



# Milk Producers Council

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DATE: September 23, 2011  
TO: Directors & Members

PAGES: 5  
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## ***DAIRY BILL INTRODUCED IN CONGRESS A CALL TO ACTION FOR DAIRY FARMERS!!***

**THE ‘DAIRY SECURITY ACT’ INTRODUCED IN CONGRESS – TIME FOR DAIRY FARMERS TO SPEAK UP:** *(By Rob Vandenheuvel)* For the U.S. dairy farmer, the foreseeable future is a scary sight. Corn, alfalfa and other feed commodities are continuing at record or near-record highs. As you can see from the dairy commodity report below, milk prices are already on the decline. Fred Douma’s September estimated Overbase price in California is \$18.24 per hundredweight – a price that no longer sounds all that spectacular (or even profitable) with feed costs where they are today. And if cheese, butter and nfdm values just stay where they are (or heaven-forbid, go lower), October’s prices will be even lower.

The U.S. Congress has recognized over the years that the dairy industry is volatile, and created a safety net system that consists of the Milk Income Loss Contract (MILC) program and the Dairy Product Price Support Program (DPPSP). But given where feed costs are, how much of a “safety net” does a roughly \$10 per hundredweight price “floor” feel? (A \$10 per hundredweight milk price today would make the 2009 dairy wreck look minor.) And with the MILC program limited to covering only 2.985 million pounds per year, could that really be called a safety net in areas of the country where the average dairy would max out its MILC “protection” in maybe a month or two?

**Fortunately, there are those around the country and in Washington, DC, that are working hard to help.** Today marked a significant milestone in that process. A bill was introduced this week in the U.S. House of Representatives called the “*Dairy Security Act of 2011*” (H.R. 3062). The bill, which was introduced by Congressmen Collin Peterson (D-Minnesota) and Mike Simpson (R-Idaho), is a slightly modified version of the draft legislation that was floated in July. It is modeled after a proposal put forth by the National Milk Producers Federation (NMPF) known as “Foundation for the Future.” Here are the three main pieces of the bill:

- **Dairy Producer Margin Protection Program (DPMPP)** – This is commonly referred to as the “insurance” part of the bill. Under the DPMPP, a producer could choose to enroll in a direct-payment program run by the U.S. Department of Agriculture. **The basic program** (which would come at no cost to individual dairies) would provide cash payments directly to dairy farmers when the national “margin” between milk prices and feed costs dropped below \$4.00 per hundredweight. In other words, when the average milk price across the country drops to less than \$4.00 per hundredweight over the “feed cost calculation” (a formula that incorporates national values of corn, soybean meal and alfalfa), a payment would be made to all dairymen enrolled in the program. Unlike the MILC program, this insurance program would not be capped at a specific volume of milk – instead it would cover 80% of the “historical production” of each dairy facility (which would be determined by the highest annual production for each dairy over the past three years). In addition, a **supplemental program** would be available for dairies that wish to generate payments from the program at higher margin levels. In other words, an individual dairyman could choose to customize the program so that a payment is generated whenever the price of milk is less than \$5.00 per hundredweight above the feed cost calculation. Or \$6.00. Or \$7.00. This additional coverage would include an annual premium paid by the dairy farmer. The supplemental program could be customized to cover up to 90% of a dairy’s annual production.

- **Dairy Market Stabilization Program (DMSP)** – This is commonly referred to as the “market management” part of the bill. One of the key changes in the latest version of the *Dairy Security Act* is that **the DMSP would only apply to dairies that choose to enroll in the insurance program outlined above (the DPMPP)**. If a dairy is enrolled in the DPMPP, they would be automatically part of the DMSP. Under the DMSP, when the margin falls below \$6.00 per hundredweight for two consecutive months (the national average price of milk falls to less than \$6.00 per hundredweight above the feed cost calculation), USDA would notify the dairies enrolled in the DMSP that in the following month, they would only be paid for 98% of their “base production” (which can be determined by either the dairy’s production three months leading up to that point, or the production in the same month the prior year). Milk produced above that level by a dairy enrolled in the DMSP would still be paid for by the milk handler, but these dollars would be diverted to a fund used to buy excess dairy products to be donated to food banks and feeding programs. If the margin continues to fall below \$5.00 or \$4.00 per hundredweight, the DMSP would adjust to only pay enrolled dairy farmers for 97% and 96% of their “base production.” At no point would the DMSP authorize payments below 96% of a dairy’s base production. Once the margin recovers to above \$6.00 per hundredweight for two consecutive months, the DMSP is de-activated and all calculations of “base production” are eliminated. If the DMSP re-activates at a later time, the calculations will re-start from scratch.
- **Federal Milk Marketing Order (FMMO) Reform** – Unlike the previous “draft” version of this legislation, the *Dairy Security Act* does not directly make changes to the structure of FMMOs. Instead, the bill instructs USDA to consider changes to FMMOs through their hearing process. Included in the legislation is specific language mandating that USDA craft FMMO changes that would eliminate end-product pricing (which includes the use of make allowances) for milk sold to Class III (cheese) manufacturers. Also included in the legislation is an opportunity for dairies to vote after USDA comes out with their proposed changes – a “yes” vote would implement the new reforms and a “no” vote would maintain the current structure. This vote would only apply to the FMMO reforms.

