



Idaho Dairy

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

focus

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

March 2009

District Meetings Cover EPA and Dairy Market Outlook

The IDA district meetings were well attended with over 230 dairy producers being provided updates on new EPA regulations and Dairy Market Outlooks. Special thanks are extended to Mike Brown of Glanbia Foods, Jon Maughan and Steve Miller of Northwest Farm Credit, Greg Yando of Dairy Farmers of America, Dermot Carey of Northwest Dairy Association, and Bill Brooks of eDairy.

All the information provided at the meeting is available to you at www.idahodairymen.org

Although you have the ability to review the material presented by visiting the website the full flavor of what was being presented along with the question asked by producers will be missing, so here is some thoughts expressed by dairy market panelist.

(Continued on page 6)

Water Curtailments

The 2009 planting season is starting off with threats of water curtailments in the Eastern Snake Plain Aquifer that could impact up to 41,000 acres of irrigated farm ground. The commercial livestock rights for dairy producers that sought protection under the Idaho Dairy Water and Land Trust (IDWLT) in 2007 are protected under that mitigation agreement, and are not subject to the curtailment. In 2009 more livestock wells were curtailed than in 2007, our research indicated that over 177,000 mature dairy animals would be subject to curtailment without the protection offered through the IDWLT. That is 55,000 more than in 2007 and those producers who received curtailment notices in 2009 who did not participate in the 2007 mitigation agreement will be provided an opportunity to seek protection through the IDWLT.

We recognize that this is a year that producers are financially stretched to the breaking point and the UDI board, who oversees the IDWLT, is committed to providing a protection with the smallest investment from producers as possible. Currently we are waiting for direction from the Idaho Department of Water Resources Director Dave Tuthill on the volume of water we will need to provide in 2009, and if the proposal on how that water will be provided is acceptable.

A meeting will be scheduled when more details are available for the impacted producers.

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IMPACTS OF EUROPEAN STARLINGS and PIGEONS on DAIRY OPERATIONS – PART 2: Potential Disease Threats

George Graves, Assistant State Director, and Scott Stopak, Wildlife Disease Biologist, USDA, APHIS, Wildlife Services, Boise, Idaho

There are about 25 animal and human diseases associated with European starlings (*Sturnus vulgaris*) and pigeons (*Columba livia*) and these birds may be responsible for transferring diseases from one dairy to another. Source of disease transmission to cattle can be direct consumption of bird fecal material deposited in the feed, drinking water or possibly from the disease agents being carried on the feet of the birds. There is strong evidence that starlings harbor dangerous organisms and they contribute to the spread of these pathogens between dairies. Some of the most important of these diseases to dairy producers are salmonella, avian tuberculosis, Johne's Disease and *Escherichia coli* 0157-H7.

Salmonella is a bacterial disease and in cattle tends to be intestinal, but generalized infections can also occur. There are about 80 different types of Salmonella that cause infection in cattle. Starlings and pigeons can transmit Salmonella by direct contact with cattle, or by cattle consuming bird fecal-contaminated feed or water or by inhalation.

Avian Tuberculosis (AT) is a bacterial disease caused by *Mycobacterium avium* that can impact dairy producers. AT is a disease primarily in birds that can be transmitted to dairy cattle through direct contact with feces, consumption of feed contaminated with starling droppings or through inhalation. It generally causes no lesions, or only nonprogressive lesions in lung lymph nodes in cattle, and may also cause mastitis. The major problem resulting from AT is that it can give false-positive test results when testing for bovine tuberculosis which is a very serious disease. False-positive test results can result in the dairy being quarantined, while confirmatory procedures are performed.

Johne's Disease (pronounced "yo-knees") is an incurable wasting disease of adult cattle that is being increasingly recognized in the U.S. It is caused by the bacterium *Mycobacterium avium paratuberculosis* and is often called by the acronym *MAP*. It is an infectious disease of livestock that primarily affects the intestinal tract, and once clinical signs of the disease appear, the animal will not recover and will

continue to deteriorate until it dies. Johne's disease is a close relative of *M. bovis* which causes tuberculosis (TB) in humans and animals, but Johne's disease does not cause TB. It is speculated that birds may play a role in the transmission of *MAP*.

