



Idaho Dairy



THE IDAHO DAIRY FOCUS IS BROUGHT TO YOU BY
IDAHO DAIRYMEN'S ASSOCIATION

focus

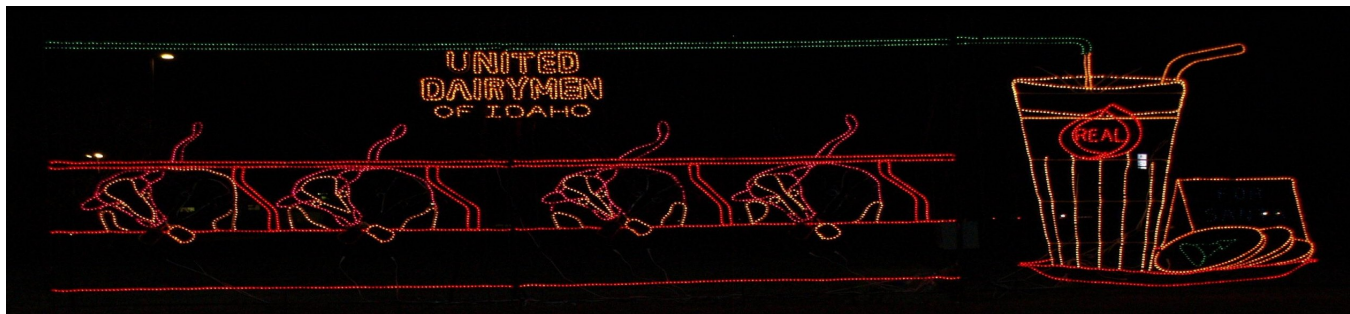
December 2009

The Idaho Dairymen's Association (IDA) was established to continue to develop and sustain an economically viable Idaho Dairy Industry that works together to achieve success in the domestic and global marketplace in meeting the needs of the Idaho dairy farm families.

Christmas Lights in the Night Time Sky.

The 24 foot long and 12 foot tall United Dairymen of Idaho Christmas light display seen below can be found at the Magic Valley Mall in Twin Falls, Idaho. This year the Mall started having a mile long light display around the outside of the mall. The light display started just before Thanksgiving Day and will run through New Year's Day. The displays were sponsored by different community businesses and organizations. Organizations that sponsored displays received gift cards to retailers in the mall. IDA donated their sponsorship gift cards to Main Street Ministries in Twin Falls to assist needy families in having a brighter Christmas.

On behalf of the United Dairymen of Idaho Board Members and the Staff we wish you a Merry Christmas may the Spirit of Christmas shine in your life in the coming New Year!



New Contributors to the Idaho Dairy Focus.

Starting with the last edition of the 2009 Idaho Dairy Focus we will have contributions from two new sources. We are adding a section that will be titled **“View from the Board Room”** this column will provide a forum for the President of the Idaho Dairymen's Association or other United Dairymen of Idaho board members to express their point of view on current issues being addressed in the board room or issues that the industry is focusing on. Mike Roth, newly elected President of IDA is this month's author.

We are adding a new section titled **“Washington DC View Point”** with contributions being provided by Jim Tillison Sr. Vice President and CWT Chief Operating Officer NMPF. The Idaho Dairymen's Association is an associate member of National Milk Producers Federation (NMPF). The NMPF is a federation of dairy cooperatives dedicated to have influence on national dairy policy.

View from the Board Room

by Mike Roth IDA President

I want to talk to you about Elanco a great company that just made a significant contribution to the national dairy industry. But before we have that discussion let me update you on why I'm even writing this column.

At the Idaho Dairymen's Association (IDA) portion of the United Dairymen of Idaho (UDI) November board meeting, I was elected to serve as your new president. I would like to thank the IDA board for their vote of confidence and I will do my best to fulfill the duties as your president. UDI is made up of IDA and the Idaho Dairy Products Commission (IDPC). There are nine dairy producers from each organization (IDA and IDPC) who make up the 18 member UDI board. We as Idaho dairy producers are well served by two exceptional executive directors. Deanna Sessions on the IDPC side and Bob Naerebout on the IDA side.

As a united board we seek to promote Idaho dairy farm families product; milk through IDPC. We also serve to protect our right to produce our product in an atmosphere charged with excessive regulation, environmental activist groups more interested in suing than having a positive impact on the environment and legislative issues through IDA and its affiliates. We have a strong board of directors, some of which hold national positions with the charge to oversee how our check-off dollars are spent nationally.

This has been the most difficult year financially most of us have ever endure. There is light at the end of the tunnel and your board is here to keep UDI moving in the right direction. Out of 585 dairy operations in the state, approximately 100 attended our recent annual meeting. I know there are more of you who could make a difference to this organization and I welcome your comments either by email mjrdairy@hotmail.com or phone (208) 324-0322.

