



# Report to Dairymen

OCTOBER  
2006

## CDFA implements 4a-4b decision effective Nov. 1

While producers had hoped for a better result, CDFA decided to implement its original Class 4a and Class 4b decision effective November 1. This is interesting considering the fact that CDFA has 2005 make allowance data in its possession. Reportedly they will make this new information available sometime in November.

### Impact on producer prices

The implementation of the decision will significantly impact producer prices. The table on page 2 shows the difference in October Class 4a and 4b prices and the overbase price under the *new* make allowances compared to the *old* make allowances.

The largest impact results from CDFA's decision on the whey make allowance. That part of the decision alone would have lowered the October Class 4b price 38 cents and the overbase price 15 cents.

The Alliance has been critical of the whey make allowance decision as have other producer organizations. Unlike the other make allowances, the whey make allowance decision by the Department rewards inefficiency and, it can be argued, sends the wrong signal to manufacturers.

The Cornell make allowance survey paints a very clear picture of just how far off the manufactur-

*(Continued on page 2)*

## Justice Fund approves funding

The California Dairy Environmental Justice Fund Board of Directors met in late September to review the progress of several efforts is it funding and approve a funding request to intervene in a lawsuit on Rule 4570.

### Current projects

At its July meeting, the Justice Fund board approved a funding request from the Community Alliance for Responsible Environmental Stewardship (CARES) for consultants and legal counsel with expertise in environmental issues dealing with water. Since air emission issues have been addressed for the time being, CARES is turning more attention to the water issues dairies and dairy processors may face.

The Fund also approved funding for CARES and some of its members to intervene on behalf of the dairy industry in a lawsuit filed by the Association of Irrigated Residents (or is it *irritating* residents) against the San Joaquin Air Pollution Control District's adoption of Rule 4570. Rule 4570 gives dairy farmers a menu of things that they can do to reduce air emissions. AIR doesn't like

the menu approach because some producers are already doing some of those things on the list of 64 options.

CARES asked the Justice Fund to support its efforts to gain intervener status. If that status is granted, CARES attorney David Cranston will handle the legal work. This lawsuit should be resolved in early 2007.<<<

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## CDFA implements 4a-4b decision (continued)

ing costs of the California whey plants are from the “norm.” Interestingly, the economist who did the Cornell study cautioned against using his butter data since only four plants responded to the survey. The California dry whey plant study included just three plants of four plants and one of

### Another hearing likely

With new cost data available in November, it is certain that there will be a request for a hearing to once again adjust manufacturing allowances. This time, the Cornell data will be available and can be entered into the record and available for

Price Class	Current Formula	Decision	Difference
2	\$11.33	\$11.31	- 2¢
3	\$11.28	\$11.26	- 2¢
4a	\$11.01	\$10.99	- 2¢
4b	\$11.42	\$10.99	- 43¢
Overbase	\$11.17	\$10.94	- 23¢

the Department to consider in making its decision.

Hopefully, the members of the hearing panel and the Secretary will give strong consideration to the Cornell data and move away from what appears to be its dog-

ged approach to only considering California cost data even when the data comes from outdated and inefficient plants.<<<

the plants was actually a whey protein concentrate plant that was not anywhere close to capacity so it was just drying whey.

### USDA allocates DEIP

USDA finally announced in October that it is allocating product for export under the Dairy Export Incentive Program (DEIP). The maximum amounts allowed under the GATT agreements are 150.6 million pounds of nonfat dry milk, 46.5 million pounds of butterfat, and 6.7 million pounds of cheese.

The wording in the October press release was exactly the same as the allocation releases made the last two years. The allocation announcement is only the first step in the DEIP process. For DEIP to become truly affective, USDA must issue an invitation for bids on specific quantities for specific products. Therefore, the allocations are a symbolic gesture at best.

In the past, USDA only issued invitations for bids under DEIP if the CCC was purchasing dairy products. This is not what Congress intended the DEIP program to be. It is supposed to be a market development program. Its use, especially for butter and cheese, would help boost dairy farmer milk prices.<<<

### Commission visits California

As October drew to a close, it was learned that the National Commission on Industrial Farm Animal Production would be coming California in early November. The commission, which does not have any government ties, is funded by the Pew Memorial Trust and is staffed through Johns Hopkins University.

The commission is on a two-year mission to look of the impact of *industrial* animal agriculture on public health, the environment, rural communities and animal welfare. It will issue a full report with specific recommendations which will be made public and shared with policy makers.

