



# Milk Producers Council

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**DATE: June 16, 2017**  
**TO: Directors & Members**

**PAGES: 5**  
**FROM: Kevin Abernathy, General Manager**

## MPC Friday Market Update

### CHICAGO CHEDDAR CHEESE

Blocks	- \$.0150	\$1.6150
Barrels	- \$.0350	\$1.3800

### Weekly Average, Cheddar Cheese

Blocks	- \$.0210	\$1.6270
Barrels	- \$.0245	\$1.4030

### CHICAGO AA BUTTER

Weekly Change	+ \$.0850	\$2.5600
Weekly Average	+ \$.1225	\$2.6110

### DRY WHEY

Dairy Market News	w/e 06/16/17	\$1.4400
National Plants	w/e 06/10/17	\$1.4996

### NON-FAT DRY MILK

#### Week Ending 6/9 & 6/10

Calif. Plants	\$0.8943	5,747,252
Nat'l Plants	\$0.9226	14,736,827

#### Prior Week Ending 6/2 & 6/3

Calif. Plants	\$0.8784	9,281,043
Nat'l Plants	\$0.8966	18,017,162

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## Fred Douma's price projections...

<b>June 16 Est:</b>	<b>Quota cwt. \$17.05</b>	<b>Overbase cwt. \$15.35</b>	<b>Cls. 4a cwt. \$15.84</b>	<b>Cls. 4b cwt. \$15.72</b>
<b>Last Week:</b>	<b>Quota cwt. \$16.99</b>	<b>Overbase cwt. \$15.30</b>	<b>Cls. 4a cwt. \$15.59</b>	<b>Cls. 4b cwt. \$15.76</b>

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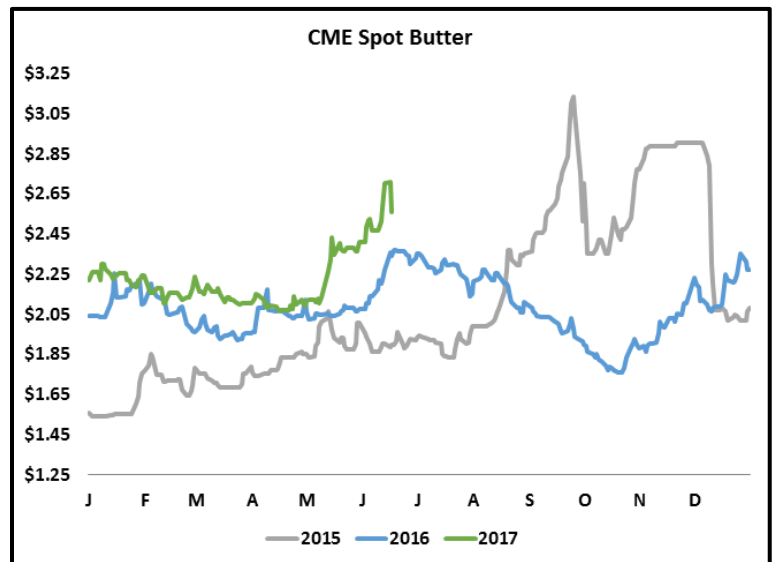
## Market commentary

By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com)

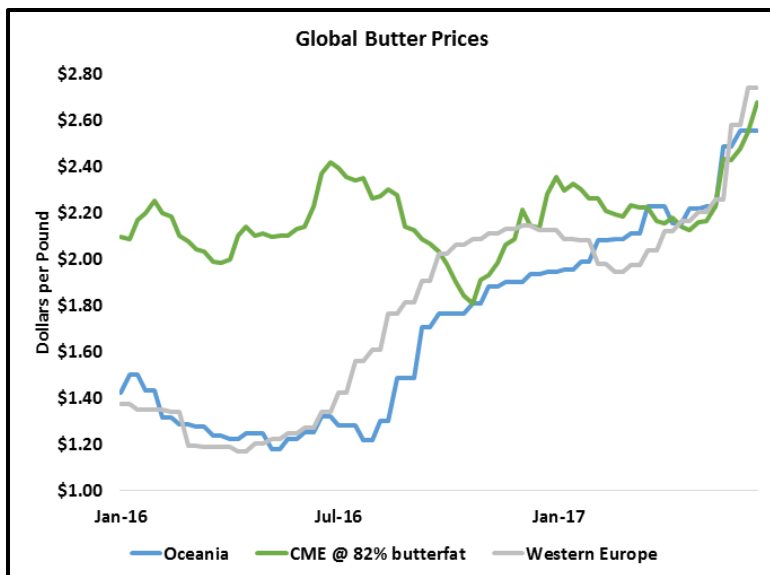
### Milk & Dairy Markets

On Thursday, the CME spot butter market reached \$2.705/lb., its highest price since December 9, 2015, more than 18 months ago. Today, spot butter plunged 14.5¢, its steepest decline since... December 9, 2015. Even so, the spot butter market stands at \$2.56, 8.5¢ higher than last Friday's price. In fact, excluding the Tuesday through Thursday spike, today's price would be the highest since that same December 2015 trade. In that light, today's collapse doesn't seem so colossal.

