

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0850 \$1.9000
Barrels -\$.0500 \$1.8500

Weekly Average

Blocks -\$.0485 \$1.8600
Barrels -\$.0415 \$1.8880

CHICAGO AA BUTTER

Weekly Change -\$.0550 \$1.3150
Weekly Average -\$.0580 \$1.3240

DRY WHEY

NASS w/e 9/22/07 \$.4434 WEST MSTLY AVG w/e 9/22/07 \$.3950

NON-FAT DRY MILK

California Weekly Average Price

Week Ending Price Volume

September 14 \$2.0387 18,122,744
September 21 \$2.0600 17,582,689

CHEESE MARKET COMMENTS: Prices on the CME this week adjusted nicely, with good volume moving the price for blocks up a total of 8.5 cents per lb. Prices for barrels, which had been 8.5 cents above blocks last Friday, finished this week with a 4.75 cent drop today, so the brief inversion of prices is corrected. Even with the increase this week, the block average price is still almost 5 cents below its last week's average. That could cause some buyers to hold off for at least one more week until the weekly average catches up to the current price. It's close to the time when buyers begin to accumulate product for the November holiday so there are some positive aspects about what is now happening. USDA reports that cheese production is starting to pick up. Usage will have to keep pace with production in order maintain what seems to be a fairly solid foundation for cheese prices. So far that seems to be happening.

BUTTER MARKET COMMENTS: Prices on the CME this week continued to lose ground; Monday and Tuesday saw decreases that totaled 5.5 cents. There are signs that prices may hold around the \$1.30 level because a number of bids to buy at prices lower than Tuesday's closing price were rejected on Wednesday through Friday. Because butter production is continuing at unseasonably high levels, buyers simply see no need to place orders sooner than when the product is needed. In order for prices to firm up, it appears that the market needs to somehow **eliminate about 60 million lbs** through reduced production, increased domestic usage, or more exports, to bring inventories back into line. Please note, lower butter prices do not necessarily translate into lower milk prices, provided that cheese and nonfat dry milk prices remain firm. And, down the road, lower butter prices should eventually lead to more butter usage. **Right now, there is just too much butter on hand.**

NONFAT DRY MILK: Production of nfdm, particularly in the West, continues to increase as more milk is produced and fluid consumption and cheese production continue to be on the slow side. California and national sales of nfdm in the last 2 weeks have been heavy, and prices appear to be holding above the \$2.00 per lb level. The NASS national average price and the California average are very close, at around \$2.06 per lb. The low end of the Western "mostly" range is \$1.96 per lb. The price range f.o.b. ports in New Zealand is \$2.13 to \$2.35 per lb, with limited availability. USDA reports that export volume has picked up.

WHEY MARKET COMMENTS: Whey prices on the spot market have now fallen to only a few cents above where they were a year earlier. Whey protein concentrate prices also are lower, but have fared better than dry whey. Lactose prices appear to be following the dry whey pattern. As cheese production begins to increase, whey and the products made from whey will also increase. Then what? Well, sales are holding up, but prices are not. Exports are expected to continue to pull most of the dry whey from the U.S., and domestic buyers continue to use about as much product as they were using when prices were double their present level. This week, the average of the Western "mostly" price range fell by 1 cent, and is now at 39.5 cents. Here's a puzzle: the NASS average price

for the week ending 9/22 was 44.34 cents per lb, which was 5 to 6 cents **above** the averages of the central and western spot markets. Perhaps it is the lack of interest by the "marginal" buyers of whey that explains why nfdm and dry buttermilk are so much more in demand, at much higher prices. Any other ideas on what has changed over the past 4 months to turn a record price rally for dry whey into what looks like a general retreat? High quality dairy proteins are still the gold standard in terms of functionality and nutrition for a huge number of food product, and world-wide demand for these products continues to grow.

FRED DOUMA'S PRICE PROJECTIONS...

Sept 28 Final: Quota cwt. \$21.64 Overbase cwt. \$19.94 Cls. 4a cwt. \$21.62 Cls. 4b cwt. \$19.34

DAIRY PRODUCER GROUPS UNITE FOR UPCOMING HEARING (*By Rob VandenHeuvel*) As this newsletter has reported in recent weeks, several small cheese processors requested that the California Department of Food and Agriculture (CDFA) hold a hearing to consider eliminating the whey factor from the class 4b (cheese) formula. Earlier this year, as the value of dry whey rose to historic levels, the dry whey factor in the cheese and fluid milk formulas added significant value to milk prices for producers. The argument made by the small cheese processors was they don't have the resources or capability to process and sell whey, and are unable to recoup the whey "cost" from their customers. This meant that when the dry whey price rose earlier this year, they were overpaying for their milk and in their words, "facing an economic crisis." In response to this petition, CDFA granted a hearing for October 10th to not only consider removing the whey factor from the 4b formula, but also to completely re-evaluate the class 4a (butter and powder) and 4b formulas.

While dairy producers recognize the concerns of these small cheese manufacturers, it is grossly unfair to completely throw out the whey factor in the class 4b formula. This would essentially be saying that there is no value for dry whey products, which is patently false. In an effort to find a middle ground, Milk Producers Council, Western United Dairymen and the Alliance of Western Milk Producers (representing co-ops California Dairies, Inc., Dairy Farmers of America and Humbolt Creamery) worked together and produced an alternative proposal that would retain a whey factor in the formula, but make changes to address the concerns by small processors. The MPC/WUD/Alliance proposal has three parts:

- A "dry whey credit," which, in simple terms, will exempt processors from paying for the whey value on the first 100,000 lbs. of milk they process each day (3 million lbs. per month).
- Tie the make allowance for dry whey to the make allowance for nonfat dry milk (NFDM). Specifically, the proposal would set the dry whey make allowance at \$0.03/lb. above the NFDM make allowance.
- Implement a "snubber" in the class 4b formula, which would prevent the whey factor from dragging down the class 4b price when the value of dry whey falls below the make allowance.

