



Idaho Dairy

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

focus

November 2011

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.



As America's #1 selling yogurt brand, Chobani people have great taste; they just need great choice in announcing their plans to open a investing over \$100 million to build a state-of-the-art, high capacity production facility housed on 200 acres of agricultural and industrial land in Twin Falls, Idaho.

bani was founded on the belief that options. Chobani, just made a great second domestic manufacturing plant

The new facility will enable consumers' to more easily find their favorite Chobani products in stores as well as enhance Chobani's ability to bring exciting product innovations to market.

"We visited numerous possible sites over the past several months and met a lot of great people along the way." said Hamdi Ulukaya, CEO and Founder of Chobani. "It was a hard decision to make, but in the end, we chose Twin Falls due to its abundant milk supply, skilled labor force and tight knit local community. We're looking forward to starting the next chapter of the Chobani story here in Idaho's Magic Valley."

Chobani's "Nothing but Good" philosophy, which includes supporting local farmers, job creation, and community outreach, will be instrumental at their new site as the company begins to form roots in the Twin Falls community. Expected to be operational in 2012, the opening of the new plant is expected to create around 400 new jobs.

"We anticipate Chobani's planned investment to result in an additional \$200 million in regional sales. Between construction activities, employ-
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FROM THE BOARDROOM

A very important announcement for dairy producers in Idaho was made this week when Chobani announced they will be opening a plant in Twin Falls, Idaho. As the article above states Chobani is the NUMBER -1- selling Greek Yogurt in the nation and they are coming to Idaho because of you, the dairy producers of Idaho. You provide an abundant supply of high quality milk of which the plant will require two (2) million pounds per day when they open with planned growth of six (6) million. For you and I it is significant because it is value added product that should challenge those who pay utilizing cheese yield formulas to add more dollars to their patrons to remain competitive. Chobani is the third milk processing plant to be built recently in the Magic Valley. Equally important to the economy of the Magic Valley and to stabilizing the pay prices of producers have been the establishment of Idaho Milk Products (IMP) in Jerome and High Desert Milk Plant (HDMP) in Burley. Without the dairy producer-owners of IMP and HDMP plants making huge investments in their processing plants milk supplies would have far exceeded plant capacity. The end result would have been many producers would received less for their milk after cost of transportation to out of state plants and distressed milk pricing was calculated
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**Annual Meeting
November 9th and 10th
Boise Center**

See page 3 for information on the UDI business meeting covering milk marketing, politics and Chobani.

(Chabani-Continued from page 1)

ment at the plant and the sourcing of local supplies like milk, there's no question that the economic effect of Chobani's new site will run deep throughout Southern Idaho, benefiting family farms as well as our dairy and construction industries." said Idaho Governor C.L. "Butch" Otter. "We're thrilled Chobani chose Twin Falls as their second home."

As part of Chobani's "Nothing but Good" philosophy, they are committed to supporting local farmers and strengthening their surrounding area economies. They use milk from New York-area farms and give a portion of their annual profits to charities worldwide through their Shepherd's Gift Foundation, the company's charitable arm.

All Chobani products are gluten free, Kosher certified, made with milk free of rBST and provide two times more protein than regular yogurt, five live and active cultures, and three strains of probiotics.

(From the Boardroom-Continued from page 1)

into their pay price.

Over the past year your board of directors has placed raising the net income of ALL Idaho dairy producers as one of its top priorities. Over the years we have distanced ourselves from in-state milk marketing issues but we can no longer take an inactive role. This year we commissioned a study by Dr. Scott Brown from the University of Missouri and FAPRI to take an in-depth look at comparing Idaho to regions of the country that also process a large volume of their milk into commodity cheese. Dr. Brown will be reporting his findings at the United Dairymen of Idaho (UDI) annual meeting. His presentation will be during the UDI Business meeting which begins at 3:30 on Wednesday, November 9th. Dr. Brown's report will be similar to Oct. 25th, 2011 Hoards Dairyman article that had comparisons between Idaho and other Western states but in greater detail. The study will provide insight into the correlation of Idaho pay prices and the increase in Idaho's share of U.S. milk production. The Hoards Dairyman article stated that the net income per cow for Idaho was a measly \$19.00 compared to Arizona at \$284.00/cow, California \$259.00, High Plains at \$309.00, New Mexico \$339.00. Are we that much worse at what we do? I do not think so, we all know some extremely good dairymen in our state. Scott's study should help us understand if our struggles in net income per cow, the lowest in the West, is a function of the cost of production and low milk prices or purely low milk prices.