Now why am I excited about Elanco? Two weeks ago a delegation from Idaho that included fellow dairy producer Lou Murgoitio; Rich Garber and Mary Hasenoehrl from the University of Idaho,

Greg Ledbetter from the IDEAL Foundation, Bob Naerebout and I traveled to the Elanco's home office located in Indianapolis, Indiana to solicit funding for the IDEAL Foundation to be used for Idaho National Center for Livestock and Environmental studies (INCLES). We spent two (2) days with Elanco learning about their operations and presenting the vision of INCLES. Elanco's interest in such a project is because they make numerous products that livestock producers use daily. A few that impact the dairy industry would be Rumensin, Micotil and Bovine Somatotropin (rbST).

Our meeting was with several Elanco administrators and marketing specialist including Rob Aukerman Elanco's President of U.S. Operations. Rob was raised on a dairy farm in Hickory Corners Michigan and has a great understanding and appreciation for the dairy industry large and small no matter what region of the nation you are located in.

This past week Rob Aukerman gave us a Christmas gift when he made a commitment for Elanco to the IDEAL Foundation for a minimum of \$50,000 per year for 5 years. That pledge commitment puts the IDEAL foundation over \$1,000,000 in pledges to date. We have an internal goal of having \$5,000,000 in pledges for the IDEAL Foundation by the fall of 2010 and an additional \$5,000,000 by the fall of 2011. In addition Rob made a personal pledge to assist the IDEAL Foundation in our efforts to raise funds by contacting other organizations that are similar to Elanco on our behalf and opening doors so those companies are made aware of the opportunities to participate in INCLES, which will be the premier environmental livestock research facility in the United States.

On behalf of the Idaho dairy industry I want to provide a special thanks and to all of the individuals at Elanco who made this commitment a reality. I would also like to take this opportunity to thank our other significant contributors to the project, Glanbia Foods and Northwest Farm Credit who each also have made a commitment of \$50,000 for 5 years.

Annual Meeting Approves Policies on Milk Marketing

It is not surprising that in a year of record low prices that the majority of the IDA policy revisions focused on milk marketing. The opening statement of the Marketing Policy was revised to recognize that "it is in the best interest of all agricultural commodities for the government to withdraw price support mechanisms that create price floors, caps supplies or creates artificial demand for agricultural commodities". It continued on to allow for IDA involvement at all levels that influence milk marketing policy by stating "the Idaho Dairymen's Association believes that it is in the best interest and essential for the profitability of dairy producers to provide leadership that develops and maintains unity within the national dairy industry. Recognizing, eliminating government programs from agriculture is a long term process the IDA will work with state, regional and national organizations to facilitate unity within the dairy industry while working within the existing and proposed government programs put forward to insure the long-term financial health and stability of the Idaho dairy industry". Not all of the proposed resolutions passed below is the membership directive on the proposed resolutions and revisions to current policy.

Supply Management: The approved policy clarified the IDA positions on Supply Management the policy now states; "Idaho Dairymen's Association, Inc. supports industry controlled and voluntary industry funded supply-demand management programs. The IDA will oppose all government mandated supply – demand programs that have not received support from a super majority vote by individual producers. We will promote and serve as the vehicle for input, discussion, consideration, direction and formulation of ideas."

Block Voting The membership approved a policy position that opposes block voting on government referendums. Due to the consolidation of the dairy industry block voting on government referendums, such as mandatory supply management, concentrates too much power in the hands of a few organizations. Those issues are important enough, particularly when additional assessments are being considered, that individual producer's voices need to be heard. The new policy will read; " IDA will work towards the elimination of and stand in opposition to the practice of block voting by cooperatives on government referendums."

Lowering Somatic Cell Count (SCC) The membership approved lowering the Idaho SCC standard to 500,000 from the current state and national standard of 750,000. After the 2010 legislative session ends the IDA will request the Idaho State Department of Agriculture to start the negotiated rules process to revise the current rules to reflect the approved policy. In addition IDA will lobby those organizations and regulatory agencies that participate at the next National Conference of Interstate Milk Shippers to amend the Pasteurized Milk Ordinance to set the national standard at 500,000 SCC.

Tariffs on All Milk Products – Imports Surprisingly a proposed resolution directed at imports such as Milk Protein Concentrates (MPC) **failed**. It was the feeling of the Resolution Committee and the UDI board that a loophole in the U.S. dairy sector pertaining to imported dairy products allows certain dairy proteins into the U.S. and those products can be utilized in production of dairy products and displaces American made products. Clearly the importation of those products under tariff at any level is disruptive to U.S. farm level prices.

Idaho Dairy Products Commission (IDPC) The policy language pertaining to IDPC was strengthened to be more descriptive of the key role IDPC plays in partnering with dairy and food industry leaders, innovators on nutrition, research and marketing. In addition IDPC is key on driving programs to reach children to reverse the long-term downward trend of fluid milk consumption by protecting and promoting dairy's place in the school arena through programs that encourage fitness and good nutrition. In addition IDPC's mission drives them to protect the image of dairy products and dairy farmers through a comprehensive image and crisis plan to ensure that consumers have confidence in the dairy products they buy for their families.

