ~ [www.MilkProducers.org](http://www.MilkProducers.org)



**DATE: November 16, 2012**  
**TO: Directors & Members**

**PAGES: 5**  
**FROM: Rob Vandenheuvel, General Manager**

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks - \$.0950 \$1.8250  
Barrels - \$.1125 \$1.7225

### Weekly Average, Cheddar Cheese

Blocks - \$.1700 \$1.8540  
Barrels - \$.1730 \$1.7880

### CHICAGO AA BUTTER

Weekly Change - \$.0950 \$1.7950  
Weekly Average - \$.0170 \$1.8660

### DRY WHEY

Dairy Market News w/e 11/16/12 \$.6263  
National Plants w/e 11/10/12 \$.6415

### NON-FAT DRY MILK

#### Week Ending 11/9 & 11/10

Calif. Plants \$1.4826 7,349,257  
Nat'l Plants \$1.5057 14,753,322

#### Prior Week Ending 11/2 & 11/3

Calif. Plants \$1.4672 5,657,768  
Nat'l Plants \$1.4916 12,205,016

## MARKET COMMENTARY: (By Sarina Sharp)

### Milk & Dairy Markets

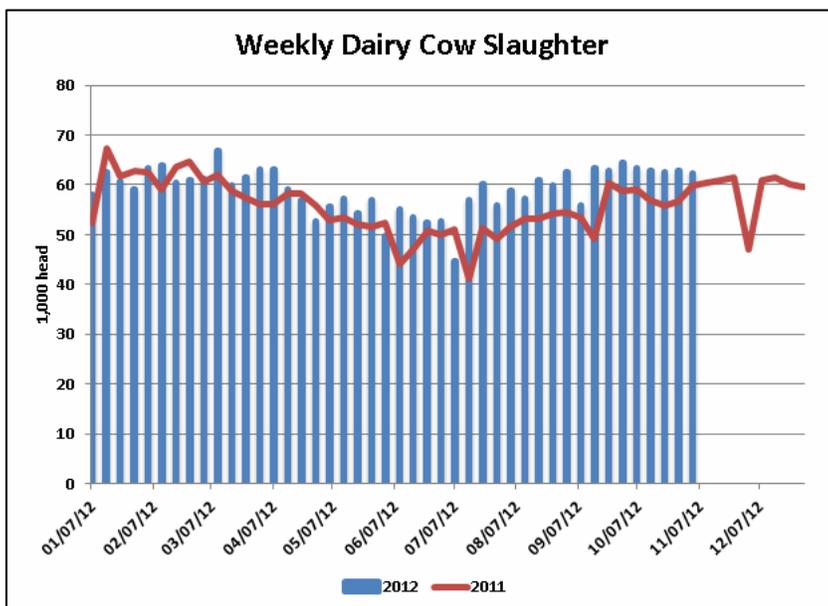
It was a very volatile week in the dairy markets, but when the closing bell rang, milk and dairy product were significantly lower than their prior week settlements. Spot prices led the way down; butter and block cheddar prices lost 9 ½¢ this week, closing at \$1.795 and \$1.825, respectively. Barrels shed 11¢, falling to \$1.7225. Class III futures followed; December through March futures were roughly 40¢ lower.

Despite the heavy losses in cheese, anecdotal reports suggest sizeable offers remain on the table at these lower prices. Merchandisers may be hoping to attract export business and clear up inventories. If they are able to do so, this could put the market in a better position to rally in the future. In the short term, the cheese market – and barrels in particular – may be poised for a bounce, albeit a temporary one. Although both block and barrel prices spent the better half of last week (and all of this one) below the \$2.00 mark, cheddar prices moved higher in the week ending November 10 according to the National Dairy Product Sales Report (NDPSR). Block cheddar averaged \$2.0783/lb. and barrels averaged \$2.0614.

Butter prices have turned notably lower, which often happens as anticipatory holiday demand wanes. NDPSR butter prices were nearly a penny lower, and the market feels somewhat soft. The powder and whey markets are bastions of stability compared to butter and cheese. Whey prices added more than 0.3¢ and nonfat dry milk was 1.18¢ higher, according to NDPSR.

Weekly dairy cow slaughter totaled 62,500 head, up 3.5% from the same week in 2011. The slaughter pace began to accelerate in the last couple months of 2011, so, while the herd continues to contract, weekly comparisons to last year may not seem as dramatic as they did only a few weeks ago. Year-to-date slaughter is 6.2%, or 152K head, higher than last year. Western states account for all of the increased slaughter and then some; dairy cow slaughter in the West is up 17.5%, an increase of 172,600 head from last year. Producers in the East are also culling more aggressively than they did last year. Slaughter rates in the Midwest were much below last year until October. It appears that Midwestern producers may be exhausting their inventories of lower-priced feed and suffering the same high feed costs as livestock producers across the nation. In addition, they will face a steeper decline in their milk checks from the recent cheese market declines, as the Midwest is a heavy cheese utilization region. Slaughter in the Midwest will likely remain elevated, along with dairy cow slaughter rates in the rest of the country, until profit margins improve.