Finally, with the DPPMP and DMSP providing a modernized safety net structure for the nation’s dairy farmers, the *Dairy Security Act of 2011* would also eliminate the MILC and Price Support programs.

### **So where do we go from here?**

The coalition of support is building for the *Dairy Security Act*. This week, the Holstein Association joined a growing group of organizations (which includes Milk Producers Council) in supporting H.R. 3062. Further, in the only arena that counts – the U.S. Congress – the legislation was introduced with a bi-partisan group of eight Members of Congress officially in support. Those co-sponsors include Reps. Jim Costa (D-CA), Joe Courtney (D-CT), Rick Larsen (D-WA), Billy Long (R-MO), Kurt Schrader (D-OR), and Peter Welch (D-VT), in addition to Reps. Peterson and Simpson. **MPC greatly appreciates the leadership shown by these 8 Congressional representatives. But in order to transform this legislative bill into the law of the land, we’ll need at least 210 more Members of Congress to step up and support H.R. 3062.**

Dairymen in support of this much-needed reform of our dairy safety net policies need to speak up. Many dairy farmer trade associations and cooperatives are working with Congress to urge their support of the bill, **but individual dairies must be part of this effort. Each one of you has a voice in this debate.**

Our nation’s processors – as represented in Washington, DC, by the International Dairy Foods Association (IDFA) – continue to be opposed to any legislation that would empower dairy farmers to work collectively to help balance the supply and demand for raw milk. Fortunately for the dairy producers in the country, our legislators in Congress understand how important it is to structure a safety net that covers both small and large dairies, and that supply/demand balance is the key to maintaining a vibrant dairy industry. **But they need to hear from the dairy farmers they represent!**

Some individuals and groups have raised questions about whether or not this is a perfect bill (an impossible

standard). That's the wrong question. The real question before the industry today is **whether or not the Dairy Security Act is a better alternative to what we have today**. After reading the outline of the bill above, and considering the pathetic level of protection we have under the current policies, **there is no doubt regardless of which area of the country your dairy is located, this is a dramatic improvement in our safety net policies**. And on a political note, **this is truly our only opportunity in the near future to make these fundamental changes**. Opportunities like this – a bi-partisan approach that improves our safety net programs and at the same time saves the Federal Government money – are few and far between. So unless you are content to go into the future with the limited “protection” we have now, **PLEASE PICK UP THE TELEPHONE!**

Need help finding your Congressman? You can use sites like [www.cccarto.com/congress\\_maps](http://www.cccarto.com/congress_maps) or go through the House of Representatives' website at [www.house.gov](http://www.house.gov). You can also email or call Milk Producers Council and we can help you find the appropriate contact information. The message our Congressmen need to hear is simple: **Please support H.R. 3062, the Dairy Security Act of 2011.**

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### **MPC FRIDAY MARKET UPDATE**