E. coli are a large and diverse group of bacteria. Some kinds of *E. coli* can cause diarrhea, while others cause urinary tract infections, respiratory illness and pneumonia, and other illnesses. The most common and serious toxic *E. coli* identified in North America is 0157:H7. *E. coli* live in the guts of ruminant animals, including dairy cattle. Exposures that result in illness include consumption of contaminated food, contaminated raw milk or products made from raw milk, and contact with cattle or infected fecal material. Recent research has shown that starlings can serve as a vehicle to disseminate this pathogen from dairy to dairy.

Histoplasmosis is a fungal disease caused by *Histoplasma capsulatum* and is associated with starling and pigeon roosts. People, cattle, dogs and cats are susceptible to this disease and children are more susceptible to this fungus than any other mycotic infection. It can be fatal in humans. Accumulation of bird droppings in the soil from starling and pigeon roosts over a period of 3 or more years can present conditions favorable to the growth of *H. capsulatum*. Spores can be set free by disturbing the soil and movement of dust can allow inhalation into the lungs of people, cattle and other domestic animals. Spores can also gain access to central air conditioning of dairy barns and homes and be disseminated through the air ducts.

If you have concerns about starlings or pigeons at your dairy, a WS employee will be happy to assess the problem and discuss control options with you. To request more information or assistance with starlings or other wildlife conflicts please contact our Central District Office in Gooding (208) 934-4354, Eastern District Office in Pocatello (208) 236-6921, or State Office in Boise at (208) 378-5077 or toll free 1-866-487-3297, if called from Idaho.

Part 3 of this series will be published in the March issue of the Idaho Dairy Focus and titled "European Starlings and Pigeons on Dairy Operations: Damage Management" and will briefly discuss methods that can be used to reduce nuisance bird populations.



For all your Dairy Updates and Information
Visit www.idahodairymen.org

EPA ramps up its own enforcement of Clean Water Act

Just as dairymen suspected would happen, the U.S. Environmental Agency has formally backed out of renewing the Memorandum of Understanding (MOU) between the Idaho Dairymen's Association, the Idaho State Department of Agriculture (ISDA), the Idaho Department of Environmental Quality and the EPA. In our estimation EPA Region 10 is under pressure to levy penalties and fines as mechanism to demonstrate that they are protecting society. Ironically EPA every year at the MOU review has claimed that the MOU has protected the environment with more oversight and enforcement action than they could assemble on their own.

In 2008 twenty dairies were cited by ISDA for violations associated with not being in compliance with the rules governing nutrient management with seven still pending. Civil penalties assessed over \$163,000 of that amount approximately \$90,000 was set aside while the dairies were on probation and the balance paid to the counties where the violations took place. It is doubtful that EPA has any intention of assisting our counties by turning the fines over to the counties where the violations took place.

Set up in 1995 to help get Idaho dairies to clean up their operations, over the years the MOU has received national recognition as a program that actually works in keeping dairy waste water out of the waters of the United States. Through the agreement, ISDA had responsibility for inspections on-the-ground and enforcement of the Clean Water Act. EPA would do a flyover with the ISDA once a year during early spring when discharges were most likely to occur.

But things are different now, with EPA strongly suggesting that all operations with more than 200 mature dairy cows should eventually apply for NPDES (National Pollutant Discharge Elimination System) permits. The purpose of the permit is to regulate dairy operators so they avoid discharges of nutrients from manure into the waters of the U.S. which – according to an EPA attorney – would include a dry canal. [For more information on the EPA and the NPDES permit system visit the website at www.idahodairymen.org](http://www.idahodairymen.org)

Marv Patten, dairy bureau chief for the ISDA, said he doesn't

anticipate more violations than usual for dairymen, since his feeling is that ISDA rules and enforcement for keeping dairy waste out of natural bodies of water have been stringent. But what many in the dairy industry don't like is that the new policy suggests EPA is seriously flexing its muscle in a threatening way. Evidence of that arises with the recent delivery of "308 letters" to owners of two Idaho dairies and two beef operations. The number 308 refers to Section 308 of the Clean Water Act. Its purpose is to notify recipients that EPA officials are requesting site visits in order to conduct compliance monitoring inspections, including associated waste treatment and/or discharge facilities. This inspection will ascertain the degree of compliance with the requirements of the NPDES permit issued to the dairyman. According to the letter issued to the producers by EPA; "failure to provide the required information may lead to penalties of up to \$37,500 per day of violation" and additional "administrative penalties of up to \$16,000 per day for each violation" in addition "civil action in Federal Court."

