



Milk Producers Council

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 TO: Directors & Members

PAGES: 5
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$.1200	\$2.1200
Barrels	+\$.1625	\$2.0800

Weekly Average, Cheddar Cheese

Blocks	+\$.0400	\$2.0640
Barrels	+\$.0705	\$2.0290

CHICAGO AA BUTTER

Weekly Change	+\$.0100	\$1.8900
Weekly Average	+\$.0045	\$1.8925

DRY WHEY

Dairy Market News	w/e 10/26/12	\$.6175
National Plants	w/e 10/20/12	\$.6257

NON-FAT DRY MILK

Week Ending 10/19 & 10/20

Calif. Plants	\$1.4397	6,288,447
Nat'l Plants	\$1.4718	11,927,835

Prior Week Ending 10/12 & 10/13

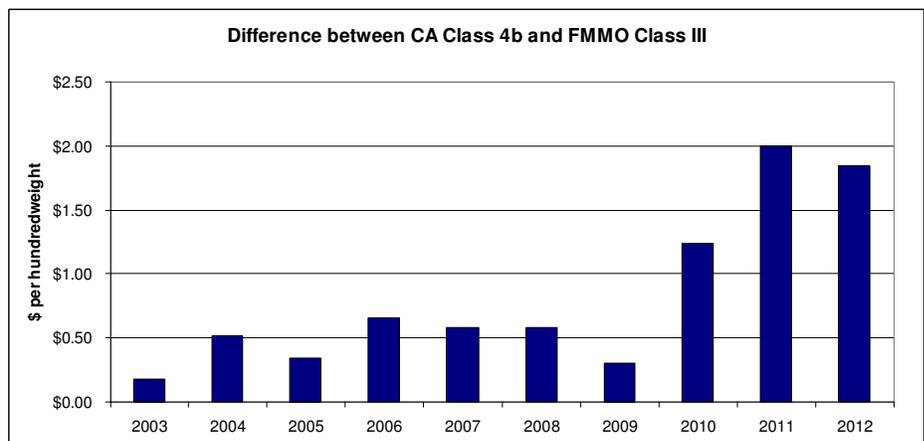
Calif. Plants	\$1.4127	6,621,529
Nat'l Plants	\$1.4587	14,183,908

FRED DOUMA'S PRICE PROJECTIONS...

Oct 26 Final:	Quota cwt. \$20.11	Overbase cwt. \$18.42	Cls. 4a cwt. \$17.88	Cls. 4b cwt. \$19.43
Last Week:	Quota cwt. \$20.04	Overbase cwt. \$18.34	Cls. 4a cwt. \$17.77	Cls. 4b cwt. \$19.33

MPC THE TARGET OF UNPRECEDENTED AND UNPROVOKED ATTACK BY DAIRY INSTITUTE OF CALIFORNIA: (By Rob Vandenheuvel) MPC has a solid 60+ year history of effective advocacy on behalf of the California dairy families we represent. Over those years, there have undoubtedly been many emotional debates over the policies that govern the California dairy industry. However, I doubt very much that any of those debates resulted in a media statement like the one sent out this week by the Dairy Institute of California (DIC), the main lobbying organization for many of California's dairy product processors.

Regular readers of this newsletter are well aware of the issues MPC and other producer groups and cooperatives have raised in recent months and years about the current minimum pricing structure in California. Over the past two-and-a-half years, the California Department of Food and Agriculture (CDFA) has allowed the Class 4b minimum price (which applies to milk produced in California and sold to the State's cheese manufacturers) to lag severely below the benchmark price for milk sold to cheese plants around the country – the Federal Order Class III price. The chart to the right tells the story pretty well. The bars demonstrate how far below the Federal Order Class III price the California Class 4b price has been.



What was an average gap of \$0.45 per hundredweight for the first seven years of the chart (2003 – 2009) expanded to a gap of **\$1.24 per hundredweight in 2010**, and then **blew up to a gap of \$2.00 per**

hundredweight in 2011. So far in 2012, the California Class 4b price has averaged \$1.85 per hundredweight below the Federal Order Class III price.

What does this mean in real dollars? MPC has gone through the math in previous issues of this newsletter, but the bottom line is that if CDFA would have maintained the roughly \$0.45 per hundredweight gap that existed from 2003 – 2009, California’s cheese manufacturers would have had to pay **more than \$600 million more into the California “pool” for the milk they purchased from January 2010 until now.** That’s a serious “California discount” that CDFA is providing to the state’s cheese manufacturers, on the backs of the now-roughly-1,600 California dairy farmers. **By the way, that \$600 million+ translates into about \$375,000 per 1,000-cow dairy in California.**

Why is this important? Because under the California Food and Agricultural Code, the Secretary is tasked with establishing minimum prices for each of the five classes of milk in California (Classes 1, 2, 3, 4a and 4b...in this case, we’re talking about Class 4b). The Secretary has pretty broad discretion in *how* that formula is structured, but regardless of how the formula is structured, the minimum price that is ultimately announced for each Class must be in a “reasonable and sound economic relationship” with what comparable milk is sold for around the country (Section 62062 of the California Food and Agricultural Code).