Let's not fool ourselves many of the companies that consider Idaho as a home for their manufacturing plants start by looking at the cost of raw milk; in Idaho we are the lowest in the nation in milk pricing. In the

Magic Valley milk is priced using Class III, a Class III and Class IV combination or Cheese Yield Formulas as the base price. Below is a summary of those base prices for 2010, August 2011, September 2011 and 2011 YTD. The prices are based on 2.9% protein and 3.5% fat and do not consider hauling cost, quality premiums or other additions or deducts from base price. The Class III base price is the average of five (5) handlers that use Class III or a Class III and Class IV combination for developing their pay price. The Cheese Yield pricing is the average of two the (2) cheese manufactures that price milk utilizing Cheese Yield Formulas. **See the data box at the bottom of this page.**

Granted the days of Idaho having the lowest cost for feed expenses may be waning but the information provided in Hoards Dairymen shows that total cost of production in Idaho was the fourth lowest out of the eight states/regions compared in the article but Idaho had the distinction of having lowest pay price.

It has been stated by financial consultants that the average cost of milk production in Idaho is currently at the \$18.00/cwt - \$18.50/cwt range, which is far below the pay price many producers are receiving. No industry can survive selling below their cost of production and that is why your board has taken crucial steps in addressing our current competitive position. Hiring Dr. Brown to provide us with the information so we factually understand the current dairy economic conditions is only the beginning in the development of solutions.

All businesses look at both the income and expense side of their company's balance sheet and so must your organization as we represent your interest. We are working with a very diverse group of organizations in lobbying multiple issues including eliminating ethanol subsidies, immigration reform and unnecessary EPA regulations. You worked hard to understand Foundations for the Future (FFTF) and voted to support the proposal; we have been engaged with National Milk Producers Federation and Congressman Simpson on any proposed changes to House Bill 3062, the legislation that is based off of FFTF. We have hired Charlie Garrison, a Washington DC lobbyist, to assist our staff in our lobbying efforts in Washington DC. Charlie will be providing an update to you on those efforts at the annual meeting during the November 9th afternoon UDI business meeting.

We are excited that Chobani has selected Idaho; it took a lot of work by Governor Butch Otter, Directors of State Agencies, Southern Idaho Economic Development Organization, the City of Twin Falls and your board and staff. We owe them heartfelt thanks for their dedicated work. Our goal is to have Chobani be just the first of value added processors to look at Idaho for their expansion needs. The truth in the numbers found in the Hoards article will attest to and Dr. Brown's study should

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<u>YEAR</u>	<u>Class III Base Pricing</u>	<u>Cheese Yield Pricing</u>	<u>USDA Announced Class III Price</u>
2010	\$14.18	\$13.77	\$14.41
Aug. 2011	\$21.28	\$18.45	\$21.67
Sept. 2011	\$18.83	\$16.10	\$19.07
2011 YTD	\$18.14	\$16.93	\$18.28

2011 IDA and Resolution Committee Election Results

The 2011 IDA and Resolutions were completed on October 1st yield two new elected officials.

The vote for District III (Eastern Idaho) IDA board seat was determined by a two (2) vote margin. Greg Anderson beat out incumbent Lon Tuel-ler by two votes and challenger Alan Swainston by just three (3) votes.

Greg Andersen is an owner operator of Seagull Bay Dairy in American Falls. Established in 1980, Seagull Bay Dairy is owned by Alan and Norma Andersen, Ben and Robbie Andersen, and Greg and Gwen Andersen.

We want to thank Lon for his service to the Idaho dairy industry, not only for being a board member of the Idaho Dairyman's Association but also for all of the additional dairy boards and committees he serves on.

The Resolution race in District II (Magic Valley) yielded a new Resolution Committee member. Joe Demello was elected to a three (3) year term. Joe is taking the position currently held by Andrew Jarvis. Andrew was a valuable articulate member of the committee who's dedication to the committee and the policies of IDA was greatly appreciated.

With almost 40% of the dairy operations voting in this election we had more dairies voting this year than in recent years. Even with that high turnout we had close elections as seen in the District III IDA board election. Many of the races were close and in one case the incumbent won by one (1) vote. Thank-you for taking the time and participating.