After January 15, 2010 you can find all of our updated policies out on our web www.idahodairymen.org.



Jack Davis

A round of applause and a heartfelt thank-you goes out to Jack and Jayne Davis. After over 30 years of dedicated service to his fellow dairymen, Jack Davis of Kuna has retired from the board of the Idaho Dairymen's Association. It is through efforts by Jack and other dedicated board members throughout the years that help guide the United Dairymen of Idaho and establish the organization as a viable representative for all Idaho dairy producers. A special thanks to Jayne, Jack's sweetheart since high school, for allowing us to use Jack's immense talents in directing our organization for so many years.

Jack is not completely leaving the board room he will still be representing the Idaho dairy producers and all livestock owners on the Idaho Brand Board. Thanks Jack, your influence will be missed.

Idaho Brucellosis Positive Herd, Dr. Bill Barton Idaho State Veterinarian

On November 20, 2009, Idaho received positive *Brucella abortus* (biovar 1) culture results on a beef cow from eastern Idaho. The cow was discovered following routine trace-back herd testing for a slaughter reactor. The positive cow was a 15 year-old, Strain 19-vaccinated beef cow. The herd of origin is a herd of approximately six hundred beef cows that had been assembled over the past two years from sold-out herds in and near the Idaho Designated Surveillance Area for brucellosis.

On December 7, 2009, a second cow from the same herd was reported to be culture positive. A third serological suspect was identified during the whole herd test and milk samples have been submitted for culture with results pending. All other cattle in the affected herd have completed testing and are currently under quarantine.

The epidemiological investigation is ongoing and potentially exposed herds are being tested. The National Veterinary Services Laboratory is conducting further typing on the two positive cultures in an attempt to determine a common source of infection. Additional information will be released as the investigation progresses. Because the infection is currently confined to one herd, **Idaho is still Brucellosis Class Free** at this time. State Veterinarians have been notified, so new brucellosis testing requirements may be instituted by some states. As always, check with the destination state concerning test requirements before exporting cattle.

We will keep you updated as the epidemiological investigation continues. Please remember that Idaho law requires that all beef and dairy heifer calves must be officially calf hood vaccinated for brucellosis between 4 and 12 months of age.

From the Author Jim Tillison, Chief Operating Officer CWT, Sr. Vice President NMPF.

I appreciate the opportunity to provide the Idaho dairy industry with a update on issues NMPF is engaged on in Washington for the new section "Washington DC View Point", it will be a great venue for NMPF to provide information directly to the Idaho dairy industry. This month we will cover two areas the first being CWT, what it has done, is doing and will be doing to enhance and maintain dairy producers' profit margins. The second is taking a look at what impact dairy imports have by providing the NMPF 3rd quarter "Import Watch." As was demonstrated this past year we are now part global dairy economy and exports and imports directly impact American dairy producers particularly in a state like Idaho.

Just a quick reminder on CWT, it exists not for dairy farmers who want to leave the dairy business, it was created and all of the actions it has taken since 2003 have been done for those dairy owners who want to stay in the dairy business. I encourage you to go to our website – www.cwt.coop – and view the [NMPF/CWT 2009 FOUNDATION FOR THE FUTURE VIDEO](#).

Your participation and that of every Idaho dairy producer in CWT is critical to its continued operation and effectiveness. Frankly, CWT fits the basic principles of IDA – it is a non-government, voluntary program run by dairy producers for dairy producers. Membership information is available on the CWT website and I urge you to begin making your investment today.

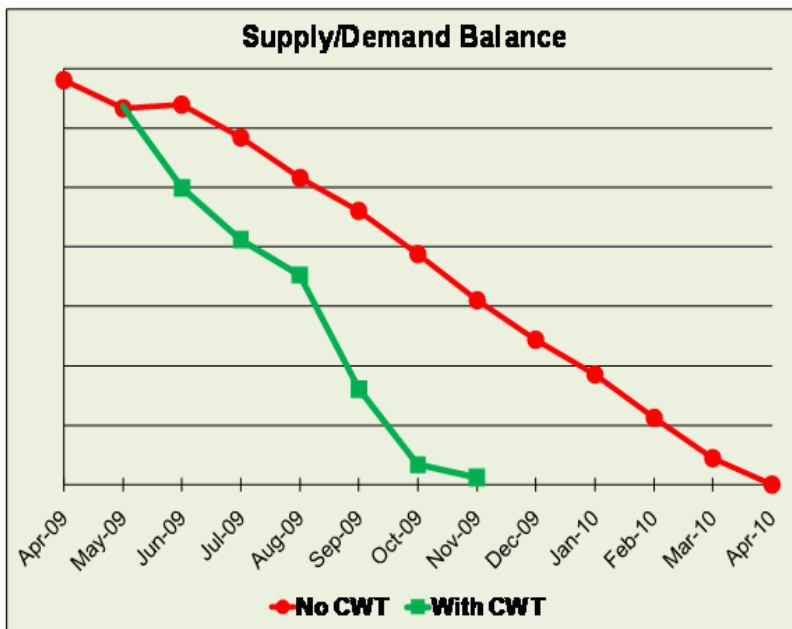
CWT's Decisive Action Turns Prices Around

Multiple Herd Retirements move milk price up

Heading into 2009, CWT staff had determined that decisive action would need to be taken to reverse the plunge in milk prices. CWT economists estimated that, due to the global economic recession that was dramatically reducing demand, over five billion pounds of milk production capacity would have to be removed in order to significantly accelerate milk price recovery.

