

# Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328

E-mail: [mpc@milproducers.org](mailto:mpc@milproducers.org)

Website: [www.milkproducerscouncil.org](http://www.milkproducerscouncil.org)

DATE: June 27, 2008  
TO: DIRECTORS & MEMBERS

PAGES: 4  
FROM: John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks -\$0.0400 \$1.9200  
Barrels +\$.1000 \$1.9600

### CHICAGO AA BUTTER

Weekly Change +\$.0425 \$1.5450  
Weekly Average +\$.0380 \$1.5315

### NON-FAT DRY MILK

Week Ending 6/20 & 6/21

Calif. Plants \$1.3290 13,553,466  
NASS Plants \$1.3610 20,956,939

### Weekly Average

Blocks -\$0.0715 \$1.9245  
Barrels -\$0.0540 \$1.9360

### DRY WHEY

NASS w/e 6/21/08 \$.2769 WEST MSTLY AVG w/e 6/26/08 \$.2800

**CHEESE MARKET COMMENTS:** While prices on the CME this week held well above \$1.90 per lb, Dairy Market News (DMN) says the cheese market is “under pressure.” There’s a lot of cheap milk being offered to cheese plants lately, but production hasn’t really shown much of a bump. The stare-down between manufacturers and buyers continues, with neither side seemingly willing to commit. Presumably, buyers have all the product they need going into the July 4<sup>th</sup> weekend. Export sales may have eased off, but should pick up again if prices approach the \$1.80 per lb level. CWT has been active lately in finding buyers looking for low prices, and every little bit helps.

**BUTTER MARKET COMMENTS:** Prices are higher, production is heavy, and inventories are under control. DMN reports that butter sales over the first 4 months of the year are 22% higher than a year earlier. Exports make up about three fourths of that increase; although it’s not really clear what is included in the butter category. Some “butter” figures included anhydrous milkfat; others do not. The cold storage report for May 31<sup>st</sup> was very helpful in keeping butter prices moving along, but watch out for when this year’s export volumes catch up with last year’s. Be hopeful but not optimistic. Butter prices are still tracking nicely with last year’s pattern, but last year, just about when heavy exports kicked in, prices headed down.

**POWDER MARKET COMMENTS:** Prices are steady, even a bit higher on the spot market. But DMN reports that buyer resistance is apparent as prices approach the \$1.50 per lb level. What \$1.50 per lb level? The California plant average last week was below \$1.33 per lb. National sales volumes remain steady at fairly high levels. Production should begin to slow as the milk supply eases into the summer lows. Production of skim milk powder is expected to continue to increase through the summer. We’ll see.

**WHEY MARKET COMMENTS:** National sales volumes for dry whey are holding steady, while competition from other dairy products is increasing according to DMN. That must mean milk protein concentrate, whose prices fell again this week, with some sales taking place as low as \$.69 per lb. Even with the falling wpc prices, DMN says that inventories continue to rise. The whey products market doesn’t look good right now, and no one seems to have a reason why. International supplies continue to be relatively low, but the interest of some international buyers may not be fully back until U.S. export prices move below \$.35 per lb, from \$.51 per lb in April.

\*\*\*

### FRED DOUMA’S PRICE PROJECTIONS...

June 27 Final Quota cwt. \$19.10	Overbase cwt. \$17.40	Cls. 4a cwt. \$15.63	Cls. 4b cwt. \$19.12
Last Week Quota cwt. \$19.13	Overbase cwt. \$17.43	Cls. 4a cwt. \$15.64	Cls. 4b cwt. \$19.16

\*\*\*

**USDA PROPOSES INCREASES TO MAKE ALLOWANCES IN FEDERAL ORDER AREAS:** (By J. Kaczor) After a long and contentious process that reaches all the way back to a petition for a hearing in September 2005, USDA released its recommendations for a second set of changes to the make allowances for federal order cheese and butter-powder milk price formulas, and related matters. Based upon a hearing that began in January 2006, make allowances were increased for butter, powder, cheese, and dry whey, effective March 1, 2007. A second hearing, held in three segments from February through July 2007, included updated cost studies and reviewed all aspects of the price formulas for federal order Class III and IV milk.