Dairy producers will be further incentivized to cull aggressively given strong beef prices. The USDA Cattle on Feed report held no surprises but showed little reason for beef prices to weaken. A record-low 2.18 million cattle were placed in feedlots in October, 12.5% fewer than were placed in October 2011. This implies a severe decline in cattle ready for slaughter next spring and summer. After years of drought, cattle producers have reduced herds significantly. Now, as prices rise due to tight beef supplies, cattle producers will likely look to retain beef cows to restock their herds. Relative to steers, a larger proportion of beef from cows is made into ground beef. The beef cow slaughter is expected to decline significantly, and this will lead to reduced ground beef supplies. Dairy cow beef is lean and much of it is made into ground beef as well. Strong lean beef prices will likely provide a floor below dairy cow prices and could encourage additional dairy cow culling. In the long run, this could reduce milk production and lead to higher milk and dairy product prices.



Grain Markets

The EPA rejected requests by eight states and several individual congressmen to waive the ethanol mandate. The EPA said it could not find enough evidence of severe economic harm to grant a waiver. It also cited USDA analysis of the impact on the agricultural sector, which found that a waiver would only reduce corn prices by approximately one percent. Conversely, if the mandate is so ineffectual at raising corn prices or securing the nation’s energy interests, perhaps it should be abandoned altogether. Ethanol prices have maintained a 30-40¢ discount to gasoline, despite the drought-ravaged corn crop, rising U.S. oil production and tepid oil demand. Ethanol demand is currently driven by market forces rather than the mandate.

Market forces are also driving feed prices lower. Concerns about the EU’s stability, the looming U.S. fiscal cliff and uncertainty surrounding regime change in China have pressured all markets and raised questions about demand. South American weather has taken a favorable turn, pressuring soybean prices in particular. That market also suffered from rumors that China was canceling contracted soybean imports due to terrible crushing margins. The part about terrible margins is certainly fact. Chinese soybean meal prices have fallen steadily since peaking in August. Even if Chinese importers do not cancel previous sales, they are not likely to add to them in size. For the moment, however, U.S. soybean exports remain strong as there are few other reliable sources. And while the South American crop is expected to be large, there is a lot of weather between now and harvest. Soybean prices are in a well-established down-trend, but given tight stocks they will be very sensitive to any hint of trouble in South America.

\*\*\*

**FRED DOUMA’S PRICE PROJECTIONS...**

<b>Nov 9 Est:</b>	<b>Quota cwt. \$20.10</b>	<b>Overbase cwt. \$18.40</b>	<b>Cls. 4a cwt. \$18.13</b>	<b>Cls. 4b cwt. \$18.33</b>
<b>Last Week:</b>	<b>Quota cwt. \$20.30</b>	<b>Overbase cwt. \$18.61</b>	<b>Cls. 4a cwt. \$18.22</b>	<b>Cls. 4b cwt. \$18.72</b>

\*\*\*

**THE CALIFORNIA MILK PRICE BATTLE GATHERS NATIONAL ATTENTION:** (By Rob Vandenheuvel) This past week, the Wall Street Journal published an article on the battle between California’s dairy farmers and the California Department of Food and Agriculture, specifically with regard to the Class 4b price, which is the price that California’s cheese manufacturers must pay for their milk. For those of our readers that may have missed that article, I’ve included it below.

**Wall Street Journal – November 13, 2012**

## **Milk Price Fight Boils Over**

*California Dairies Say State Rules Designed to Help Them Benefit Cheese Makers*

By Hannah Karp, WSJ

Dairy farmers around the country have been pushed to the brink lately by drought and skyrocketing feed costs. But in California they are also battling another force: cheese makers.

The state's dairy industry, one of the country's biggest, has been squeezed for years by soaring feed prices and slowing economic growth. Elsewhere, those conditions have caused milk production to shrink, pushing up prices. But in California, farmers say gains from higher prices have been muted by the state's formula governing the price that cheese makers pay for their milk – a quirk in state rules that some farmers say has forced them out of business. After years of profits, Greg Anema's dairy farm in Chino, Calif., started to suffer when corn prices spiked in 2006 and increased the cost to feed his 3,400 cows. It got worse after the global economic slowdown hit demand for milk.