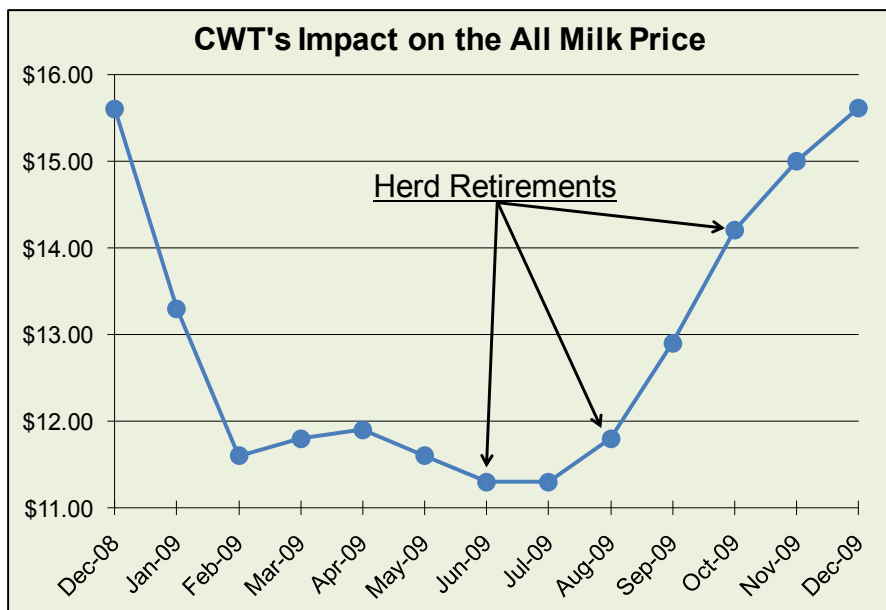
CWT had implemented two herd retirements in the second half of 2008 that removed over 75,000 cows that would have produced 1.4 billion pounds of milk in 2009. However, to get the job done, CWT member cooperatives and individual producer members, representing 67% of U.S. milk production, were asked to make a two-year investment commitment at 10¢ per hundred-weight. With that commitment, CWT was able to secure the financial resources and take actions that would move the milk price recovery timeline up by six months.

Starting in the spring of 2009, with the resources secured, CWT began implementing a series of herd retirements that over a period of six months would remove an additional



201,000 cows that would have produced four billion pounds of milk a year. The five programs implemented beginning in 2008 retired a total of 276,000 cows, 5700 bred heifers and 5.4 billion pounds of annual milk production.

These actions, made possible by the financial commitment of tens of thousands of dairy farmers, have in just a matter of months moved milk prices for all producers back to where they were a year ago.



*December 2009 All Milk price is an estimate.

The beauty of CWT herd retirements is that the impact of each herd retirement lasts several years. Each herd retirement completed builds on and adds to those that have been carried out before as the chart prepared by Dr. Scott Brown of the University of Missouri and the Food and Agricultural Policy Research Institute shows

.For example, the average impact on the All Milk Price in 2009 of \$1.50 per hundred-weight, shown in this chart, is the result of the 2007 herd retirement, the two 2008 herd retirements and two of the three 2009 herd retirements. Since cows taken in the third herd retirement of 2009 may not all have gone to processing, its impact is not yet included in Dr. Browns's analysis.

While others talked about what to do the next time milk prices crash, Cooperatives Working Together, a program of the National Milk Producers Federation, took action that addressed the current situation. Because of that action all dairy farmers milk prices are recovering.

