

CDI Letter

August 2009



USDA announces higher purchase prices

Agriculture Secretary Vilsack has announced that the Obama Administration is taking immediate action to support struggling dairy farmers by increasing the prices paid for dairy products when purchased through the Dairy Product Price Support Program.

According to the announcement, price paid by the Commodity Credit Corporation (CCC) for nonfat dry milk will increase by 12¢ per lb. (from \$0.80 to \$0.92 per lb.), and the price paid for cheddar blocks will increase by 18¢ per lb. (from \$1.13 to \$1.31 per lb.). The price paid for barrel cheddar will also increase by 18¢ per lb. (from \$1.10 to \$1.28 per lb.), but that change will have no direct impact on California

milk prices. There was no price increase announced for CCC butter purchases. The purchase price increases will be temporary, and will operate during the three-month period of August 2009 through October 2009.

The news of purchase price increases announced by USDA is welcome and should provide a significant and much needed boost to producer milk prices. After averaging just \$9.80 per cwt. for all of 2009, the overbase price would reach \$10.95 per cwt. if block cheddar and NFDM reached and held at \$1.31 and \$0.92 per lb., and butter averaged \$1.25 per lb.

Alert for members

The recent melamine tragedy that originated in China and the illnesses caused in animals due to melamine and cyanuric acid have caused concern among purchasers of dairy products. They are seeking assurances that we are aware of the dangers and are carefully monitoring the situation. We are getting some assistance with this through the U.S. Dairy Export Council. They are screening products to make sure that they do not exceed the established U.S. legal limits, and fortunately, no incidences have been detected so far.

We have also been informed that customers are screening our products to make sure there is no chance of a product seizure when exported to

another country. These product tests are being conducted at a sensitivity level that is twenty times greater than the U.S. standard.

How can our members help? We have been made aware that some chemical companies may be adding cyanuric acid to their formulations for chlorinated powder cleaners, teat dips and sanitizers. Please take a moment to review the labels of the products commonly used on your facility to see if any of the products you are using contain cyanuric acid. If so, we ask that you find substitutes for those products that contain cyanuric acid to minimize the risk of accidental contamination.

Second largest herd buyout

CWT has announced that it has tentatively accepted 294 bids in the latest herd buyout, representing 86,710 cows and 1.8 billion pounds of milk. This is the second largest buyout since CWT began operations in 2003. CWT has also accepted bids to remove 3,104 bred heifers. The 8th herd buyout was the first program to feature a maximum acceptable bid threshold of \$5.25 per cwt. CWT field audits will begin during the week of August 9th.



Dairy CARES Report

Fresno court makes right call; rejects demand for excessive attorney fees

Three years ago, San Joaquin Valley air quality officials adopted landmark regulations for dairies. Since then, dairy operators have cooperated to carry out the regulations, resulting in a nearly 30 percent decrease in emissions, just one of many recent valley efforts resulting in overall improved air quality.

Unfortunately, long before the new dairy rules were given a chance to work, anti-dairy activists sued the San Joaquin Valley Air Pollution Control District. Their amazing claim was that the most stringent dairy rules in the United States didn't go far enough. Calling themselves the Association of Irrigated Residents (AIR) and represented by San Francisco-based attorneys from the Center on Race, Poverty and the Environment, the activists claimed the air district actually broke the law by adopting the rule.

In fact, AIR made nine separate claims in legal filings against the district. Most of the claims were completely baseless, some close to unbelievable. For example, AIR actually charged that the regulations, known collectively as Rule 4570, were "arbitrary and capricious" and failed to reduce emissions. Nothing could be further from the truth. The air district:

- Held dozens of public meetings and workshops over the course of over a year to gather scientific evidence for the regulations;
- Partnered with the California Air Resources Board to con-

duct additional scientific research to better understand dairy emissions and how to reduce those emissions; and

- Formed a special stakeholder advisory group including scientists, environmentalists and dairy industry representatives to review the information and prepare a report to advise the district.

Ultimately, all nine claims made by AIR and CRPE were rejected by the court. However, a state appellate court reversed the lower court on one of those nine claims — essentially a procedural violation. While finding no fault with Rule 4570 itself, the court found that the air district failed to write a report on the health benefits of the rule.

To correct this, the air district completed the necessary report. That report concluded that Rule 4570 reduced emissions from dairies, improving air quality and contributing to better public health.