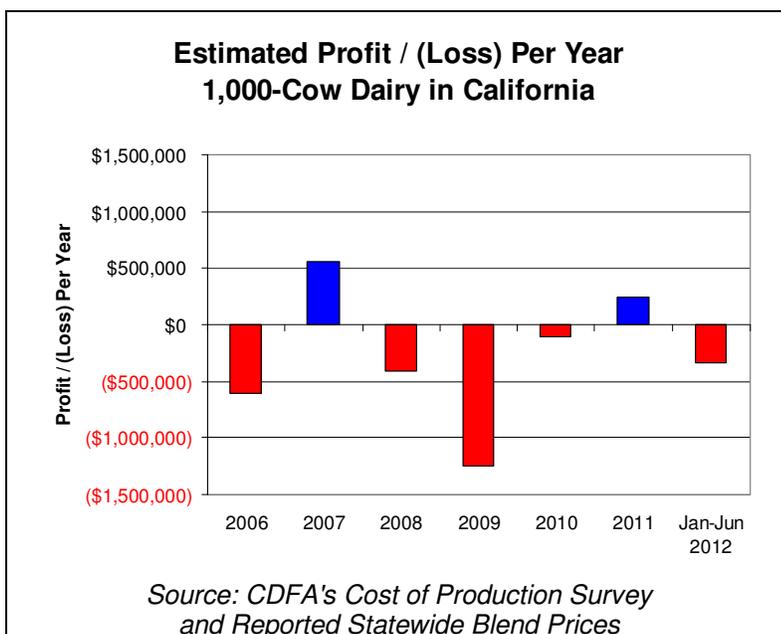
So let’s fast forward to this week. The DIC published a media statement entitled, “*Milk Producers Council: Wrong on the Facts / Wrong Prescription for California’s Dairy Future.*” The statement, which can be found at: <http://dairybusiness.com/se/headline.php?title=dic-blasts-milk-producers-council-over-statem&date=2012-10-24&table=headlines>, includes a litany of unsubstantiated slams against MPC. If you choose to read the statement, you’ll see a lot of rhetoric aimed at MPC, which little-to-no real evidence to back up the claims made.

The reason for this article in our newsletter is not to lament about the barrage of personal and unprofessional attacks on MPC (which deserve no response). Instead, we should take this opportunity to review why MPC is taking the position that **Secretary Karen Ross is acting contrary to her legal responsibilities in implementing a Class 4b price that is so severely discounted to the price being paid for milk sold to cheese plants around the country.** So to that end, below are a few excerpts from the DIC’s letter, along with some responses.

Let’s start with the title; **DIC Statement:** “*Milk Producers Council...Wrong Prescription for California’s Dairy Future*”

Some thoughts from MPC: Included in the California Food and Agricultural Code – which is where the Secretary of CDFA receives guidance and direction in establishing the minimum prices for each of the five classes of milk – is the following language: “*The purposes of this chapter are to...Enable the dairy industry, with the aid of the state, to develop and maintain satisfactory marketing conditions, bring about and maintain a reasonable amount of stability and prosperity in the production of market milk, and provide means for carrying on essential educational activities.*” (Section 61805(d))

So one of the purposes of CDFA’s involvement in pricing California-produced milk is to “bring about and maintain a reasonable amount of stability and prosperity in the production of market milk.” How has that been working? According to CDFA’s own figures (which includes Cost-of-Production surveys as well as average prices paid for milk), the average 1,000-cow dairy in California is



estimated to have lost almost \$2 million since 2006! Take a look at the chart here. Is MPC expected to just stand by and watch as producers bleed red ink?

Obviously there are national economic forces at work, and dairies throughout the country have felt pain in recent years (although nowhere near the pain being felt in California). But MPC and others on the producer side of our industry aren't asking CDFA to fix the national problems, but rather to put us on a level playing field with our colleagues around the country by setting prices that are in a "reasonable and sound economic relationship" with the prices being paid for milk sold around the country.

DIC Statement: *"What should regulators do when there aren't enough plants or room in existing plants to handle that tidal wave of milk? Impose a price increase? Where would the additional milk spurred by that price increase go? The truth is there is no economic reality where increasing prices in an oversupplied market makes sense."*

Some thoughts from MPC: This is a common theme expressed by the DIC, and quite frankly, it's offensive to MPC and the producer community. In short, this statement says that California dairy farmers cannot be trusted with a price that's in line with what's being paid around the country, because we'll expand our milk production and run out of processing capacity for that milk. So by having CDFA discount the California Class 4b price, the DIC appears to believe they are saving California's dairy farmers from themselves.