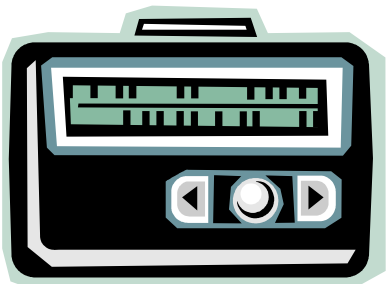
"This is new for Clean Water Act in Idaho," Patten said.

The new EPA stance will definitely cost dairymen more money. This couldn't come at a worse time as current market conditions have producers burning through equity like an out-of-control range fire. The cost will be involved in extensive record-keeping that EPA requires of those who have an NPDES permit. In addition, producers will have to take a close look at rewriting their nutrient management plans in order to make sure it is flexible enough that producers can live up to the permit while at the same time allowing for unforeseen changes in cropping patterns.

Furthermore, industry leaders say they worry about dairymen being fined twice for the same violation – once by the state and then again by the EPA.

Just as with almost anything having to do with the federal government, this event has been in the works for a long time – actually since the mid-1990s. In 2002, EPA put a policy in place to address wet weather concerns. It includes more

(Continued on page 8)



For Weekly Industry Updates:

Tune in to AM 1270 & 1240— Monday Mornings at 6:30

With Rick Haines & Bob Naerebout, Executive Director of IDA

National DHIA annual meeting features sustainability, data-driven decisions

Boise, Idaho (March 9, 2009) – With a theme of “Sustainability through data-driven decisions,” National Dairy Herd Information Association (DHIA) attracted more than 100 people to its 44th annual meeting, held March 4-5, in Boise, Idaho. Session topics included milk recording, management and analysis, animal identification systems, genomics, dairy beef quality assurance, worldwide dairy update and new economic realities.

“National DHIA is not talking sustainability; we are continuing on long-standing actions toward sustainability,” stated Jay Mattison, CEO and administrator. “As we move into the coming years, there will be as many challenges for the dairy industry as ever. One constant is the sustainability into the coming years will be driven by data for decision making.”

For the fifth consecutive year, the number of U.S. dairy cows on DHI programs increased from 4.071 million cows in 2003 to 4.478 million cows in 2008. National DHIA President Dan Sheldon shared this remarkable news with delegates, managers and guests during the association’s annual meeting. Services and products offered by field service providers, labs and dairy records processing organizations drove this growth.

“With the challenges of our troubled economy, we need to use every tool available to maximize the effectiveness of our management strategies and decisions,” said Sheldon. “This next year will challenge all segments of the dairy industry and is a time when DHI data will prove their worth. Veterinarians, nutritionists, feed dealers and crop and financial consultants need accurate data to help dairy managers make informed management decisions and measure the outcomes of those decisions.”

In addition, Steven Sievert, DHIA Services technical director, revealed some key features of EarTagCentral.com, a web site that offers a wide variety of animal identification (ID) ear tags and ID accessories. Open 24/7 and providing more than 7,500 ID products, the site offers visual and electronic animal identification ear tags (in various styles, shapes, sizes and colors), taggers, readers and accessories, mainly for dairy and beef cattle, but also for sheep, goats and swine.

David Kohl, Virginia Tech professor emeritus, provided the keynote address – discussing the dairy industry in the new economic realities. Sponsored by Northwest Farm Credit Services, Kohl listed five vital factors for operating a dairy in the year 2020. The factors are: excellent resource manager (land, water, livestock and location), top 10% in production management (milk, somatic cell count, reproduction, longevity and cost per hundredweight), harvest the wins (marketing plan, harvest the ideas and execution), financial manager (use accountants who understand agriculture, benchmarking through variance analysis, growth and planning) and people manager.