After dragging the air district through this expensive and ultimately pointless legal battle, which resulted in nothing more than a report confirming something everyone already knew, AIR then demanded that the court order the air district to pay the legal fees generated by its San Francisco-based attorneys over the course of a nearly three-year legal battle. **The staggering bill: \$483,627!**

Worse: because the air district is a government agency, this demand was ultimately about sending nearly half a million tax-

payer dollars directly into the pockets of San Francisco lawyers.

Thankfully, the court saw through this unfair demand. Said Judge Tyler Tharpe:

"The court is convinced that that an overwhelming number of those hours were spent on entirely unsuccessful labor intensive claims ..."

The judge also chided the supposedly San Joaquin Valley-based AIR because "no effort was made to retain local counsel. Accordingly, the court refuses to compensate at San Francisco hourly rates."

In the end, because AIR did prevail on one of the nine claims, the judge ordered the air district to compensate some of the legal fees. But the

amount awarded was just \$45,750, or less than 10 percent of what was requested.

Former Supreme Court Justice Lewis Powell famously remarked that America has become "the most litigious society in the history of mankind." Cases such as this one lift the veil on how the court process can be abused by activist lawyers supposedly acting in the interests of San Joaquin Valley residents, while actually embarking on a fund-raising crusade that ultimately wastes the time and resources of the air district, the courts and taxpayers, all of whom have better things to do with their time and resources.

Thankfully, at least this once, they were not richly rewarded.

News Briefs

▲ **It's Official** — On July 16, California Dairies Inc., Dairy Farmers of America, Inc. (Western Council), Land O'Lakes, Inc., and Security Milk Producers Association signed documentation to form the Western Milk Cooperatives Agency (WMCA). The purpose of the WMCA is to work together to find methods to more efficiently and cost effectively market the milk produced by their members and to more closely align the supply and demand for milk and dairy products in California. The cooperatives will begin immediately to identify synergies and operational efficiencies, particularly in the area of milk transportation, to accomplish its goals.

▲ **A Good Mix** — Children who eat plenty of dairy foods such as milk and cheese can expect to live longer, as suggested by a study conducted in the UK. Over 4,300 children from a 1930s study were traced 65 years later. Researchers found that the subjects with high dairy and calcium intakes as children had lower incidences of stroke and other causes of death. Furthermore, high consumption of dairy products did not raise the risk of heart disease.

MONEY TALK

MILK PRICES

August (So. California)

	2009	vs.	2008
Class 1	\$11.98		\$20.07
Class 2	\$10.70		\$16.76
Class 3	\$10.42		\$16.49
Class 4a*	\$10.20		\$16.24
Class 4b*	\$10.86		\$16.14

July

	2009	vs.	2008
Quota*	\$11.26		\$19.05
Overbase*	\$9.56		\$17.35

August

	2009	vs.	2008
Quota*	\$11.96		\$18.01
Overbase*	\$10.26		\$16.31

Commodity Prices • Butter

	2009	vs.	2008
7/3	\$1.1956		\$1.5519
7/10	\$1.1955		\$1.5340
7/17	\$1.2490		\$1.5360
7/24	\$1.2630		\$1.5360
7/31	\$1.2490		\$1.5470

Cheese (Block)

	2009	vs.	2008
7/3	\$1.1150		\$1.9238
7/10	\$1.1090		\$1.9075
7/17	\$1.1120		\$1.9540
7/24	\$1.1700		\$2.0470
7/31	\$1.2300		\$1.9605

Dry Whey (Dairy Mkt. News)

	2009	vs.	2008
7/3	\$0.3150		\$0.2800
7/10	\$0.3200		\$0.2800
7/17	\$0.3200		\$0.2800
7/24	\$0.3200		\$0.2800
7/31	\$0.3200		\$0.2800

Nonfat Dry Milk • CWAP

	2009	vs.	2008
7/3	\$0.8134		\$1.3741
7/10	\$0.8156		\$1.3508
7/17	\$0.8216		\$1.3776
7/24	\$0.8328		\$1.3627
7/31*	\$0.8400		\$1.3537

*Estimate

Quality Corner

Milk Quality Good... and Getting Even Better

It's always interesting to look at historic data and statistics and try to remember why things are the way they are now. Take milk quality for instance. Looking at the table presented below, it's easy to see that every test category has improved since the merger that gave rise to CDI 10 years ago. The year 2000 was the first full year of milk production for the Association, so we can use that year as the baseline.