It is easy to draw comparisons to the heady days of late 2015, when the butter market logged a meteoric rise and a spectacular crash. The cycle of panic and relief is eerily familiar to end users. But this time is different in a few important ways. First, it is mid-June. The flush is coming to an end, summer heat is starting to restrain milk production, and the holiday demand season lies ahead. Second, the U.S. butter market was alone at the top in late 2014 and throughout 2015. The strong premium attracted butterfat in all forms to our shores. Today, the U.S. market is chasing European prices higher, with Oceania on its heels. The trade balance will be decidedly different this time around.



If Europe's butter market can keep rising, ours likely can too. Europe came into the year with butter inventories at a five-year low, and the bloc continues to report lower year-over-year production and robust demand. According to the *Daily Dairy Report*: "It could take even higher prices to balance supply and demand [for European butter]"

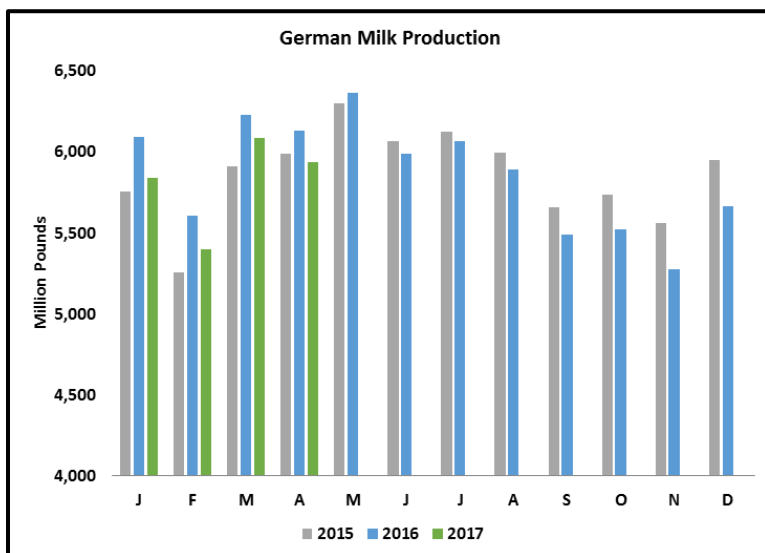
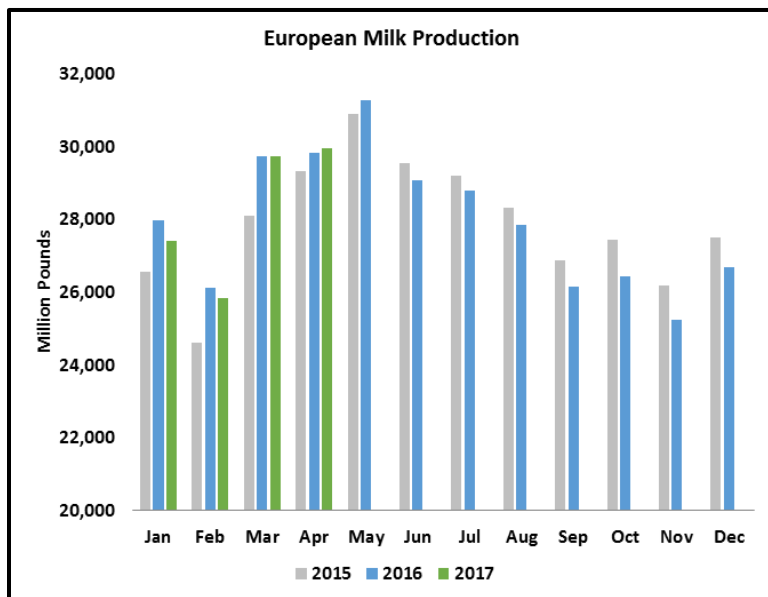


during the second half of the year.” Domestic fundamentals are improving as well. *Dairy Market News* reports, “Butter sales are strengthening... some contacts point out that domestic buyers are not covered for the second half of the year, therefore sales may continue to climb.”