Delegates re-elected Kent Buttars, Rocky Mountain DHIA, Lewiston, Utah; Bob McKaig, Indiana State Dairy Association, Logansport, Ind.; and James Zimmerman, Dairy One Cooperative Inc., Ithaca, N.Y.; to serve as National DHIA board members. Other board members include Dan Sheldon, Dairy One Cooperative Inc., Salem, N.Y.; Lee Maassen, Dairy Lab Services, Maurice, Iowa; Steve Hershey, Lancaster DHIA, Manheim, Pa.; Richard Kimball, Vermont DHIA, Spencer, Mass.; Susan Lee, Idaho DHIA, Twin Falls, Idaho; Bruce Dokkebakken, Minnesota DHIA, Buffalo, Minn.; Jon Tollenaar, San Joaquin DHIA, Elk Grove, Calif.; and Steven Smith, DHI-Provo, Provo, Utah, as the Dairy Records Processing Center ex-officio board member. At the board reorganization meeting, all officers were re-elected: President Dan Sheldon, Vice President Lee Maassen, Secretary Steve Hershey and Treasurer James Zimmerman.

Special thanks go to the United Dairymen of Idaho for providing dairy products served during the health breaks, lunches, reception and banquet. Several commented that they thoroughly enjoyed the delicious and bountiful milk, yogurt, cheese and ice cream served throughout the meeting.

National DHIA, a trade association for the dairy records industry, serves the best interests of its members and the dairy industry by maintaining the integrity of dairy records and advancing dairy information systems.

February 19th 2009 ISDA Split Sample Lab Report

	DFA	Darigold	FMM	DHIA	Gossner	Sartori	High Desert	CRI (NWL)	Jerome Cheese	Glanbia Foods	Sorrento Lacialis
Protein	-0.02	0.00	0.00	0.03	-0.01	-0.03	0.00	-0.07	-0.03	0.01	-0.01
Fat	0.01	0.01	0.01	0.04	0.02	0.04	-0.04	0.04	0.02	-0.03	0.01

Refugees offer an employment solution for Idaho Business

By Lana Whiteford

Employers in agriculture and processing industries frequently encounter a serious problem in doing business. The lack of documented, work-authorized labor to fill positions on farms, dairies, forests and factories throughout the U.S. is becoming a major challenge.

Employers are required to make their best effort to verify the authenticity of work authorization documents. However, with the ease of creating fake work documents many laborers have gone under the radar of their employers and are currently filling positions in thousands of businesses.

A recent news article from the Associated Press stated that Immigration and Customs enforcement (ICE) has raised quotas of required arrests of illegal immigrants up to 1000 per team. ICE raids take an enormous financial and emotional toll on the businesses they target for raids. Swift Meat Processors stated that the raids removing 1,200 illegal workers in the US ended up costing them over 30 million dollars in lost revenue. In the Agriprocessors case in May, 2008 over 300 people were arrested leading to over 9,000 criminal counts against the company and their managers. At least one count has already led to conviction and prison for a manager. As of October, 2008 Agriprocessors was in bankruptcy proceedings.

Despite intensive lobbying for employment solution for employers who can not attract enough US workers, it seems that up to this point these requests have fallen on deaf ears.

However, one frequently overlooked labor force may offer some solutions. This labor force are the refugees resettled to the United States through legal channels.

What is a refugee? According to U.S. law a refugee is a person who has fled his or her country of origin because of past persecution or a well-founded fear of persecution based upon race, religion, nationality, political opinion, or a membership in a particular social group. Every year the U.S. resettles refugees into the United States. The number for 2009, determined by the U.S. President, is 80,000 refugees. Resettlement services include finding housing and schools for clients as well as helping them enroll in a refugee assistance program that helps them to pay for rent, food and basic necessities for the first months in America. The most important aspect of resettlement is that refugees are expected to become self-sufficient, before their assistance ends, by entering the workforce. Refugees are work-authorized incident to their status once they enter the United States under Section 207 of the Immigration and Nationality Act. They become legal permanent residents after one year and can naturalize as U.S. citizens after five years.

Refugees generally have excellent retention rates in their jobs. Many of them qualify for the Work Opportunity Tax Credit, a Federal Tax Credit. Additionally, the resettlement agencies help with placing employees in to work by offering training programs and employment classes. They also assist employers with paperwork, on the job training when necessary and follow up to ensure a good placement. All of these services are entirely free to employers.