#### **CHICAGO MERCANTILE EXCHANGE**

Blocks - \$.0500 \$1.7275  
 Barrels - \$.0125 \$1.7075

#### **CHICAGO AA BUTTER**

Weekly Change - \$.1325 \$1.7700  
 Weekly Average - \$.0895 \$1.8150

#### **NON-FAT DRY MILK**

**Week Ending 9/16 & 9/17**  
 Calif. Plants \$1.5581 11,947,642  
 NASS Plants \$1.5364 18,171,288

#### **Weekly Average**

Blocks - \$.0575 \$1.7250  
 Barrels - \$.0465 \$1.6780

#### **DRY WHEY**

**WEST MSTLY AVG** w/e 09/23/11 \$.6163  
**NASS** w/e 09/17/11 \$.5908

**CHEESE MARKET COMMENTS:** Cheese traders this week had more industry news than normal to work with. Monday's milk production report for August, released after the cash market on the CME had closed, indicated more milk may be produced this year than was expected. Tuesday's global auction results showed prices for most products again moved lower, although the winning price for Fonterra's cheese product was about unchanged. Thursday's report showed the amount of cheese in cold storage at the end of August changed from the previous month about in line with the monthly change in milk production and followed the normal seasonal path after a sharp, unexpected increase in July. The market was definitely edgy this week, apparently more concerned about higher milk production than anything else. Trading was heavy – 47 carloads sold, with the great majority of trades coming from offers to sell. Two sellers with more cheese on hand than was wanted and eight to ten willing buyers first moved prices down by 6.5 and 7.0 cents per lb for blocks and barrels on Wednesday, before changing course. Thursday's trading was notable when offers to sell were placed at higher prices, and were quickly bought. Class III milk futures were especially volatile, initially in response to the cash market, with October's price off by more than a dollar per cwt by Tuesday. After trading closed on Friday the October-January prices were about \$.50 per cwt lower for the week, and later months a little less. The tone of the market towards the end of the week supports a belief that prices may be at or near their near-term bottoms. Prices reported for shipments of cheddar cheese last week moved closer to their CME weekly averages, with blocks now only 3 cents from that index. Regarding futures products, it's good to see growing interest in cheddar cheese futures. These contracts give buyers and sellers a focused means, for a small fee, to protect themselves from future cheese price movements adverse to their respective interests.

**BUTTER MARKET COMMENTS:** Butter traders had the same news reports to digest this week that the cheese market had. The milk production and global auction reports were bearish, suggesting more butter and lower prices ahead. However, yesterday's cold storage report was definitely positive; butterfat in cold storage at the end of August fell by 22 million lbs below July's level and is only 10 million lbs above where it was a year ago. The reports offered something for everyone, but traders were decidedly negative. The CME cash price fell by 13.25 cents per lb in light trading. Butter futures moved in the same direction, but by less than cash prices. The lowest futures price for the year fell by less than two cents, to \$1.7175 per lb, while October moved the most, but only by 9.75 cents per lb. Concern about U.S. butter prices being higher than international prices may be

what is driving prices lower; the price for anhydrous milkfat in the global auction fell by \$.23 per lb this week and is now about \$1.20 per lb below the high that was reached in February.

**POWDER MARKET COMMENTS:** Two of the three reports affecting cheese and butter also affect the powder market (end of month inventories will be reported on October 3rd). The possibility of higher levels of milk production tends to encourage buyers to hold back in expectation of lower prices (lower prices is a sentiment that is shared by futures traders), and lower prices for skim milk powder in the global auction erased all of the gains that had been effective for the past twelve months. (Prices for Dairy America's first offering of skim milk powder in the October 4th global auction, for delivery in November, could be affected by the negative tone of that market.) Prices for shipments of nonfat dry milk last week were slightly lower than the week before; California plant volume was low while the national volume was a little above average. The California average price continues to beat the national price, although both continue to bounce up and down, but are trending slightly downward. *Dairy Market News* reports say plants are having some difficulty in moving product without having to offer discounts, and resale product is apparently readily available. Production of NFDM is steady and heavy demand for condensed skim is helping keep powder inventories from growing.

**WHEY PRODUCTS MARKET COMMENTS:** DMN reports domestic prices for dry whey to be steady to higher, while prices for the export market are steady to lower. Demand for dry whey continues to be good. Supplies are tight as more whey is used for higher concentrated products (70% protein is about the level apparently most produced). Prices reported for shipments of dry whey last week continued their steady upward movement, and are now above \$.59 per lb. The west's "mostly" price range this week is \$.6000 to \$.6325 per lb. Domestic and export demand for dry whey continues to be steady to strong.

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#### **FRED DOUMA'S PRICE PROJECTIONS...**

<b>Sept 23 Final:</b>	<b>Quota cwt. \$19.93</b>	<b>Overbase cwt. \$18.24</b>	<b>Cls. 4a cwt. \$19.27</b>	<b>Cls. 4b cwt. \$16.33</b>
<b>Last Week:</b>	<b>Quota cwt. \$19.99</b>	<b>Overbase cwt. \$18.30</b>	<b>Cls. 4a cwt. \$19.27</b>	<b>Cls. 4b cwt. \$16.46</b>

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**AUGUST MILK PRODUCTION JUMPS, MAINLY FROM WESTERN STATES:** (by J. Kaczor) The pattern of steadily declining monthly increases in milk production over the previous year that began last October came to an abrupt and surprising halt in August. Last September, milk production was 3.3% higher than the year before; ten months later, this July, it was only 0.4% higher. Production in August, reported this week by USDA, "jumped" 2.1% above last year's level. It took 94,000 more cows producing 19 pounds more milk per cow during the month to do it. August had 2,000 more dairy cows than in July, production per cow was 8 pounds lower, and milk production was lower by 76 million pounds.