Annual Meeting DON'T MISS SEGMENTS

November 9th and 10th is the UDI annual meeting at the Boise Center in downtown Boise Idaho. All of the segments and breakout sessions will be great but there are three (3) you won't want to miss.

Wednesday November 9th during the UDI business meeting beginning at 3:30

- ◆ What's going on in Washington DC – Here from your lobbyist Charlie Garrison on our efforts in Washington DC on policies that impact your dairy farm operation.
- ◆ Why do Producers in Texas and New Mexico command a higher price than Idaho. Dr. Scott Brown will present his study that examines that exact question.

Thursday Evening Banquet beginning at 6:00

- ◆ Meet Mikael Pedersen Chief Operating Officer of Chobani, the Number 1 Greek Yougert manufacture in the United States. Chobani just announced they will be building a plant in Idaho.

IMMIGRATION by Craig Regelbrugge Co-chair Agriculture Coalition for Immigration Reform (ACIR)

E-Verify and immigration reform...where are we? More importantly, where might we be headed?

Much has transpired since May of this year, when it appeared virtually certain that E-Verify would move like a bullet train through the House of Representatives. A long-time goal of Lamar Smith (R-TX) has been E-Verify. Smith had struck a deal with the U.S. Chamber of Commerce and others on technical provisions of E-Verify. In the interest of a uniform federal framework, the Chamber and others pledged to back Smith's E-Verify bill. The agricultural sector found itself standing alone in the firm position that without legal labor force solutions, E-Verify was a disaster.

Chairman Smith, in his bill which ultimately became the Legal Workforce Act, H.R.2885, proposed two "solutions" for agriculture. One was "you get to go last," meaning after 36 months. The second was to allow agricultural employers to rehire returning seasonal workers without verifying them. These measures did not constitute a fix, nor were they everything they seemed. The seasonal "carve-out" in particular didn't apply to farm labor contractors, nor did it provide any relief to ag employers who received Social Security no-match letters or are targeted for I-9 audits.

For agriculture, the challenge was clear: **make noise**, fast, to convince enough lawmakers that agriculture will be devastated unless an acceptable labor fix is part of E-Verify. The ACIR Coalition, with critical support from Idaho Dairyman's Association, rallied the troops in agriculture to convince the leadership in the House of Representatives to tap the brakes on the speeding locomotive that was mandatory E-Verify at the time.

The ACIR Coalition was also working with Rep. Dan Lungren (R-CA) who was emerging as our legislative champion for agriculture during the first half of this year. Lungren is as knowledgeable as any member of Congress on our issue, and he drafted an amendment which he has since introduced as freestanding legislation, H.R.2895, the Legal Agricultural Workforce Act. It would establish a new, market-oriented agricultural worker visa program.

Lungren has been tenacious, insisting that such an amendment must move as part of E-Verify. Lungren has also been candid with our coalition that his bill does not address all of the needs in agriculture. A 10-month visa term, and no explicit solution for current workers, are two serious limitations for dairy. Bear in mind that Lungren's bill has been crafted to optimize political chances in a very conservative Judiciary Committee and House of Representatives. He acknowledges that key improvements would need to be added in the Senate.

Lungren's effort prompted Chairman Smith to introduce his own agricultural "fix" bill that would reform the existing H2A program. **While many in ACIR have worked toward the goal of improving H2A, and giving the dairy industry access to it, there is a growing sense – even among current H2A users and providers – that the program is irreparably flawed.** The H2A model has severe limits across the country. Those limits are especially problematic in western

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agriculture, where hundreds of thousands of workers move among employers and crops. A summary of H2A's dysfunction can be viewed at http://www.ncaonline.org/files/ALRP2011_brochure.pdf.

Informed and objective observers will conclude that if E-Verify becomes law, H2A as the only solution will never bridge the gap and meet the challenge of ensuring a legal workforce. **Dairy, especially, can and must do better than being shoe-horned into your (grand)father's labor solution.**

A SAFE Bet on U.S. Agriculture

As the dog days of summer settled on Washington, D.C., several of the same forces active in ACIR developed and launched an innovative campaign called Save America's Food and Economy, or SAFE (www.saveamericasfood.org). The campaign has had three prongs of activity:

Traditional media mobilization, both nationally and in several targeted states. This included print and radio, and culminated in a tremendously helpful story in the Wall Street Journal. The WSJ coverage turned heads just as Judiciary turned to consider H.R.2885.