CWT needs members to build membership

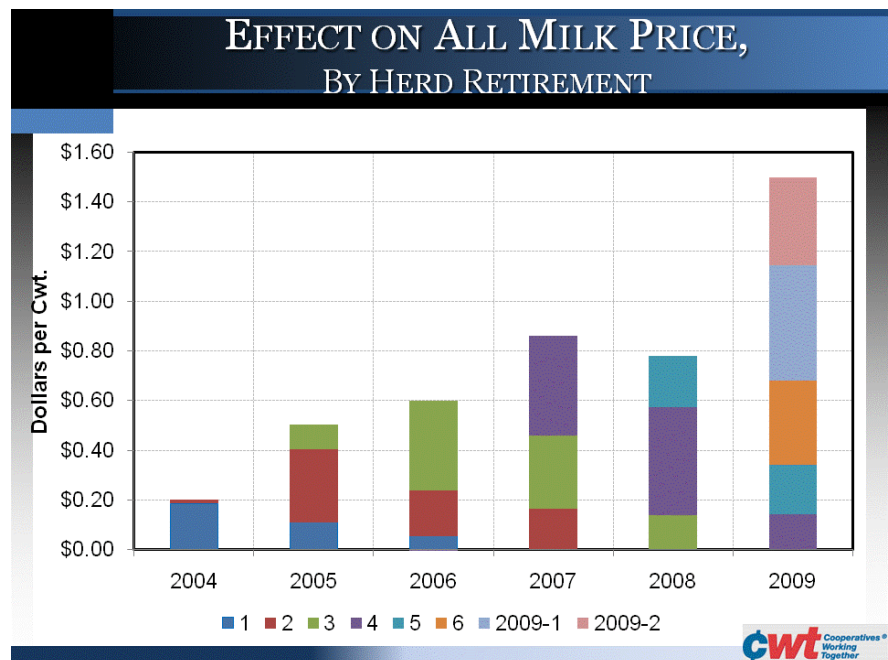
More participation needed for CWT to be more effective in 2010 and beyond

The members of CWT are making an all-out effort to increase dairy farm participation in CWT. Currently 35 cooperatives and approximately 400 individual producers representing 67% of the U.S. milk production are investing in CWT. However, all dairy farmers are benefiting from CWT's actions.

If CWT is to continue to act for the benefit of all dairy farmers, it needs all dairy farmers to be investing in CWT. Half of the 50 largest cooperatives, representing 23 billion pounds of milk, are not currently participating in CWT. In the next two months each will be contacted by the producer-chairmen of CWT member cooperatives asking those cooperatives to get on board.

There are many producers who are not members of a milk marketing cooperative who are not members of CWT as well. Many don't know much about CWT and have not received membership information. What is needed is for every CWT member-producer to talk to a producer who is not a member of CWT. Chances are that every member has a neighbor or dairy-farmer friend who is not a member of a cooperative. Dairy farmers need to talk to dairy farmers about joining CWT.

There is a misconception that CWT is a program for producers who want to exit the dairy industry. The fact is CWT exists for dairy farmers who want to stay in business and produce milk profitably. CWT can only continue to do that if every member gets a non-member to join.



EPA Proposed NPDES CAFO Permit: The Basics

EPA is proposing to reissue a National Pollutant Discharge Elimination System (NPDES) general permit for concentrated animal feeding operations (CAFOs) located in Idaho. CAFOs located in Indian Country are also eligible for coverage under the proposed permit. As proposed, if your facility meets the definition of a CAFO (http://www.epa.gov/npdes/pubs/sector_table.pdf) and discharges, or proposes to discharge to surface waters, you must apply for a permit. A CAFO proposes to discharge if it is designed, constructed, operated, or maintained such that a discharge will occur.

The proposed permit adds additional requirements contained in the revised CAFO regulations which became effective December 2008. Producers seeking coverage under the proposed permit are required to submit their nutrient management plan (NMP) along with their Notice of Intent (NOI) to EPA. EPA will review the NOI and NMPs and will establish the terms of the NMP that will become enforceable

elements of the permit. EPA is required to provide the public an opportunity to review and comment on the NOI, NMP, and draft terms of the NMP incorporated into the permit and EPA will public notice this information on the EPA Region 10 website.

EPA is currently accepting public comments on the proposed permit and the public comment period will end on January 19, 2010. Written comments may be submitted to EPA Region 10's CAFO Coordinator, Nick Peak, through email at peak.nicholas@epa.gov, or by mail to the Director, Office of Water and Watersheds, U.S. EPA, Region 10, 1200 6th Avenue, Suite 900, Seattle, WA 98101. In addition, the public can submit comments by fax to Nick Peak at 208-378-5744.

The proposed permit can be downloaded from EPA Region 10's website at http://yosemite.epa.gov/r10/water.nsf/NPDES+Public+Notices/cafo_id_09. If you would like to request copies of the proposed permit or have any additional questions, please contact Nick Peak at 208-378-5765 or peak.nicholas@epa.gov.

About the Author

Nick Peak is EPA, Region 10's Regional CAFO Coordinator and has worked for EPA, Region 10's Idaho Operations Office since June, 2007. Prior to working for EPA, Region 10, Nick worked for the Water Enforcement Branch at EPA, Region 7 for two years as the Co-coordinator of the Storm Water Enforcement program. Nick attended the University of Kansas and graduated with a Bachelor's of Science degree in Environmental Studies and a Master's Degree in Environmental Science. Nick is a native Kansan and was born and raised in Manhattan, KS.

Nick Peak
EPA, Region 10
Idaho Operations Office
208-378-5765

New IDA Officers Elected

The IDA officers were elected at the November Board meeting, the officers serve a one (1) year term. The officers are; Mike Roth, Si-Ellen Dairy, President; Tony Vander Hulst, Westpoint Dairy; Vice – President and Rick Onaindia, Bettencourt Dairies, Treasurer.