The other dairy product markets were much quieter. CME spot Cheddar blocks were inanimate, with not a single bid or offer until Friday, when the market slipped 1.5¢ to \$1.615. Barrels dropped 3.5¢ to \$1.38, the lowest price since late March. Spot nonfat dry milk (NDM) rallied 0.25¢ and closed at 91¢. Compared to last Friday, Class III futures were mixed and little changed. Class IV futures were mostly higher. Third quarter contracts

gained an average of more than 45¢. July through November Class IV futures now stand above their Class III counterparts.

European milk collections in April were just shy of 30 billion pounds, the largest volume ever for the month. Output was up 0.4% from a year ago, building on the slight growth in March. That puts year-to-date collections down 0.6% from the first four months of 2016. Production in the major dairy nations did not impress. Germany and France extended their long string of declines, with year-over-year contractions of 3.2% and 1%, respectively. Output in the United Kingdom was steady with last year, and Dutch production was down 0.4% year-over-year in April and down 0.7% in May. Poland, ranked fifth, was the largest European dairy nation to report a year-over-year increase in milk production, with output up 4.1% from a year ago. Collections in Ireland were up 12.1% compared to April 2016.



Europe accounts for 30% of the world’s cow milk production, so even modest growth can have a major impact. The U.S. milk supply – representing 20% of global output – continues to climb. Fortunately, global demand seems strong enough to absorb much of the increase. However, the drama in the butter markets should not distract from the fact that cheese and dry products are abundant and inventories are growing.

Grain Markets

The corn market moved wildly back and forth this week, but finished not far from where it started. July corn futures settled at \$3.84, down nearly 4¢ from last Friday. July soybeans closed at \$9.39,

down 2 ½¢. Both markets moved this way and that according to minor shifts in the latest weather forecast. Conditions for row crops are decidedly less than perfect, but not terrible. The Corn Belt has been hot and dry over the past two weeks, but rains have begun to move through the region. Light showers are expected next week with better chances in the week to come.

In much of the Corn Belt, it's too early to count on significant, widespread harm to the corn and soybean crops. Weather during pollination matters far more. But after years of high yields, the market had grown complacent. Last week's weather scare pushed markets to price in the risk that the growing season may be less than optimal. Feed costs are still likely to drift lower in the long run. There is plenty of grain in the world, and South American soybean inventories are massive. But volatility is likely until a decent harvest is assured.

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## **Producer Review Board meets, creates Stand-Alone Quota Program framework**

*By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant*

On Thursday, June 15, 2017 in Modesto, 14 of the 15 members of the recently expanded Producer Review Board (PRB) met with an ambitious agenda designed to settle all the remaining questions about how a Stand-Alone Quota program would work should California producers vote to join the Federal Milk Marketing Order (FMMO) program.



The meeting started shortly after 9 a.m. and began by reviewing a very informative presentation prepared by California Department of Food and Agriculture (CDFA) staff about the topics that needed to be covered in the meeting. You can see the handouts [here](#).

CDFA had some initial comments that explained the effect of legislation that is contained in the group of bills adopted by the Legislature surrounding the state budget, which clarify the authority of CDFA to establish a “stand alone” quota program. This legislation is extremely valuable in what it does, but it was also emphasized by the CDFA legal people what it did not do. The new legislation does not suspend or delete any of the current applicable laws under which the current quota program exists and operates. This fact is important to keep in mind as we review the work that was done by the PRB during the remainder of the meeting.

The first big topic that needed to be reviewed was the motion passed at the May 30 meeting which determined that all milk produced in California – including Grade B milk and milk produced in California, but processed out of state – will be assessed to pay for the quota program. CDFA legal folks said that they had reviewed the law with regards to this decision and came to the conclusion that assessing Grade B milk for the quota program would make the stand-alone quota program “Vulnerable to legal challenge because it results in the imposition of a tax upon the producers in the absence of direct benefit as required by the California Constitution.”

With regards to assessing California produced milk that was shipped out of state for processing, the legal people said this “Likely violates the Commerce Clause” and has the “same imposition of a tax concern” as the Grade B issue. The members of the PRB really wrestled with this news. There is a strong desire to keep folks from trying to escape the assessment by dropping their Grade A status and so a lot of discussion took place. But at the end of the discussion, a motion was made, supported and passed unanimously that all Grade A milk that is produced and marketed/processed in California will be subject to the quota assessment. This motion eliminated the assessment on Grade B and out of state milk and therefore removed the legal concerns raised by CDFA about what milk the quota assessment applied to.



The next issue that the PRB took up is how the California Exempt Producer–Handler issue should be decided. A motion had been made and tabled at the May 30 meeting that essentially would have treated Producer–Handler quota the same as regular quota in a Stand-Alone quota program. One of the PRB members, who is a Producer-Handler, made a motion to have the State exchange 1 pound of Producer-Handler quota for 1.95 pounds of regular quota to reflect the higher income the Producer-Handler exemption gives them. This motion was supported by the other Producer-Handler on the committee and a robust debate ensued.