Social media mobilization, in an effort to reach and activate advocates outside of our traditional agricultural base. SAFE has crossed the "40,000 fans" threshold on Facebook, most of whom are outside our normal ranks. These are young people (sometimes) who care about where and how their food is grown. This newfound fan base is now being urged to push Congress to get off the dime and take positive action to address the farm labor crisis.

"Grasstops" mobilization, in targeted geographies including the states/districts of key House leaders and other Republican-rich states with significant dairy, fruit and vegetable production.

The SAFE campaign built upon ongoing efforts by many ACIR coalition members which included a series of legislative lobbying days, or "fly-ins."

No doubt we were helped a bit by the federal debt debate and an otherwise crowded Congressional calendar during the summer. Chairman Smith's momentum was broken, and we gained traction with our message that E-Verify without an ag fix would be a disaster. By late summer, tenured Republicans like Doc Hastings (WA) and Fred Upton (MI), as well as freshmen like Jeff Denham (CA), and Dennis Ross (FL), were publicly stating that E-Verify must have a true ag fix as part of the package.

Other opposition to E-Verify emerged as the summer went on. Some came from immigration hardliners who argued that the federal preemption provisions in Smith's bill unduly limited states' rights. Other opposition came from libertarian-minded lawmakers, even some Tea Party Republicans, who see mandatory E-Verify as just another intrusive big-government program that will further burden struggling small business. This point is made by a recent article in *Business Week* ([http://](http://www.businessweek.com/magazine/a-verification-system-for-new-hires-backfires-10202011.html)

www.businessweek.com/magazine/a-verification-system-for-new-hires-backfires-10202011.html).

The Judiciary Committee finally got to marking up Chairman Smith's E-Verify bill in late September. The bill was reported out of committee on Sept. 22. During the debate, the meager "seasonal carve-out" for agriculture was stripped from the bill. There is no solution whatsoever for agriculture in the bill that emerged from the House Judiciary Committee.

Will Cooler Temperatures Bring Cooler Temperaments?

ACIR's collective efforts, along with those of the SAFE campaign, have helped to break E-Verify's momentum. Thanks go in part to the dairy industry in the West, which will be a pivotal region in deciding our nation's fate and path forward. Key Republican leaders have made it clear that the E-Verify bill will not be brought to the floor without an acceptable agricultural solution; they want to avoid a bitter, divisive, and very public floor battle among Republicans on an issue that will only further alienate agriculture (part of the Republican base) and Hispanic voters (a coveted and growing voting bloc).

This all said, leaders in agriculture cannot become complacent. Chairman Smith is a formidable lawmaker for whom E-Verify is a legacy issue. E-Verify is popular among Republicans, including many who are sensitive to agriculture's plight. It is popular with the general public, and the organized anti-immigrant groups such as Numbers USA have built strong and aggressive grassroots networks. They don't frankly care if there's someone to milk the cows. E-Verify may quickly become more of a threat, not less, as the election nears and candidates look for wedge issues.

Blocking E-Verify would not be the worst outcome. It would also not be the best. Bear in mind that in the current political environment, E-Verify may represent the only "engine" for reform onto which we would hope to attach a few "boxcars" containing agricultural worker visa program solutions. Without an engine there will be no train moving to any destination. Our solutions will sit on a siding.

Meanwhile, threats ranging from worsening labor shortages to I-9 audits to Social Security no-match letters to hostile state laws, won't go away. And, even if the 2012 elections are good for Republicans, there is little reason to believe that Republicans will choose to place this issue high on a list of priorities. More years of delay mean more uncertainty and destabilization.

Right now, the biggest game-changer would be the emergence of one or more respected Senate Republican(s) who decide that good policy can be good politics. There is room, right now, for a brilliant strategic compromise on a solution that allows farmers to sleep at night, and secures a vital piece of our economy and well-being. Will it happen? Odds say no. Yet, I hope so. For the good of our nation.

Meanwhile, for you all, complacency is death. We do not have the luxury of choosing our moment of opportunity. We only have the luxury of deciding how to prepare. For ACIR, our foremost goal is to protect our hard-fought gains over the summer, and to look for any and every possibility of a path forward. **Thank you for the continued, and committed, support of the Idaho Dairymen's Association and its members.**



www.downesoneill.com - www.dairy.nu

Have an Exit Strategy for Hedging Milk

by Dave Kurzawski

All of us at INTL FCStone would like to congratulate Chobani Greek Yogurt for deciding to work with the good state of Idaho on a production facility in Twin Falls.