Now, Mr. Anema says he is closing his family's dairy because it has been selling milk to California cheese makers for far less than it would have fetched in other states for the past two years. "We were losing money hand over fist," said Mr. Anema, who is shipping his last 400 cows to Kansas this month.

Some 100 California dairy farmers are shutting their doors this year, according to the Milk Producers Council, a group representing dairy farmers. Many of the state's roughly 1,600 dairy farms are wrestling with financial difficulties. And many farmers point their finger at California's "Class 4b" milk regulation, which governs the prices cheese makers pay.

California has its own system for pricing milk, separate from the federal system that covers other states. The state sets minimum prices for all milk buyers every month, aiming to protect dairy farmers from market volatility and ensure a steady milk supply. There isn't a maximum price, but dairy farmers feel they have to stay relatively close to the minimum to remain competitive.

Cheese makers say raising the minimum price would push cheese production out of California, which they say is already a difficult place to do business because of excessive regulation. They also argue that many California milk farmers – especially those who produce higher-protein milk – receive premiums above the minimum. In other states, cheese makers can opt out of the system and pay less than the federal minimum price, so the contrast isn't as stark as it appears, they say.

Leslie Butler, an economist at University of California at Davis, said the state has been reluctant to change its pricing because "processors have pretty strong lobbies." But he adds it isn't clear whether aligning the state's milk-for-cheese prices with federal prices would be enough to save California's failing producers, many of whom pay higher costs for feed than farmers in other states because they don't grow it themselves. "They all gang up on processors, but they're highly competitive with their neighbors and all people around them," Mr. Butler said. "Supply is shrinking here because milk per cow is going down – feed costs are so high here."

Last week, four groups representing dairy farmers headed to a San Bernardino, Calif., courtroom to argue against California's pricing policies, which they say have cost the state's dairy producers nearly \$30 million in revenue a month since early 2011, compared with federal prices.

The groups – the Milk Producers Council, the California Dairy Campaign, Dairy Farmers of America and Security Milk Producers Association – filed a lawsuit in August against Karen Ross, the secretary of the California Department of Food and Agriculture, which sets the price that cheese makers pay for milk.

The agriculture department declined to make Ms. Ross available for an interview. In a statement, the department said it is evaluating ways to improve the pricing system and last month assembled a task force of producers and processors to study the issue.

State law requires California to keep the milk-for-cheese price in “a reasonable and sound relationship” with the federal price. California dairy farmers say that for the past two years, they have been receiving \$2 less per hundred pounds of milk for cheese than farmers in other states.

In addition, both state and federal milk-pricing equations include dry whey, a component of milk used in protein shakes that has become a popular export to China. But since 2007, California hasn’t taken into account the increasing value of dry whey in its pricing formula at the behest of the state’s cheese makers, who generally don’t market dry whey.

Adopting the federal price “would probably put us out of the cheese business,” said Scott Hofferber of Farmdale Creamery, a small cheese maker in San Bernardino, Calif.

In a recent statement, the Dairy Institute of California, which represents cheese makers, accused milk producers of “bullying and berating processors,” “shaving the truth” and scaring off new cheese production. Dairy Institute spokeswoman Rachel Kaldor said she was frustrated the milk lobbies hadn’t made an effort to educate their members about “what it takes to run a cheese plant.”

Rob Vandenheuvel, a spokesman for the Milk Producers Council, said the two sides are having difficulty getting past the bitterness. “In some ways, we’re their partners in the industry,” said Mr. Vandenheuvel, “but unfortunately every time we meet now, it’s a high-stress situation.”

Some dairy farmers and cheese makers are suggesting the market should decide the price.

David Ahlem, a member of the new task force, buys milk for one of the state’s largest cheese makers, Hilmar Cheese, which was started by dairy farms who wanted to sell their milk for more than the state-set minimum price. He says he has tried to persuade other dairy farmers to simply ask cheese makers for higher prices rather than asking the state to intervene.

“They’ve refused to go to marketplace,” said Mr. Ahlem, adding that Hilmar built a plant in Texas several years ago in part to “opt out of the regulatory system in California.”

Experts say it is difficult for dairies to raise and lower production quickly to respond to market forces, given that it takes several years for a cow to reach full production.

In the meantime, more dairy farmers are leaving the business.

Mr. Anema said he would like to start a 50-cow farm where he would just bottle and distribute his own milk, rather than sell it to cheese makers. But for now, “it’s too late,” he said. “I can’t save my dairy anymore.”