By exempting the first 100,000 lbs. of milk per day (3 million lbs. per month) from the dry whey factor in the class 4b formula, this proposal would directly address the concerns of the small cheese processors. And even though that same exemption would apply to the first 100,000 lbs. a day for the large processors as well, it is such a small proportion of their processing capacity that producers would continue to receive a majority of the positive value for whey when the price rises above the manufacturing cost allowance (which is currently \$0.267/lb.).

The representatives from MPC, WUD, the Alliance, CDI and DFA should be commended for their hard work in producing a unified proposal that would fairly compensate producers for the milk they sell while also addressing the concerns of small processors who are limited in dry whey processing capabilities.

FEDERAL JUDGE SIDES WITH ENVIRONMENTALISTS ON KEY SUIT AGAINST DAIRY (*By Stacey Shepard, Bakersfield Californian, 09/27/07*) A federal judge ruled Tuesday that a Kern County dairy violated the federal Clean Air Act. The C&R Vanderham Dairy near Shafter was built in July 2005 to house about 1,300 cows. The dairy, along with the regional air district, has said it's too small to be regulated.

The Association for Irrigated Residents, a Kern County environmental group, sued the dairy's owners, saying they did not follow proper procedures for obtaining air permits and installing pollution controls. Cows and manure from dairies give off emissions that react in sunlight to form smog. Numerous studies have shown that exposure to smog exacerbates asthma and damages lungs, contributing to school and work absenteeism. The judge ruled against the dairy.

The San Joaquin Valley Air Pollution Control District said the dairy is caught in the middle of a housekeeping issue. For years, dairies and other agriculture operations in California were exempt from pollution regulations. That protection was repealed under SB 700, a state law by Sen. Dean Florez, D-Shafter, that passed several years ago. The law required the agriculture industry to be regulated but allowed small farms to remain exempt. The Vanderham dairy falls under the small farm classification, air district officials said, and therefore should not be subject to stringent pollution regulations.

However, before SB 700 was enacted, the air district submitted an air pollution control plan to the federal government that called for subjecting agriculture to the same regulations other industries had to follow. The plan contained virtually no exemptions for small farms. The U.S. Environmental Protection Agency approved the air district's plan.

When SB 700 passed, the district submitted an amendment to the federal government to allow small farms to be exempt. But the EPA has not ruled yet. The federal judge ruled Tuesday that the dairy must comply with regulations, as they currently exist in the district's federally approved plan. "It's kind of a rotten deal for (the dairy)," said Phil Jay, an attorney for the air district. "(The environmental groups) think they found a loophole to hammer this guy."

Rick Vanderham, one of the dairy's owners, said he held a valid operating permit from the air district.

Tom Frantz, a Shafter resident and member of Association of Irrigated Residents, said in a news release Wednesday: "This is a significant step toward better health in the San Joaquin Valley because our lungs will no longer be forced to subsidize the dairy industry."

Civil penalties against the dairy will be considered in further court proceedings. The judge also will determine at that time if the dairy must shut down until it obtains the necessary air permits.

Managers Note: This is a complex case and the parties involved are determining the best step forward at this point. But needless to say, this is a major development and a serious concern for the California dairy industry. The final result of this case will likely have real ramifications for California dairies.

CENTRAL VALLEY WDR WORKSHOPS START NEXT WEEK (By Rob VandenHeuvel) As you all know, Central Valley dairies are now subject to new Wastewater Discharge Requirements (WDR). Some of the sampling and monitoring requirements begin this year, with the remaining requirements phased in over the next several years. To help dairies better understand what is being required of them, the California Dairy Quality Assurance Program (CDQAP) has scheduled workshops in each county to walk dairies through the new WDR. The first of these workshops is in Glenn County next Thursday, October 4th. Each dairy should have received a flyer in the mail from CDQAP listing the times, dates and locations for these workshops. If you didn't receive that flyer, you can see the schedule here (<http://www.milkproducerscouncil.org/cdqapdates.pdf>) or call Debi Clark at MPC's office and she can fax it to you. All dairies are invited and encouraged to participate in these informative workshops.

With regard to the initial report for each dairy that must be filed by **December 31, 2007**, Betsy Hunter and Rob VandenHeuvel are available to MPC members to walk them through this initial phase of the WDR. MPC has assisted our Southern California members for years in complying with similar wastewater regulations, and we will provide that same high-quality level of service for our Central Valley members. **To schedule an appointment with Betsy or Rob, please call the MPC office at (909) 628-6018.**

DISASTER RELIEF FUNDS AVAILABLE FOR SOUTHERN CALIFORNIA DAIRYMEN *(By Rob VandenHeuvel)* This week, U.S. Department of Agriculture's Farm Service Agency (FSA) sent a notice to all Southern California dairymen announcing a "Town Hall Meeting" *next week* to discuss disaster relief funds that are now available to dairy farmers. The funds – which were approved by Congress earlier this year – provide direct payments to dairy farmers for animals lost due to the heat wave in 2006. More information on how to apply for the funds will be available at the meeting. Here are the details of the meeting:

WHAT: Meeting to Discuss Disaster Relief for Dairy Farms
WHEN: **Wednesday, October 3, 2007**
TIME: 10:00 a.m.
WHERE: Chino Fairgrounds (Brinderson Hall), 5410 Edison Avenue, Chino

If you haven't received the mailing from FSA, you can see it here:
<http://www.milkproducerscouncil.org/092507FSAnotification.pdf>.

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