Commission members will be touring a California dairy farm and hearing from representatives of livestock organizations including a representative from the National Milk Producers Federation and the Alliance. CARES’ J. P. Cativiela helped to coordinate the farm tour and arrange for CARES environmental consultants to accompany commission members to and from the farm tour.<<<

# Renewable energy — a positive environmental solution



While the government's push for renewal energy — primarily via ethanol — is pushing up corn prices, renewable energy presents a positive and possibly profitable solution to one of dairy's environmental challenges.

## Methane gas — power source

In September, California's governor signed AB 32, a law requiring a substantial reduction in greenhouse gases. Methane is a greenhouse gas and cows produce methane as they digest their feed. The gas escapes from cows directly and from their manure.

Dairy farmers have found two uses for the methane. One is running an engine to generate electricity. The other is putting that gas into natural gas pipelines.

Until recently, California producers with digesters were not adequately compensated for the electricity that they generated and sold back to the utility. That has changed with PG&E now providing a

more fair return.

Putting methane into natural gas pipelines also requires the gas to be cleansed of hydrogen sulfide (H<sub>2</sub>S) gas. However, once that is done, it is compressed and put into pipelines to warm homes and generate electricity.

## Methane — greenhouse gas credits

While the two above uses can provide at least a breakeven situation, these two uses may also provide another potential revenue source, greenhouse gas credits.

Dairy greenhouse gas reductions can be sold to other businesses that can't reduce their emissions. Just covering a lagoon can reduce greenhouse gases and provide an opportunity for dairy farmers to sell gas credits.

This sort of business opportunity needs to be developed to its fullest. It will provide a revenue source to help offset the cost of environmental compliance.<<<

## Market bounces its way through October

The unusual market behavior that start in the summer continued in October. Daily trading at the Chicago Mercantile Exchange cash markets rose and fell almost daily.

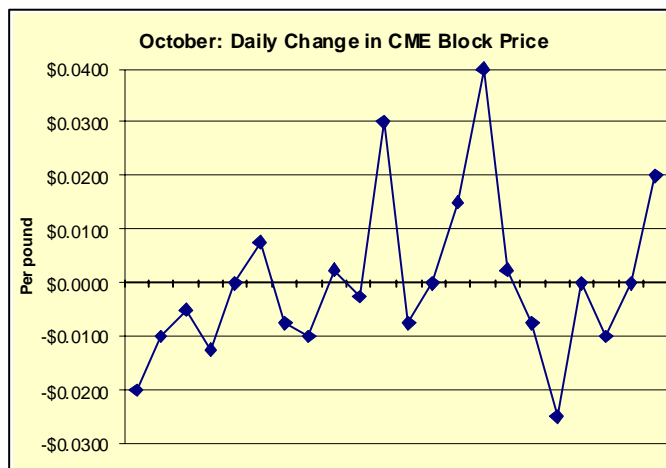
### Cheese prices

As in August and September, both barrel and block cheddar cheese cash prices moved up and down throughout October. And, as in the previous months, the barrel price was higher than the block price 12 out of 22 trading sessions in October.

The reason given for this market inversion was a reported demand for process cheese due to promo-

tions by fast-food hamburger chains. Most sandwiches served today have at least one piece of process cheese on them.

### On the butter market



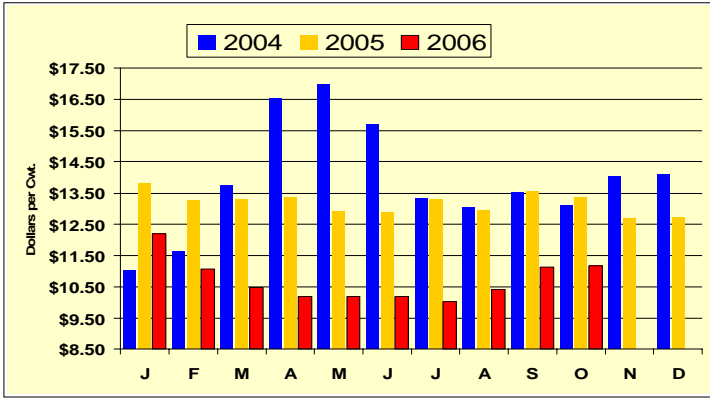
The CME cash butter market followed an up-and-down pattern similar to that of cheese. However, the butter price averaged nearly ten cents a pound higher than cheese.