But think about that for a minute; why is it the State's or the processors' responsibility to manage the milk production by California's dairy farmers? It's not! If California's dairies do produce more milk than we can process in California – for whatever reason (weather, economics, whatever) – it is the dairy farmers – **and only the dairy farmers** – who pay the cost of marketing that milk elsewhere. It costs processors nothing, since they are only going to buy what they need to run their plants. Everyone has their roles in this industry:

- Producers need to manage their production to meet the demand for that milk,
- Processors need to buy the milk they need to run their businesses, and
- The State, based on direction from the law, needs to establish minimum prices that are in a reasonable and sound economic relationship with what comparable milk is sold for around the country.

DIC Statement: *"No new large cheese plants have been built in California in the past 10 years, due almost entirely to the instability brought on by groups like MPC, who always advocate for higher regulated prices, whether conditions on the farm are good or bad."*

Some thoughts from MPC: Is this a serious accusation? Let's look at the facts: California is a hostile work environment for businesses, whether that's a dairy farm or a processing facility. Some of those challenges include environmental laws, the uncertainty of cap-and-trade regulations, business taxes, labor regulations, and many others. That is why some of the large-scale cheese manufacturing investment has occurred outside of California, including investment in Federal Order areas where the cost of securing a milk supply has been significantly higher in recent years than in California.

DIC Statement: *"The Class 4b price must be a market-clearing price, because there is no 'de-pooling' safety valve to allow milk to be price based upon demand and competition like there is under the Federal milk pricing system."*

Some thoughts from MPC: Despite DIC's use of the word "must," there is no language in the California Food and Agricultural Code that provides Secretary Ross with the mandate to set a Class 4b price that is at "market-clearing" levels. Instead, the mandate states that the price shall be in a "reasonable and sound economic relationship" with what comparable milk is being sold for around the country.

Further, as stated earlier, if California dairy farmers produce more milk than our in-State processors need, it is up to the dairy farmers themselves – not the DIC, their processor members or CDFA – to take the steps (and bear the

costs) necessary to either: (1) find a market for that milk elsewhere, or (2) find a way to reduce production to realign our production with the demand for that milk. Regardless of what the DIC may believe, this does not justify having CDFAs systematically discount the minimum price for all Class 4b milk, and it certainly is not based on the legal direction given by the Legislature in the California Food and Agricultural Code.

Finally, a few general thoughts. We understand that the DIC is vigorously advocating on behalf of the processing companies they represent. MPC certainly doesn't blame them for that, as both sides understandably come at this from different perspectives. However, we have to remember that throughout this debate between producers and processors, a level of professionalism must be maintained. We were extremely disappointed by many of the attacks made in DIC's statement, which included:

- “MPC has been painting a deliberately inaccurate picture...”
- “The MPC pattern of bullying and berating processors, the Department of Food and Agriculture and the Secretary is decades long.”
- “...the MPC mantra has been to tell a partial truth and a partial lie...”
- “...MPC is shaving the truth as it's been doing for decades.”
- “...MPC's innate fact-twisting...”
- “Too bad that MPC continues to be the problem and not part of the solution.”

MPC goes to great lengths to provide factual support for the arguments we make. Just because the DIC doesn't agree with the conclusions we draw from the facts doesn't warrant the statements made above. Further, our board members and staff have been more than willing to sit down with those in the processor community and talk about the future of this industry. We've participated in CDFAs task forces (like the current “Dairy Future Task Force” or the “Whey Review Committee” in 2007) and have stood ready to work with processors in crafting our future. In fact, earlier this month, one of our MPC board members sat down once again with DIC staff to have exactly that type of discussion. It's extremely disappointing to see the type of rhetoric and unsupported attacks on MPC that were included in that media statement.

“DAIRY FUTURE TASK FORCE” MET THIS WEEK; WHAT HAPPENED? *(By Rob Vandenhoevel)*
This past Tuesday and Wednesday, a group of dairy farmers and processors put together by CDFAs gathered in Modesto, CA for the purpose of exploring the future of the California dairy industry. As announced by CDFAs, the Task Force is made up of the individuals listed to the right.