One obstacle in the way of considering this motion is that the law regarding the conversion of a Producer-Handler’s exemption to regular quota is very clear. Exempt Producer-Handlers have quota certificates just like all regular quota holders do, but rather than receiving quota payments from the pool for their quota, the Exempt Producer-Handlers exempt that amount of milk from the volume of milk they account to the pool for. The law provides that an Exempt Producer-Handler may convert the exemption to regular quota “but with only the production base and pool quota to which he would have

been originally entitled or his average daily production and Class 1 usage during the 12 months preceding his entry into the pool, whichever is less.”

So, the current law is clear about the conversion rate. It is one for one and the law also restricts the amount of new quota that can be issued and dictates to whom any new quota would be distributed. So the State does not have the legal authority to simply issue more quota to compensate the Exempt Producer-Handlers at a rate that exceeds what is already prescribed in the law.

There were other arguments made about the fact that under Federal Order rules, a Producer-Handler cannot exceed 3,000,000 pounds per month of Class 1 sales. All of the four existing California Exempt Producer-Handlers would likely not meet that standard. There is also a provision in California law that says that if California begins to operate under a Federal Milk Marketing Order there is to be a suspension of state law provisions that are in conflict with the Federal Order. In addition, FMMO rules are pretty strong on the requirement that Class 1 handlers are to be treated uniformly. This also raised a question about the legality of giving California Producer-Handlers, who would not qualify as FMMO Producer-Handlers, a special deal.

The Producer-Handler PRB members made the point that they needed to be treated fairly and they had obtained their status legally and expected to be compensated for any loss that might occur as a result of going into the FMMO. This line of argument prompted more discussion about who else might be impacted by going to an FMMO and a general discussion about fairness and equity. At the end of the day, the motion to give 1.95 pounds of regular quota for every pound of Exempt quota failed by a vote of 9-5. A motion was then made and supported to remove from the table the May 30 motion that essentially exchanged Exempt quota for regular quota on a one for one basis. The motion to remove the motion from the table passed 11-3. And after some more robust discussion, that motion passed 9-5, therefore establishing that the Stand-Alone Quota program would treat Producer-Handler Exempt quota the same as regular quota on a one for one basis. After that, it was time for lunch.

In the afternoon, a whole list of details needed to be worked out about how the program would operate. On a 14-0 vote, the PRB decided:

- Only milk subject to the assessment would be eligible for a quota payment;
- Quota payments shall not exceed the SNF quota shipped by the producer during the month;

- The dairy must ship milk qualified for a quota payment at least once every 60 days or the producer's quota reverts back to CDFA to handle as it does currently;
- A cooperative member's quota will be assigned to the cooperative and the cooperative will be treated as a single producer;
- A producer may not purchase quota if the dairy has sold any quota within the last 24-month period;
- The PRB will continue to hear hardship cases as currently is the practice.

All of these provisions are consistent with the way the quota program currently operates. There was some further discussion about future reviews of the program, but the PRB saw no reason to change the current situation where the quota program is authorized and operated under California law and is implemented by a vote of the producers and continues indefinitely.

Earlier in the meeting, the department had outlined the process going forward. The PRB has now created the framework for a Stand-Alone Quota program. The next step is for the department staff to convert that framework into actual regulation language. It is anticipated that this will be done before the next PRB meeting in July or August. At that meeting the PRB will be asked to approve this actual language for submission to the California Secretary of Food and Agriculture. The Secretary would then call for a Producer Referendum where producers would vote yes or no on the proposal. In that vote, only individuals would vote (no block voting), not less than 51% of the eligible producers in the state must vote. The Referendum is approved if: 65% or more of the total producers producing 51 % or more of milk, OR 51% or more of producers producing 65% or more of the milk approve. The vote is anticipated in the Fall.

As you can see this was heavy lifting for our fellow dairymen who serve on the PRB. They handled the issues with seriousness. They clearly understood the great responsibility they have been given and we should be grateful to them for their service. The Department staff should also be commended as well as Deputy Secretary Jim Houston. Secretary Ross committed herself and the department to the policy of self-determination for California's dairy farmers in choosing the best path forward for our industry. This is a once in a lifetime decision point with huge consequences, many of which are unknowable. Preserving the value of quota is a priority. CDFA recognized that and has done a great job of giving us the tools to make a potentially better future possible. The PRB recognized the valuable contribution of CDFA by unanimously passing motion at the end of the meeting, thanking Secretary Ross and the department staff for all that they have done to make this opportunity possible.

The next and hopefully last PRB meeting on this issue will be held in late July or early August of this year.

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