### Nonfat and whey

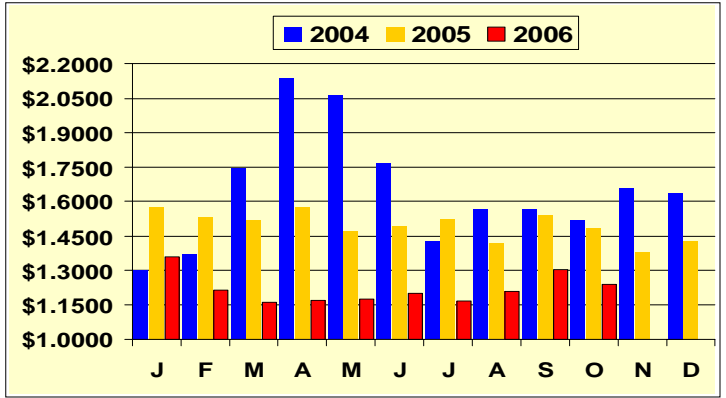
Unlike cheese and butter both nonfat dry milk

powder and dry when prices advance steadily through October. World demand for protein is reportedly very strong.<<<

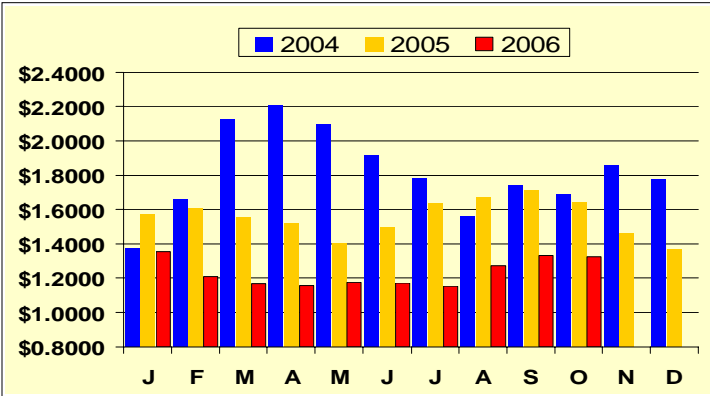
**California Overbase Price**



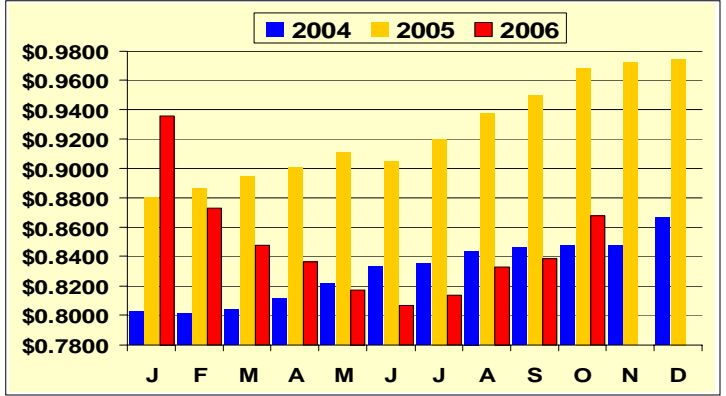
**CME Block Cheese Price**



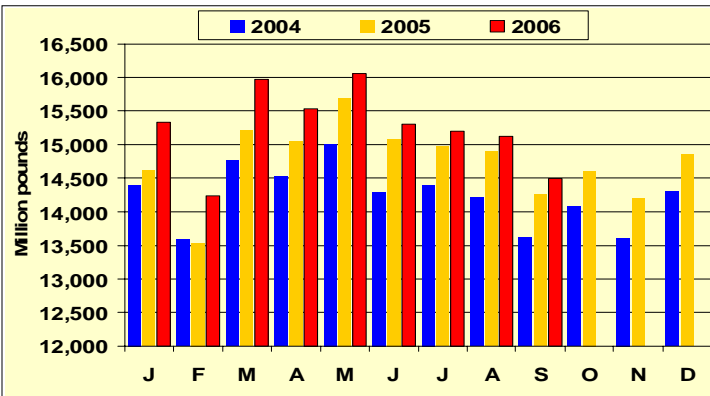
**CME AA Butter Price**



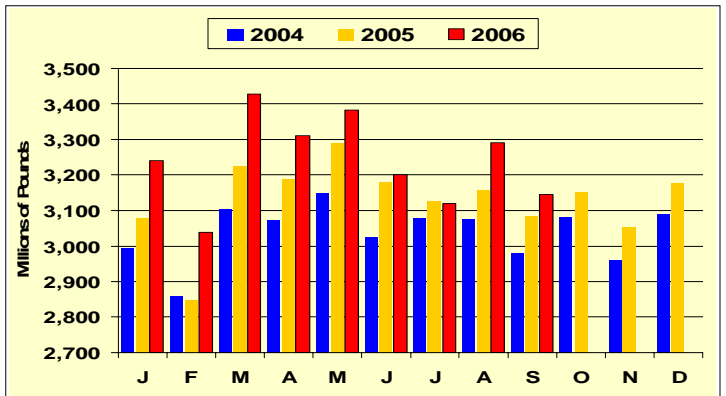
**California Nonfat Powder Price**



**U.S. Milk Production**



**California Milk Production**



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