Changes to the Progressive Dairyman

Have you heard? *El Lechero*, the side-by-side Spanish/English Companion magazine to *Progressive Dairyman* will no longer come as an insert. Starting in 2010, *El Lechero* will be mailed as a separate publication and you will only be able to receive it if you let us know.

Producers and allied industry alike will be able to request as many free copies as they can use within their organization. So, if you feel you would benefit from receiving a free subscription to *El Lechero* and would like to continue to receive it, please let us know on or before January 8th you can subscribe on-line at www.progressivedairy.com/subscribe, or call 208-324-7513.

Lab Testing

Since 2006 the Idaho State Department of Agriculture has conducted quarterly checks on the labs that test milk for producer payments. This action is normally the function of the Federal Milk Marketing Order (FMMO) Administrator but when the Federal Order was eliminated in Idaho the state took on the responsibility. Simply put the ISDA now oversees the labs to make sure there is accuracy in their testing similar to other state agencies, make sure that there are accuracies in weights and measures, like at gas stations with the state certification of accuracy stamp on each pump.

Currently ISDA will deliver samples to the labs on a quarterly basis. Twelve (12) samples are used and the numbers we print are each lab's testing result of those samples. ISDA acquires samples with a known value from the FMMO.

Obviously printing the outcome of the lab samples creates an opportunity for controversy over the accuracy of the methodology on how the state is performing this valuable task. Some labs still sell milk into areas where they are also subject to FMMO regulations on testing, which indicate different end results than what the state tests are indicating. In addition some producer organizations run split tests on all milk sold to a processing plant as a check and balance with the difference being averaged between the organization and the plant. Those tests also show some significant discrepancies than what the state testing is demonstrating.

The UDI board along with ISDA find that the "spot" checks are very useful and needed but the concerns raised are legitimate and need to be evaluated. To start the process of addressing those concerns ISDA is holding a meeting on Jan. 13th with laboratories that participate in the butterfat/protein testing program. Federal Milk Market staff from Seattle will be present as we seek input to identify possible weaknesses in the existing program and sound modifications if warranted. In addition the Industry Relations Committee of IDA will also be having a meeting in Boise on January 14th with ISDA and representatives from FMMO to cover the issue and evaluate solutions identified.

To address some of the processor's concerns that each test printed only shows a specific moment in time and does not statistically provide a true representation of the lab's accuracy, beginning with this issue we will also be providing a running average of all the samples taken since July of 2006 to provide a more complete overview of the test. *Note: On fat the tolerance is +/- 0.047; on Protein it is +/- 0.044*

October 2009	FMM	DHIA	HIGH DESERT LAB	CRI NWL	DARIGOLD	DFA	GLANBIA	GOSSNER	Jerome Cheese	SARTORI	SORRENTO LACIALIS
Protein	-0.01	-0.02	-0.059	-0.051	0.00	-0.071	-0.02	-0.040	-.151	0.03	-.042
Fat	0.00	0.03	-0.03	-0.01	0.01	-0.068	0.01	-0.01	-0.03	0.04	0.00

3 Year Average	FMM	DHIA	HIGH DESERT LAB	CRI NWL	DARIGOLD	DFA	GLANBIA	GOSSNER	Jerome Cheese	SARTORI	SORRENTO LACIALIS
Protein	-0.009	0.001	-0.020	-0.036	-0.002	-0.029	-0.019	-0.005	-0.020	0.001	-0.020
Fat	-0.007	0.021	-0.011	0.012	0.020	-0.007	-0.023	0.009	-0.001	0.017	0.009



Import Watch

Third Quarter 2009

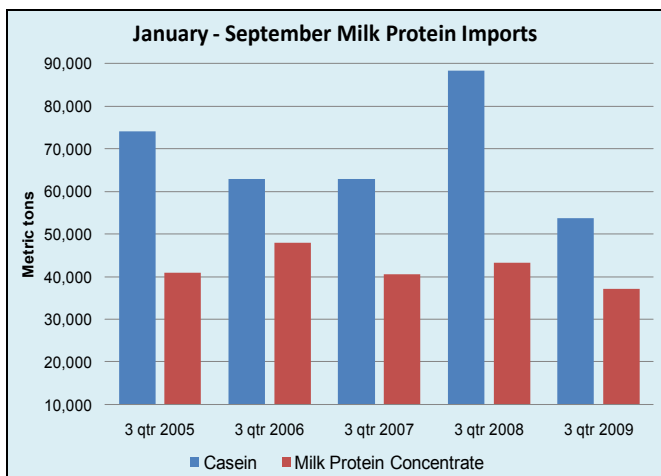
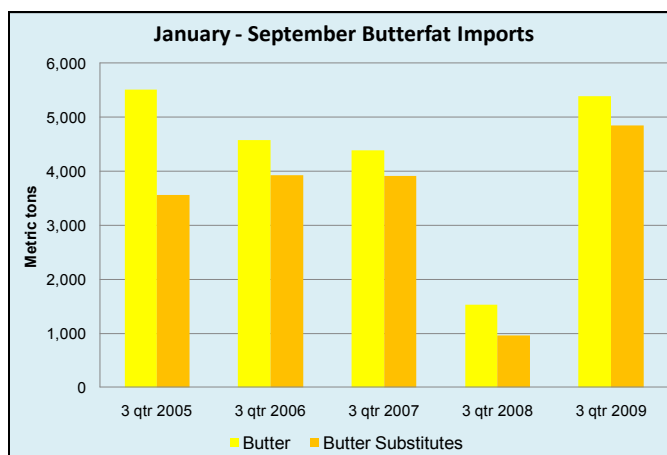
Imports of some products drop dramatically