The relatively weak production increases that began late last year were caused by smaller year-to-year increases (and one decrease) in production per cow, which stemmed from rising feed costs, feed ration changes, high culling rates, and various adverse weather-related effects on cows and on some dairies. This year 83,000 more dairy cows were slaughtered through August than during the same period last year, yet the U.S. milking herd grew by 94,000 head. Milk production for the month increased (over last August) by 338 million pounds. July's increase over last July was only 72 million pounds. August set another record high for milk production, for a 19th straight month. Production per cow also set a new record for the month. The average cow this August produced 292 more pounds of milk than did the average cow ten years ago, which is a 20% increase.

Differences in milk production between states in the west and southwest regions, compared to virtually all other states, has never been greater. Weather issues this Spring and early Summer contributed to some of the difference and the after effects on cows from the heat and humidity in the South and Midwest is still evident. However, the growth in number of cows over the past twelve months in the western states compared to the rest of the country is what has created the large regional production difference even though a few of the Midwestern

states that had a run of recent months with lower milk output have returned to the plus column. Except for some continuing heat and no rainfall in Texas, Oklahoma, and parts of New Mexico, weather in August throughout the country was about normal until Irene paid the east coast a visit on August 26th.

According to USDA, the number of dairy cows in nine states in the west and southwest in August was 101,000 more than a year ago. They are: Washington, Oregon, California, Arizona, New Mexico, Texas, Idaho, Utah, and Colorado. These nine states produced 336 million pounds more milk this August than last August. Five other states in the south and Midwest in the top 23 milk producing states had 21,000 more cows on hand in August that produced 78 million pounds more milk than last August, but they were offset by other states that had 28,000 fewer cows, and lower production.

The reason for making this comparison is to point out the dramatic regional differences in milk supply that is a function of the relative imbalance in growth in number of cows and to wonder if that reflects a healthy or even stable industry. The biggest month to month increases in number of milk cows this year came in January, March, and May, but the growth in monthly milk production continued to weaken through the year. The August jump in milk production was surprising at first but, looking back, it shouldn't have been. Last August the number of milk cows decreased by 12,000 (from July) and stayed virtually unchanged for the next three months. We now have 94,000 more dairy cows being milked than last year and, apparently, more are on the way. With that comparison in mind, expect to see milk production over the next several months to be well above the 2% level while Class I sales remain sharply depressed in a desperate economy.

The obvious questions are do we need, or can we even economically use, the additional milk that is being produced, considering the current lower fluid milk consumption, the weak U.S. economy, and the growing signs that competitive prices for exports – and perhaps international demand itself – is weakening? IDFA (actually only a few of their members) has all but pledged to handle all the milk that is produced by maintaining and expanding exports. Will that really happen; will exports which have been running at about 13% of total solids production increase to 15% of total production? Under our current regulatory system, it's the milk producers who have to accept whatever price results when sales begin to weaken, while manufacturers will continue to point out that the U.S. has passed the "tipping point" and is now at the mercy of the global economy.

A possible short term answer about the use of the additional milk comes from yesterday's report on the amount of butterfat and cheese in long term cold storage facilities at the end of August. The news is favorable. The amount of butterfat in cold storage was 11.8% lower than a month earlier. The amount of American cheese in cold storage was 0.9% lower, and total cheese was 2.2% lower. We won't know how much of these products was manufactured in August until USDA issues its report on October 1<sup>st</sup>, but it does look like most of August's production may have economically "disappeared." USDA defines disappearance as the difference between beginning inventories, plus production and imports, less ending inventories.

California generated the largest increase in August's milk output, 100 million pounds, +2.9%. Only 1,000 cows were added in August; there were 24,000 more being milked than a year ago. Production per cow, at 1,970 pounds, increased by 30 pounds and is exceeded by only four other western states. The biggest surprises are the increases in number of cows and production per cow in Florida and Texas. Florida has 5,000 more cows than last August and milk production increased by 9.9%. Texas, with its continuing record heat and no rainfall, had 20,000 more cows and production increased by 11.1%. Who needs rain when you can drill for it?