**MANAGER’S NOTE: (By Rob Vandenheuvel) Thank you to Hannah Karp and the Wall Street Journal for taking an interest in the situation that’s developed in California. Regular readers of this newsletter are well aware of the facts surrounding this issue and what the “California Discount” on the milk our cheese manufacturers buy has cost California dairy families.**

**While there are numerous things in the article I would love to comment on, there were a couple particularly noteworthy comments. I will address each of them separately:**

- *Dairy Institute spokeswoman Rachel Kaldor said she was frustrated the milk lobbies hadn’t made an effort to educate their members about “what it takes to run a cheese plant.”*

As dairy farmers, this statement ought to offend you to your core. Is Ms. Kaldor saying that it's simply a lack of understanding that is at issue here? Are we to believe that if dairy farmers only knew "what it takes to run a cheese plant," it would be perfectly acceptable to discount the milk we sell to cheese plants – compared to the prices being paid for milk sold around the country – to the tune of \$650 million since January 2010, at a time when we're facing historically high feed costs?

- *Adopting the federal price "would probably put us out of the cheese business," said Scott Hofferber of Farmdale Creamery, a small cheese maker in San Bernardino, Calif.*

This may be a quote that CDFA buys into, but is this really a legitimate argument? What Mr. Hofferber is saying is that if Farmdale Creamery had to pay the same price for the milk his plant needs that his counterparts around the country have to pay, it "would put them out of the cheese business." Let's explore that for a minute. To a cheese plant, milk is an input cost. Similarly, to a dairy farm, our feed commodities are input costs. When those feed costs rose, and rose, and rose again, CDFA did not jump in and discount the alfalfa or corn or soybean meal prices because paying the feed prices being charged around the country "would probably put us out of the milking business." Instead, our dairy farmers have had to pay fair prices for their feed (even higher than many regions of the country). Why should it be any different for our cheese manufacturers?

**RECEIVED YOUR ANNUAL FEE INVOICE FROM THE CALIFORNIA STATE WATER BOARD YET? MAKE SURE IT'S FOR THE CORRECT AMOUNT:** *(By Rob Vandenheuvel)* By now, California dairy families should have received an invoice from the State Water Resources Control Board (SWRCB) for their annual permit fees. It's important that you review your invoice and make sure it's accurate. Mistakes occasionally occur, and those mistakes can mean thousands of dollars in overpayments if you don't watch out.

To the right is a chart showing what your fee, depending on your dairy's size. The fee levels are based on "mature cows," so it's a combination of your milking *and* dry cows. In recent years, a growing number of dairies throughout the state have taken the steps to get "certified" under the California Dairy Quality Assurance Program (CDQAP). This certification, which includes class time and an on-farm inspection by a CDQAP inspector, carries the benefit of a **50% reduction for five years in your dairy's annual fee paid to the SWRCB**. While the deadline for getting this reduction on this year's annual fee has already passed (September 30, 2011), dairies have until next September to complete the certification in order to reduce next year's annual fee (and the four years after that).

Number of "mature ows"	Annual fee
3,000 or more mature cows	\$7,812
1,500 – 2,999 mature cows	\$4,883
700 – 1,499 mature cows	\$2,343
300 – 699 mature cows	\$1,172
Less than 300 mature cows	\$586

Obviously, if your dairy is CDQAP-certified, your annual fee should be 50% of the amount listed above. MPC members that have questions or are interested in getting information on CDQAP-certification should contact the MPC office at (909) 628-6018 or email us at [office@milkproducers.org](mailto:office@milkproducers.org).

**REMINDER – FUNDING IN CENTRAL VALLEY AVAILABLE FOR TRACTOR REPLACEMENT:** *(By Kevin Abernathy, Director of Regulatory Affairs)* We included this notice in the newsletter several weeks ago, but starting on October 15<sup>th</sup>, the San Joaquin Valley Air Pollution Control District (SJVAPCD) began accepting applications for agricultural tractor replacement projects. The funding for these projects is available on a first-come-first-serve, so MPC members interested in participating should contact either myself ([kevin@milkproducers.org](mailto:kevin@milkproducers.org) or 209-678-0666) or the SJVAPCD in the **very near future**. A flyer distributed by the SJVAPCD can be found on our website at: <http://www.milkproducerscouncil.org/valleyairtractor.pdf>.

*EDITING NOTE: (By Rob Vandenheuvel) There were a couple other newsworthy events that occurred this week, including EPA's denial of numerous requests to waive the ethanol mandate (mentioned in Sarina's comments above) and a notice from CDFA that denied a request to hold a hearing on California's Class 4b formula on some very questionable procedural grounds. Due to space limitations, we will be delving more deeply into those issues in next week's newsletter.*