Refugees come from diverse backgrounds which helps ensure a talented labor pool. Many have worked in agriculture, as mechanics, in engineering, refrigeration, factory workers, medical and many other fields.

Some refugees speak fluent English while others may be in the process of learning. All refugees are required to study English until they are employed and encouraged to continue learning after employment. Many refugees look at their first job with hopes of a career track where they can learn skills and move up in the company they work for.

Refugees contribute greatly to the economies they live and work in. In housing expenses alone refugees spent over 1.3 million dollars in Idaho last year.

To find out more about how you can hire refugees or to schedule a meeting please call Employment Specialist Lana Whiteford or Bryson Nalder with the International Rescue Committee in Boise (www.theIRC.org) at 208.344.1792.

Refugees: Good for business, good for Idaho!

(District Meetings Continued from page 1)

Make a budget and stick to it, and stick close to your banker.

That's the advice of banker Jon Maughan of Northwest Farm Credit Services when he participated in the district meetings in Twin Falls Idaho during the week of February 16-20. The current economic crisis along with concerns about how to cope with the latest U.S. Environmental Protection Agency regulations drew hundreds of industry folks to the meetings.

"What you're seeing here in the dairy industry is the perfect storm," Maughan said about the current economic downturn.

The record-high energy prices of last fall adding to the locked-in high feed prices of last summer have dairy-men wondering how long they can remain in business with milk prices as low as they can go. And to top it off, the entire planet is struggling with a severely damaged financial system, and so, generally, demand for U.S. dairy products has dropped off.

One bright spot is that people in the U.S. market are buying more fast food, where cheese is still in demand, and they are also purchasing more cheese in grocery stores.

"Cheese is the best nutrition value at the moment," said Mike Brown, an economist who works for Glanbia Foods. For southern Idaho producers, that's a good thing with the majority of the milk produced in the region turned into cheese. And there's this: In commodity markets, costs and prices align over time." Brown reminded the crowd.

But that's not much solace today when your losing money on every pound of milk produced.

"If you have 10,000 cows, you are losing between \$1million and \$1.5 million per month," Maughan pointed out. At that rate, it's clear a producer doesn't have a year to run through the equity of his herd. But in addition, Maughan said, "On Main Street right now, of course, the question isn't what the terms of the loan are, but can I have the money."

Maughan suggested, "Take a look at every loan on the books you have right now and see if you can fix the rate with your lender."

The silver lining is that feed costs are going down, so your break-even costs will go down, Maughan said, adding things generally start to get better when they look the worst.

What to do? Here's some advice from Northwest Farm Credit Services:

- Communicate with your lender as often as possible.
- Lock in as many interest rates as you can.
- Be honest about your survival plan. You need to have a serious conversation with your lender about the liquidity of your operation. How long will it last under current conditions? Find out if you have someone -- perhaps a relative -- who can help you out.
 - Focus on your strengths. Point out areas where you can make operational or other improvements. Be proactive.
 - Avoid surprise, and ask the same of your lender. Check your emotions, and make decisions based on facts. Don't jump from bank to bank looking for a slightly lower interest rate; but rather, stay with an Ag banker who is willing to go toe to toe with an upper management in some distant city.
- Figure out how short you are going to be, and figure out what your line of credit needs to be.

Legislative Update

Due to the downturn in the economy much of the attention this year has been focused on the budget and transportation needs.

Senate Bill 1070

Amends the current laws so that when enforcement action is initiated by EPA on beef operations regarding an alleged non compliance any pending action by ISDA for the same non compliance will be deemed void.

The bill passed the Senate by a vote of 28-2-5; District 16 Senator Les Bock, a Democrat from Boise who serves on the Senate Agricultural Affairs Committee was the floor sponsor.

The bill passed the House by a vote of 68-2; District 28 Representative Dennis Lake, a Republican from Blackfoot who serves on the House Agricultural Affairs committee was the floor sponsor.

House Bill 101

Amends the current law to allow a refund of \$0.50 per head currently authorized in Idaho code but not collected. In addition the bill eliminates the requirement regarding the collection of the assessment on animals that are leaving the state and raises the Idaho assessment from \$0.50 to \$1.50 if the National Beef Promotion and Research Act is no longer in effect.