YEAR	SPC	LPC	COLI	SCC x 1000	Rainfall	Factors
2000	4,100	110	50	264	12.91	
2001	5,000	108	53	275	10.56	
2002	4,300	101	45	269	7.03	◀ Bonus Program Enhanced
2003	4,100	94	46	267	9.80	◀ First CWT retirement
2004	4,700	93	50	243	7.58	
2005	5,100	81	62	271	15.84	
2006	4,700	81	54	224	14.56	
2007	4,400	80	49	212	6.03	
2008	4,400	79	50	215	8.40	◀ Production Base
2009	3,700	72	42	196	7.77	

Compare to average annual rainfall for Fresno at 11.23".

The table verifies that the quality of milk has improved in each category nearly every year. There have been a few years when the averages reversed course for one reason or another but in the course of the ten year period, there has been steady improvement.

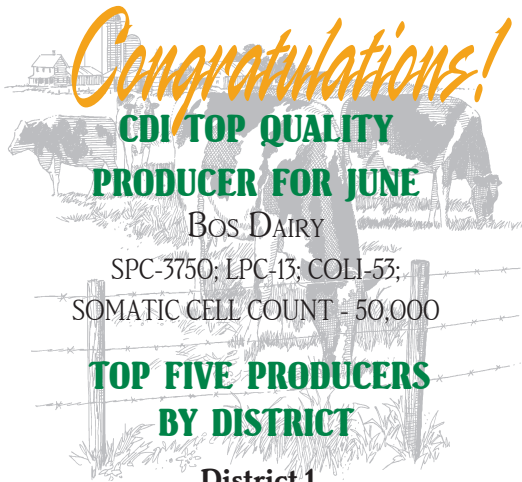
Why did this happen? Some of the credit should go to the milk quality program. Using the carrot-and-stick approach, this program encourages members to improve milk quality with financial incentives. A table listing bonus payments to members by year would show a similar yearly trend towards larger monthly payouts to members each year. In 2005, the top monthly bonus payout to members was \$179,035. In 2009, the top monthly payout (to date) was \$516,494 or 288% more. The signal to members from the quality program is perhaps the most significant reason for improvements seen, but there are other factors that have contributed to better quality milk at CDI.

Cooperatives Working Together (CWT) – This program has had a positive impact on milk quality by removing cows with chronic mastitis infections and associated high somatic cell counts. CWT began retiring cows in 2003, and seven such retirements programs have been conducted by CWT. In each retirement program, CDI has had several if not many herds participate in the buyout.

CDI Supply Management Program – In April 2008, members producing over their allocated production base began receiving penalties. Many members that found themselves over their base sold chronic mastitis cows in an effort to reduce production.

Weather – California has experienced a recent string of below average rainfall years. The first winter rains generally begin the gradual seasonal increase in somatic cell counts which continue until the corrals dry out in the spring.

While there may be other factors that have positively influenced milk quality over the past decade, the factors discussed above are the primary reasons. The quality of milk produced by CDI members has been outstanding for many years and continues to improve. Our members should take great pride in the fact they are producing the very best quality milk on the market today.



District 1

Lauren Duhalde Dairy, Frank Konyn Dairy, Desert View Dairy, Northview Dairy, Palla Rosa Farms Dairy #3

District 2

Twin River Ranch, South Creek Dairy, De Groot Dairy #1, Oakview Dairy, Elkhorn Dairy

District 3

De Groot Dairy, Golden Genes Inc., Souza Dairy #2, Fred Rau Dairy Inc.#2, Droogh Dairy

District 4

Freitas Brothers, Michel Ranch and Dairy, Joe/Renee Barroso & Sons, Rafael Pacheco, Antone L. Gomes & Son



**Introducing
New Board Member**

BJ Schoneveld

Last month, we began introducing the four new Board members who began their tenure in May 2009. This month we continue that process with the second short segment that features BJ

Schoneveld, Board member representing District 1.

BJ operates Lakeview Farms, a 3,850 cow dairy in the Bakersfield area with a 22,000 pound herd average. BJ has been in the dairy business for 19 years, originally starting with the Bouma Dairy in Chino. While growing up in Southern California, BJ attended the Ontario Christian School and then completed one year of study at Cal Poly San Luis Obispo.

BJ has served as a Director of Milk Producers Council and has served on the Council of Calvary Church. BJ and his wife Jolene have three children – Justine, John and Owen. BJ enjoys watching his children in sporting activities, and he takes pleasure in the occasional round of golf or pickup basketball game. BJ shares this thought about his election to the CDI Board of Directors: “It’s an honor to serve my peers as a Director of CDI. With many challenges ahead of us, my responsibility will be taken seriously as I educate myself to do the best I can for our membership.”

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