Following is a recap of the proposed changes, with comparisons to the allowances established for California's price formulas on December 1<sup>st</sup>.

<b>Federal Orders</b>			
	<b>California</b>	<b>Current</b>	<b>Proposed</b>
<b>Butter</b>	\$.1560	\$.1202	\$.1715
<b>Butter Yield</b>	1.20	1.20	1.211
<b>Nonfat Dry Milk</b>	\$.1698	\$.1570	\$.1678
<b>NFDM Yield</b>	1.00	0.99	0.99
<b>Cheese</b>	\$.1988	\$.1682	\$.2003
<b>Dry Whey</b>	*	\$.1956	\$.1991

\*The California price formula has a fixed factor for dry whey of \$.25 per cwt for Class 4b milk. The proposed make allowance for dry whey in the federal order formula, applied to the current price for dry whey, generates a price of about \$.46 per cwt of milk for their cheese milk Class. Prior to December 1, 2007, when the whey formula was removed from the Class 4b formula and replaced with the \$0.25 per cwt fixed factor, the make allowance for dry whey in California was \$0.267 per lb.

Make allowances are applied to monthly product prices to determine levels of milk prices. Because of wild differences in the sources for product prices used in the California and federal order price formulas, there have been substantial month-to-month variations in milk prices used to produce butter, powder, and cheese, regardless of how the make allowances are aligned. (The differences between the two approaches were covered in this *Update* earlier this year.) However, had the proposed allowances been in effect in May the federal order Class III price would have been \$.35 per cwt lower, and the Class IV price would have been \$.26 per cwt lower.

Because the above listed products are produced and marketed under similar conditions throughout the country, USDA made it a point to consider the need to set **make allowances that are reflective of the national dairy industry**. The cost data they used for butter, nonfat dry milk, and cheese consisted of a weighted average of the latest cost studies used by CDFA and the latest cost studies prepared for the hearing by Cornell University. The cost data to support the make allowance for dry whey was prepared by Cornell.

Did I say the hearing was contentious? Well, the range of make allowance proposals in the hearing for cheese was 16.4 to 21.5 cents, for butter 11.1 to 17.3 cents, for nfdm 14.4 to 17.8 cents, and for dry whey 15.0 to 20.8 cents. Just to give you a feeling for the scope of the hearing, following is a recap of some other significant proposals, and USDA's responses to them.

- Use CME prices rather than monthly surveys of sales: NO, CME prices do not have the industry's confidence.

- Remove barrel cheese from the price formula: NO, the cheese price formula needs to reflect the broadest measure of the national market.
- Eliminate the 3 cents “packaging cost allowance” that is added to barrel cheese prices: NO, there is no evidence to support the claim that packaging costs for the 2 styles have equalized.
- Decrease the cheese make allowance to recognize the latest efficient manufacturing capabilities: NO, the make allowances should reflect the general state of the industry at the present time.
- Eliminate the farm-to-plant loss allowances of 0.25%: NO, testimony and evidence shows there is a loss.
- Increase the butter yield to correct for a calculation error made in 2002 when the butter formula was first established: YES, the mistake is corrected.
- Increase the make allowance for dry whey to reflect the extra costs incurred by the majority of cheese manufacturers: NO, the make allowance is based on the costs introduced in the hearing.

Increases in make allowances in federal orders are usually contentious because the wide range in Class usages of milk between the areas can cause producers in one area to gain while those in other areas lose. This time, because all classes of usage would decrease by about equal amounts producer complaints and plant recoveries would be shared by all areas. USDA has one more hearing to finalize – the proposal to “de-couple” Class I prices from Class IV prices, and to raise the price by about \$.70 per cwt.

**NEW MANDATORY REPORTING RULES ARE NOW IN EFFECT:** (By J. Kaczor) Following a national hearing to review all aspects of its interim rule for mandatory reporting of sales and storage of major dairy products that was published last July, USDA’s Agricultural Marketing Service (AMS) issued its **final rule** just ten days ago, and made it effective on June 22nd. The rule applies to all plants that manufacture 1 million lbs or more per year of cheddar cheese, nonfat dry milk, butter, or dry whey.