The third quarter of 2009 saw a significant decline in imports of some of the dairy products *Import Watch* monitors. Imports of other dairy products continued to register gains over year earlier levels, but remained below the average of prior years.

Imports of milk proteins down

Imports of casein and milk protein concentrates (MPC) were down 42% and 21%, respectively compared to the level imported in the third quarter of 2008. Through the first nine months of 2009, imports of casein and caseinates are down 39% and MPC imports are down 14% compared to the first nine months of 2008. Both products are also down compared to the previous four years as well.

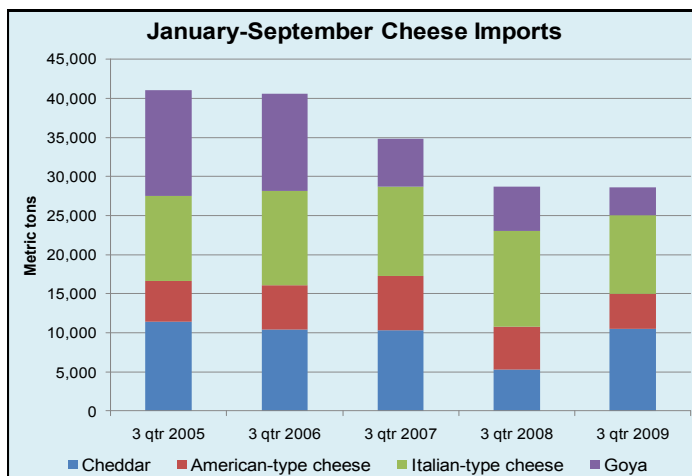
The drought in Oceania combined with the strong demand for butterfat in Asia and the Middle East pulled butterfat away from U.S. markets. A prime example



of this situation was the exports of butter and AMF from the U.S. in 2008, which were nearly 15 times the annual average of the previous eight years. Cooperatives Working Together (CWT) played a major role in this assisting members in exporting over 32,000 metric tons of butter and AMF.

Cheese imports

Of the four cheeses *Import Watch* tracks, only Cheddar is up in both the third quarter and for the nine months of 2009 compared to 2008.



Butterfat imports are up in 2009

Imports of butter and butter substitutes (butter oil and anhydrous milk fat) were up significantly in the first nine months of 2009 compared to the same period in 2008, 269% and 428% respectively. However, percentages can be deceiving.

Imports of butter and butter substitutes were down dramatically in 2008 compared to the previous three years as well as 2009, as the following graph shows.

Commodities [Annual Quota] (2009 Safeguard Level)		Jan-Sep 2009 Metric Tons	Jan-Sep 2008 Metric Tons	Jan-Sep 2008-09 Growth Rate	% of 2009 Quota/Safeguard Reached*
QUOTA PRODUCTS					
Butter					
In-quota	[6,977 MT]	5,073	1,376	269%	73%
Over-quota		314	159	97%	
<i>TOTAL</i> ¹	(7,514 MT)	5,387	1,535	251%	59%
Butter Substitutes (Butteroil & AMF)					
In-quota	[6,080 MT]	4,434	839	428%	73%
Over-quota		414	119	248%	
<i>TOTAL</i> ¹	(6,542 MT)	4,847	958	406%	68%
Cheddar					
In-quota	[13,256 MT]	10,804	4,694	130%	82%
Over-quota		528	560	-6%	
<i>TOTAL</i> ¹	(12,279 MT)	11,333	5,254	116%	70%
American-type Cheese					
In-quota	[3,523 MT]	2,380	2,238	6%	68%
Over-quota		2,061	3,327	-38%	
<i>TOTAL</i> ¹	(8,841 MT)	4,441	5,565	-20%	44%
Italian-type Cheese					
In-quota	[13,481 MT]	6,694	6,777	-1%	50%
Over-quota		3,364	5,399	-38%	
<i>TOTAL</i> ¹	(23,312 MT)	10,059	12,176	-17%	43%
Food Preparation					
In-quota	[4,105 MT]	3,173	3,018	5%	77%
Over-quota		25,161	14,604	72%	
<i>TOTAL</i> ¹	(52,093 MT)	28,334	17,622	61%	53%

1. Special Safeguard tariffs can be imposed when total imports, both in-quota and over-quota, exceed the applicable trigger level.

**Neither the Safeguard Level nor the % of Safeguard Level include countries with which the U.S. has FTAs.*

However, the metric tons of product imported do include product from countries with which the U.S. has FTAs.