The bill passed the House by a vote of 66-0-4; District 28 Representative Dennis Lake was the floor sponsor.

The bill passed out of the Senate Affairs Committee and is awaiting action by the Senate.

House Bill 122

Adds and amend existing law to provide for renewable energy enterprise zones designation which would provide state tax incentives for projects located in those zones is being held in the Revenue and Taxation Committee.

House Bill 163

Modernizes the laws dealing with scrap metal including wiring being removed from irrigation systems. In the bill scrap is clearly defined and a streamline system is set up for transactions between businesses and scrap dealers. In addition record keeping is clearly delineated to assist law enforcement in investigating stolen property.

The bill passed the House by a vote of 68 -2 -0 with District 25 Representative Wendy Jaquet a Democrat from Ketchum and District 13 Steve Kren a Republican from Nampa being floor sponsors.

The bill is currently waiting for action in the Senate Commerce and Human Resources Committee.

**If you would like to be added to the Idaho Dairy Focus e-mail list,
please visit the website at www.idahodairymen.org**

Gossner Foods Honored at IDA Legislative Banquet

The Idaho Dairymen's Association held their 6th annual legislative banquet this year at the Boise Center. This year the event was attended by about 160 individuals including legislators, state elected officials, friends of the industry, United Dairymen of Idaho board members, Independent Dairy Environmental Action League board members and Resolution committee members.

As in previous years a Idaho dairy processor was honored for their contributions that are so critical to the success of the Idaho dairy industry. Gossner Foods was the featured processor for the 2009 banquet with CEO and President Dolores Gossner Wheeler providing a dynamic presentation from which we are receiving comments from legislators. Dolores's father immigrated from Switzerland and the story of Gossner Foods is a true "American Dream" success story

The banquet started with District 26 Representative Bert Stevenson expressing his thanks to Dolores and the Gossner Foods for having the confidence in the communities of Magic Valley to invest in a new plant, cheese chalet and restaurant. In addition Senator Dean Mortimer from District 32, who spent three years working for Gossner Foods, introduced Dolores Gossner Wheeler and expressed his gratitude to Dolores's for her father, Ed Gossner, for his integrity and guidance he provided while the Senator was employed at the Logan Utah plant.

To learn more about Gossner Foods and to see the presentation go to our website

www.idahodairy.org

(EPA, Continued from page 3)

scrutiny of large animal feeding operations. The policy is for EPA regulators to do more on-the-ground inspections than in the past. For the agency's Region 10 that amounts to between 10 and 25 on-the-ground inspections for potential discharges from large dairy farms and livestock feeding operations.

An Idaho attorney who frequently works with the Idaho Dairymen's Association suggests that all CAFOs with more than 200 mature dairy cows with the remotest chance of discharging need to do a risk analysis of their operation to determine if they need to consider obtaining a NPDES permit. Review of EPA publications suggests that dairies without the permit will be subject to much closer scrutiny and higher standards and higher penalties.

Currently there is not a NPDES permit Idaho producers can apply for so the EPA required producers to file a Notice of Intent (NOI) along with their Nutrient Management Plan by February 27, though it's still not too late to get them in. Every day a producer goes without having submitted the form, however, is a day he goes unprotected. On our website www.idahodairy.org you will find a list of consultants that can assist you in determining if you should consider an NPDES permit.

The irony of all this is no one knows for sure what will be required in the permits. But Patten said he thinks if a producer doesn't have one, at the very least he could be opening himself up for citizen lawsuits.

Learn more at www.idahodairy.org or www.epa.gov/npdes/afo.

Some Interesting Facts about the NPDES permits

- All CAFO's may apply for and obtain an NPDES Permit whether or not they discharge or plan to discharge.
- The NPDES Permit will impose a series of Best Management Practices (BMPs), operational, maintenance and record keeping requirements.
- Public process with potential of not only public comment but also hearings, before the permit is issued CAFO is subject to appeals.
- After the permit is issued, it subjects the CAFO to federal, state, and citizen suit enforcement of all permit terms and conditions.
- The NMP must be submitted with a CAFO's application for a NPDES Permit.
- The NMP will be made available to the general public by the permitting authority, and the public can submit comments.
- The permitting authority must respond to any "significant" comments received.
- The public comment can take the form of an open public hearing if requested by an "organized group."
- EPA states in rulemaking that the BMP's for a CAFO with an NPDES permit will be less stringent than for a CAFO that discharges without a permit.
- This is a "zero" discharge permit, but the permit will allow some discharges depending on how it is written; such as a 25 year 24 hour storm event.
- Currently in the event of a discharge, a CAFO with a permit will be fined for the discharge but will not be fined for a violation of the "duty to comply." a CAFO without a permit is subject to two fines.