Sybrand Vander Dussen, President of MPC and a member of the Task Force, attended the two-day meeting and has provided the following synopsis of the discussions:

The Task Force Meetings in Modesto

By Sybrand Vander Dussen

Two days of discussing the serious situation on the producer side of our industry came to an empty end. About twenty-five producers and processors met with the goal of exploring ways to mitigate the serious financial devastation taking place today. At the beginning of the two-day session, we discussed in break-out groups many issues: how to create new offshore markets, how to attract more processors to the state, and how to grow export demand. We attempted to develop “pillars” upon which to “remodel” our industry on, engage in strategic planning, and relearn all the high points of dairy's journey for the last 70 years, etc. We looked at the Young Act of 1937, the Capper-Volstead Act exempting the co-ops from anti-trust, the Gonzalves Pooling Law of 1968, modifications to our pricing formulas, the whey value being initiated and so on, all to familiarize ourselves once again of where we have been, which could give direction of where we need to go.

Members of the “Dairy Future Task Force”	
David Ahlem, Hilmar	Scott Hofferber, San Bernardino
Joey Airoso, Tipton	Dennis Leonardi, Ferndale
Joe Augusto, Visalia	Steve Maddox, Riverdale
Tom Barcellos, Tipton	J.T. Maldonado, Hanford
Marcus Benedetti, Petaluma	Tony Mendes, Riverdale
Ben Curti, Tulare	George Mertens, Sonoma
Rochelle De Groot, Hanford	Rick Michel, Waterford
Joe DeHoog, Ontario	John Oostdam, San Jacinto
Lucas Deniz, Petaluma	Brian Pacheco, Kerman
Eric Erba, Visalia	Ray Souza, Turlock
Frank Ferreira, Red Bluff	Sue Taylor, Denver
Mike Gallo, Atwater	Arlan Van Leeuwen, Oakdale
Dino Giacomazzi, Hanford	Sybrand Vander Dussen, Chino
Dominic Grossi, Novato	Simon Vander Woude, Merced

Our industry has a chronic problem of oversupply, which effectively precludes receiving a “real” market price for our milk. It is certainly problematic to expect higher prices when those who purchase our milk have more of it offered to them than they need.

The reason the Secretary of Agriculture called for this Task Force to meet is in answer to the division often experienced between producers and processors. In the last hearing in Sacramento, producers had asked for a more equitable alignment with other marketing orders related to the “whey factor,” and were essentially denied. California producers have a distinct and severe disparity in milk prices with those other orders, largely due to us not receiving an equitable price for the whey component.

One can speculate why this request for better alignment was not granted. Can it be that the Secretary, after establishing minimum prices, believes the industry should be the one that creates higher prices? Can it be that we as producers have proven (until now) that no matter what price, we will have an abundance of milk? Can it be that the “shortage” of processing facilities is the reason? Pressure from cheese makers? All this is speculation, and largely discussed in the previous article above. Regardless of what is driving the decisions being made, the reality is that producers are being “killed” financially.

Of course, we do recognize the ludicrous Congressional mandate that corn goes into gas tanks, raising corn and other feed to new highs. Then the drought which pushed feed even higher. Producers were caught in a corner with nowhere to go. Even had the Secretary granted the unified industry request to better align our whey factor, it would not have been enough. For some, maybe, but not for many others.

So far all these reasons, Secretary of Agriculture Karen Ross convened this Task Force. At the end of the sessions, an attempt was made to find common ground – an agreement between producers and cheesemakers – an agreement that could be recommended to the Secretary who would then go through the required hearing process and render a decision.

Very unfortunately, and to the severe detriment of the producing community, an agreement was not reached. What the cheesemakers were willing to do, was not what the producers were willing to consider. It was a meeting that was necessary, timely, and actually fruitful in some areas, but the main goal was not accomplished. The Secretary has committed to another meeting, and the hope is that given the alarming rate of decline in the production sector, next time will be more fruitful.

MPC AREA MEETINGS SCHEDULED FOR NOVEMBER 6TH AND 7TH: *(By Rob Vandenheuvel)*
Dairymen in the Riverdale, Tulare and Bakersfield areas – mark your calendars for upcoming MPC Area Meetings in your area. These meetings – which are open to MPC members, other interested dairymen and our allied industry folks – are an opportunity to hear the latest on many of the issues facing the California dairy industry, ranging from our challenges in California to the status of the U.S. Farm Bill. The schedule for the upcoming meetings is:

- **Tuesday, November 6th @ 11 a.m.** – Area Meeting at Maddox Dairy, (12863 W. Kamm Avenue in Riverdale)
- **Tuesday, November 6th @ 3 p.m.** – Area Meeting at Rancho Teresita Dairy (21744 Road 152 in Tulare)
- **Wednesday, November 7th @ 1 p.m.** – Area Meeting at Bidart Dairy (20400 Old River Road in Bakersfield)

If you plan to attend, please shoot an email to Kevin Abernathy (Kevin@milkproducers.org) or myself (Rob@milkproducers.org). Or you can call the MPC office at (909) 628-6018.