Commodities	Jan-Sep 2009 Metric Tons	Jan-Sep 2008 Metric Tons	Jan-Sep 2008-09 Growth Rate	Jan-Sep 2006-09 Growth Rate
NON QUOTA PRODUCTS				
Butter Substitutes (<45% Butterfat)	2,102	686	206%	-79%
Casein	53,708	88,365	-39%	-15%
MPC (more than 40%, less than 90% protein)	30,721	33,554	-8%	-25%
MPC (90% or more protein)	6,455	9,772	-34%	-9%
Total MPC	37,176	43,325	-14%	-22%
Chocolate Block	25,874	65,273	-60%	-69%
Goya Cheese	3,584	5,663	-37%	-71%
Mixes and Dough	105,516	114,651	-8%	-3%

Import Watch is published quarterly by the National Milk Producers Federation. Issues covering the following time periods will be available by the following dates:

- 4th Quarter 2009, March 2010
- 1st Quarter 2010, June 2010

- 2nd Quarter 2010, June 2010
 - 3rd Quarter 2010, December 2010
- Please contact Jim Tillison, Senior VP Special Projects, with questions and comments at jtillison@nmpf.org or call 703-469-2375.



www.downesoneill.com - www.dairy.nu

Listen to Everyone, But Act on Your Own

by Dave Kurzawski

While 2008 was a tale of two cities with both high milk prices and high feed prices, 2009 was something truly special. \$10 milk and \$4 corn (or higher if clocked in 2008) turned made a mockery of historical market analysis. Conventional wisdom was turned on its fat, ugly head and we in the dairy industry spent many seemingly hopeless months discussing and debating the plight of the U.S. dairy producer. It wasn't long ago that one could easily spend a half hour discussing how many cows needed to be removed or dairymen go out of business before the situation would change from bleak to bearable. Although the hole of debt and despair is deep, prices have turned around and the situation doesn't look so miserable – at least for milk producers. Since early November talk has turned more to the plight of the barrel cheese manufacturer. We've begun to focus less on the milk supply situation and more on the demand side for cheese and nothing could be more confusing. Just look at the market. Since Nov. 11, 2009, there has been a double digit spread between the price of block cheese and barrel cheese at the Chicago Mercantile Exchange (CME). That spread has widened to 20 cents or greater since Dec. 2. This is the longest duration of that kind of divergent cheese pricing on record. And while the impact of such a spread may not be felt directly on the dairy, barrel manufacturers are up against a wall. They buy based on the block price and sell based on the price of barrels and are losing money even before the milk is off the truck.

Currently, there seems to be another round of "the block cheese price will fall" swirling amongst traders as history tells us that it is the way these types of out-of-whack cheese spreads realign. It is a logical argument and one that appears healthy for the market, but at this time – only days in front of Christmas - we have no indication that that will be the way this plays out. Given current international prices and anecdotal demand information for fresh block cheese, we suspect that the CME spot block price is on solid footing.

Additionally, should manufacturers see a sustained uptick in dairy product demand both domestically and abroad, it will have begun at precisely the same time as we have jeopardized our plentiful milk supply in this country. Milk production is in negative growth mode and that does not appear to be changing anytime soon. We've finally seen depressing dairy farm prices take their toll on the milk supply.

So, considering the unusual and unprofitable (for the barrel makers) cheese spread and the lack of milk out west, the question is: Will we divert enough cheese milk to butter/powder to shore up our weak barrel price situation before fresh block demand dwindles? After all, there appears to be interest in a marginal shift to butter/powder production in the Midwest. Should there be a meaningful shift over the coming weeks and should demand for fresh natural American block cheese remain firm, then both cheese and milk could become quite a bit more expensive quite a bit sooner than most think.

What do most think? Right now, most people guess that the price of milk will trend sideways to lower over the coming months. In fact, there appears to be a growing wisdom that the time period most susceptible to a substantial price increase for milk — and cheese — is the second half of next year. And if you were to look at our current cheese inventories and then consider our future milk supply, this argument makes a great deal of sense. But we also remember how conventional wisdom told us that real estate values "never go down" and 2009 should see an average of \$18 milk. Conventional wisdom is a fickle and dangerous thing.

So, while our Christmas wish is for all dairymen to have a healthy and more profitable 2010, our New Year's resolution is to remember that conventional wisdom is more about making us feel comfortable with a logical conclusion than with what will necessarily happen. We've learned over the past year and if nothing else we should realize that it is important to consider what the crowd thinks, but it is more important responsibly protect your dairy on your own ability to bring profit home.

Have a safe and happy holiday.



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Upcoming Meetings

January 11th	Idaho Legislative Session Begins
January 14th	Industry Relation Committee and IDEAL Board of Mangers – Boise
January 17th-20th	International Dairy Food Annual meeting
January 25th-29th	Western States Dairy Producers Trade Association meeting – Washington DC
TBD	District area meetings covering EPA NPDES permits and additional legislative issues.



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