LIGHT AT THE END OF THE TUNNEL

BY KYLE SCHRAD

www.downesoneill.com - www.dairy.nu

Volatility. What is it? Well, my definition strays a bit from the norm, I define volatility as higher highs and lower lows. Currently things are tough for dairy producers. Coming off record high milk prices and a historic bull market, we are faced with record per hundred weight losses.

As a consultant I am often bombarded with questions such as: When will milk prices turn around? Well, in a sense they have already have. Using the July 2009 Class III contract as an example; we bottomed out at 12.01 on January 7th, 2009 and returned back to 13.33 on January 29th, 2009. Since then we have oscillated back and forth, chopping our way to a close of 12.63 on February 20th, 2009. What this indicates to me is uncertainty; opinions are mixed as to our overall economic status for the second half of the year, resulting cow numbers and demand expectations. Thus, we have seen a slight recovery and a window opened up for possibilities. Possibilities of higher or lower milk prices in the second half of the year, all dependant upon culling rates, CWT, DEIP, strength/weakness of the dollar, economic stimulus packages etc. In short, people who are putting their money where their mouth is, are cautiously optimistic but waiting for supporting data.

In order to see a resumption of the secular bull market, which I do not believe is over yet, we need to see a drastic reduction in supply. We have 9.32 million milking cows, that number must be reduced by at least a few hundred thousand cows. Export demand has dissipated, we exported 6.3% of our total milk production from January to November 2008 this should fall drastically in 2009. Fast food restaurants and pizza shops have reduced their usage too. The ten largest pizza companies combined reduced their total usage by 250 million pounds for 2008. I believe we are setting ourselves up for a repeat of 2004. A supply driven, short term spike in milk prices, which may also be furthered by inflation. As we begin to reduce cow numbers, now down 14,000 in January from December the first reduction since September. CWT is rumored to be targeting the removal of an additional 200,000-250,000 cows over the next 6-7 months. With any economic stabilization, domestic demand should revive. With any weakening of the dollar, which can be expected as we prepare to print and spend more money than ever, both inflation and export demand should also contribute to once again rising prices.

The caution: What will happen to feed prices?

I don't know for sure, but if milk does return to \$20 again in 2010, I can confidently say that corn prices won't be as cheap as \$150/ton. Thus risk management becomes pivotal to running a profitable business in the volatile and tumultuous times. If one makes a plan in advance, they remove the emotions of fear and greed which often force poor decisions. Hence the suggestion is to define a plan in which to secure input and output costs either at the same time or at least to have a defined plan, with acceptable minimum and maximum prices for each commodity in place ahead of time to avoid an emotional state. You can view the historic milk margin numbers at the eDairy Inc. website (www.dairy.nu), this will provide you with an idea of when margins are good and let you know when you should be focused on securing prices. In bad times, consider running hand to mouth as much as possible as you wait for a market opportunity to pounce on. Profitability will return, dairy is a very cyclical industry. Not all will survive, but for those who do, you should find a record milk price at the end of the tunnel and with some good planning and risk management your pot of gold could be a record high milk margin.



IDAHO DAIRYMEN'S ASSOCIATION

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Upcoming Meetings

- April 8th** **Industry Relations Meeting- Boise, Idaho**
- May 5th & 6th** **UDI Board Meeting– Twin Falls, Idaho**
- July 9th & 10th** **IDA Producer Meeting- Boise Center, Idaho**
- July 17th** **IDEAL & Idaho Milk PACT Golf Scramble-Clear Lakes Country Club-
Buhl, Idaho**

The *Idaho Dairy Focus* is Brought to You by the ***Idaho Dairymen's Association***

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