Many dairy producers who actively manage their dairies' price risk by selling milk forward often look back at a year like 2011 with a pit in their stomach. On one hand, they understand the many benefits of transitioning from a "price-taker" to a "price-maker", of shelling price risk off to someone else and bringing profit home to their dairy. On the other, they feel brow-beaten by having left money on the table.

Times like these may be the best time to discover tools you can use to limit hedge losses in the future. One tool that conjures up memories of algebra class — and gets very little press because of that fact — is Call Options.

Call Options are simply an *exit strategy* for dairy producers when used in conjunction with the sale of milk via futures or forward contracts. As a hedger, you ought to be a seller of milk for a hedge and a *buyer* of a Call Option as an exit strategy.

A Call Option gives the option buyer the right to buy (go "long") the underlying Class III futures contract at a predetermined price — the strike price. But before you decide to protect your profitably sold milk, you need to understand and be comfortable with the process.

Strike prices are available in 25-cent increments on both sides of the Class III futures price for any given month. For example, there's the \$16.00 strike, \$16.25 strike, \$16.50 strike and so on and strikes are listed both below and above the futures prices. The closer the strike price gets to the current Class III futures price in a given month, the more expensive it becomes (intrinsic value).

Using an insurance industry analogy, the strike price is the deductible. In other words, the lower the Class III ceiling price you desire in a given month, the closer your exit strategy will be in place and the more money you pay to buy that protection.

The money you pay to buy Call Options is the premium (plus brokerage

commissions and fees). The premium is derived by a mathematical formula that takes into consideration a number of variables, including intrinsic and time values, and futures price volatility to name a few.

The amount you pay in premium to buy call options is your risk exposure (so long as you do not exercise the option). If the announced Class III price is below your strike price, your Call Option will expire worthless and you will lose your premium. From a hedge standpoint, this is okay. You would have forgone some premium expense lowering your NET sale of your milk, but you would have had an active exit strategy in place.

On the flip side, a Call Option that is "in-the-money" is mitigating hedge losses. Hypothetically speaking, let's say you sold Class III milk at \$16.00 and bought the \$17.25 call option for .25/cwt and the USDA announces Class III at \$19.00. You would have a \$3.00/cwt loss on sold futures, but a \$1.50 profit on the bought Call Option giving you a *realized hedge loss of \$1.50/cwt instead of \$3.00/cwt.*

So how do you decide a practical strike price; a sensible "exit" price? First, you need to gather information on what your pain point is — there is no sense in setting a worst-case scenario cap at \$5.00/cwt above your sold futures/forward contract. Once you have a healthy ceiling number in mind, your broker should know current premiums and short-term market direction to help guide your decision.

You should be aware of what a reasonable price is and when to buy. Remember to: (a) keep a lid on premium expenses, about 20 to 35 cents at most, which may hinder your ability to go out more than seven or eight months (time value), and (b) buy when you don't think you need the protection.

Buying call options should be one of the most counter-intuitive actions you take to protect your hedged milk price — you want to buy them when you don't think you'll need them. Get a game plan, but you may have to buy Call Options *after* you sell milk. No one says you have to protect your hedge the same day. In the end, the Call Option is just another tool you have in your tool belt to help you actively manage your dairy's price risk on a portion of your production.

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confirm the pay price in Idaho needs to move upwards. If commodity cheeses products cannot provide those increases than we need to look at product mixes that will.

As milk production in Idaho has grown so has the income of the Idaho Dairy Products Commission (IDPC) and Idaho Dairymen's Association (IDA). You have elected 18 dairy producers to make sure your dollars used by IDPC and IDA are used in the best available manner to enhance the viability of Idaho's dairy producers. There are about 520

producers operating 569 Idaho dairy operations by working together we can make a difference but we need a well developed plan.

Your board is not idly sitting by; we will continue to do the best job representing all Idaho dairy producers. I personally believe the dairy association has the best opportunity at organizing and putting together a plan. We will move in that direction and we welcome all of your input.



IDAHO DAIRYMEN'S ASSOCIATION

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Upcoming Meetings

November 8th	UDI Board Meeting in Boise
November 9th & 10th	UDI Annual Meeting in Boise
November 13-16	DMI-National Milk Annual Meeting

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

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