Rules established by AMS for reporting sales and inventories had been in effect for more than ten years, and were assumed to be universally understood and uniformly followed by all qualified plants and storage facilities. But a sizable and costly error was uncovered last March when it was found that a **major exporter of nonfat dry milk had been consistently understating its sales prices** by reporting low-priced export sales that should have been excluded from its reports. Some who have looked into how that could have happened believe that the administration of the reporting program, by the National Agricultural Statistical Service (NASS), was casual, negligent, and possibly collusive.

AMS had no authority to compensate producers for their loss, but sought to stop what they found and prevent other abuses to a program that was supposed to be the best and most accurate indicator of current dairy product values. The purpose of the hearing on the interim rule was to identify appropriate changes, clarify ambiguities, and establish procedures to verify the completeness and accuracy of future reports in order to give the dairy industry confidence *“that reported dairy product prices and inventories are more precise indicators of supply and demand conditions.”*

**THE MAJOR ISSUE:** The most important matter reviewed in the hearing was AMS’s prohibition against reporting sales that took place more than 30 days after the date the price for the product was set. It was an issue because the California Department of Food and Agriculture (CDFA) sets no such limitation for plants reporting to it and had, in a hearing last Summer after AMS published its interim rule, decided against placing any practical limitation on the reporting of outdated sales. **That single difference can, did, and possibly still does result in multi-million dollar differences per month in the value reported for sales of nonfat dry milk by California plants to CDFFA, compared to their reports to NASS for the same week.** AMS took note of CDFFA’s decision and rejected it with the comment that *“USDA must make decisions based upon its own program objectives, consideration and judgment of the issues, and comments.”* **An AMS objective is to provide a measure of current national supply and demand conditions, and believes that reporting sales with outdated prices distorts rather than reflects current conditions.**

What happens now? Does California become the clearing point for most low-priced exports of nonfat dry milk? CDFA believes that California plants, without the ability to report sales whose prices are as much as nine months out of date, will be unwilling or unable to continue to export substantial volumes of nonfat dry milk. Plants will close down; producers will be forced out of business. AMS, on the other hand, apparently believes that the need to provide a picture of current product values is paramount, and there are means available for plants to be competitive and to prosper under the 30 day report limitation.

Two other important clarifications were made to the final rule, which relate to the questions raised above. First, AMS has specifically authorized **the inclusion of sales that are based upon a defined price series, plus or minus a specified amount.** This allows sellers and buyers to enter into long-term contracts with the understanding that the prices for sales made beyond 30 days after the agreement is reached may change within a predetermined range. Another pertinent clarification prohibits the reporting of intra-company sales *“even if those sales are to wholly-owned subsidiaries through a federation of dairy cooperatives.”* That change should prevent Dairy America from using inter-state transfers of product among its members for the purpose of equalizing costs and revenue. If prior performance is any indication, enforcement of these two provisions may be beyond NASS’s capability.

Other changes or clarifications made: **exclude** sales of organic products and products produced under faith-based conditions, **include** products exported under the DEIP provisions and sales supported with bonuses or subsidies, such as CWT’s export assistance program, **exclude** all transportation costs other than transportation to a plant’s storage center, **include** products labeled as made from “rsbt free” milk, **include** marketing expenses, whether they be internal expenses or fees paid to third parties, and **exclude** grade A dry whey. Several proposals to remove the responsibility for weekly and monthly price collection from NASS were denied.

**“CARES REPORT” FOR JUNE POSTED ON MPC’S WEBSITE:** *(By Rob VandenHeuvel)* As always, the monthly column published by the Community Alliance for Responsible Environmental Stewardship (Dairy CARES) can be read on our website at <http://www.MilkProducersCouncil.org/cares/june08.pdf>. This month’s column addresses the ongoing debate over methane digesters and how important it is that the industry works closely with government regulators as this segment of our industry continues to develop.

*End*