



CHEESE REPORTER

Vol. 137, No. 42 • Friday, April 12, 2013 • Madison, Wisconsin

With Farm Bill Action Nearing, Dairy Security Act Debate Heats Up

NMPF, DBA Disagree Over Potential Producer Impacts Of DSA's Market Stabilization Program

Washington—With the Senate and House Agriculture Committees possibly marking up a comprehensive five-year farm bill later this month, debate is heating up over the possible dairy reform provisions included in that bill.

Last year, both the full Senate and the House Agriculture Committee approved farm bills that included the National Milk Producers Federation's (NMPF) Dairy Security Act (DSA).

Key provisions of the DSA include a Dairy Production Margin Protection Program, a voluntary program designed to protect producer margins equal to the difference between the all-milk price and a national feed cost; and a Dairy Market Stabilization Program, also referred to as a supply management program.

If farmers sign up for the margin protection program, they are automatically enrolled in the stabilization program.

Both NMPF and the Wisconsin Dairy Business Association (DBA) offered their perspectives on presentations at this week's National Dairy Producers Conference in Indianapolis, IN, which was organized by NMPF.

NMPF reported that the benefits of adopting the DSA as part of the next farm bill will be obvious to farmers and policy makers, according to conference speakers.

During a Monday session reviewing the prospects for the farm bill in general and the outlook for the DSA in particular, panelists agreed that the risk management approach embodied in the DSA provides a cost-effective safety net for farmers, NMPF reported.

University of Minnesota economist Marin Bozic, who participated in the discussion, reported that farmers who enroll in the DSA will find that the program "works as catastrophic risk insurance. It reduces extreme margin risk, as it pays you the most when you need it the most."

Bozic said that farmers will likely view the risk of not enrolling in the program as far greater than being part of it.

Regarding concerns that milk production growth could be restricted by the DSA's market stabilization component, Bozic said producers using the three-month rolling base will experience milk production growth over the long term similar to if they were not part of the program.

Bozic is one of a group of midwestern university professors who have performed a detailed analysis of how the DSA program performs for farms of various sizes, under various economic conditions, NMPF noted.

One of the other academics, John Newton, an Ohio State University doctoral candidate, said that DSA works for farmers, whether small or large, and regardless of whether the model is merely a yearly analysis or a cumulative revenue report over a period of years.

DBA's perspective is that Bozic's presentation shows that the Dairy Security Act is even more concerning to dairy farmers than previously reported.

Last week, DBA said, Bozic confirmed that the proposed DSA

• See **Dairy Security Act**, p. 7

USDA Raises Milk Production Forecast, Reduces Some Dairy Price Forecasts; FAO's Dairy Price Index Jumps 11%

Washington—The US Department of Agriculture (USDA), in its monthly supply-demand estimates released Wednesday, increased its milk production forecast and lowered some of its dairy product price forecasts.

The milk production forecast for 2013 is raised from last month largely due to a slower pace of herd reduction and higher first-quarter milk per cow. USDA now expects 2013 milk production to reach a record 201.9 billion pounds, up 900 million pounds from last month's forecast and 1.6 billion pounds higher than 2012's record milk output.

USDA's 2013 fat-basis export forecast is raised largely on stronger shipments of butter, while skim-solid exports are raised based on greater nonfat dry milk shipments. Imports are unchanged on both a fat and skim-solids basis.

Price forecasts for cheese and dry whey are lowered based on expectations of increased production and moderate demand. USDA now expects cheese prices to average \$1.7100 to \$1.7700 per pound this year, down from last month's forecast of \$1.7150 to \$1.7850 per pound. Cheese prices averaged \$1.7076 a pound last year.

Dry whey prices are now projected to average 60.0 to 63.0 cents per pound this year, down from last month's forecast of 61.50 to 64.50 cents per pound but still higher

• See **Dairy Prices**, p. 10

Value Of US Dairy Exports Rose 1% In February; Cheese Exports Up 5%; Value Of Dairy Imports Fell, Cheese Import Volume Up

Washington—The value of US dairy exports during February was \$439.3 million, up 1 percent from February of 2012, according to figures released last Friday by USDA's Foreign Agricultural Service (FAS).

During the first two months of this year, US dairy exports were valued at \$883.7 million, up 3 percent from the first two months of last year.

Meanwhile, the value of US dairy imports during February totaled \$199.4 million, down 5 percent from February of 2012, FAS figures show.

The value of US dairy imports during the first two months of 2013

• See **Feb. Dairy Trade**, p. 6

Specialty Cheese Remains Largest Specialty Food Category; Sales Hit \$3.6 Billion In 2012

Yogurt And Kefir Jump Into Second Place Among All Specialty Food Categories

New York—Cheeses and cheese alternatives remained the largest specialty food category last year, while yogurt and kefir leapfrogged over other foods to become the second largest category, according to new research from the Specialty Food Association (formerly NASFT).

Overall sales of specialty food increased 14.3 percent to \$86 billion last year, more than double the 6.8 percent sales increase that was recorded in 2011.

"Three years of solid growth is clear evidence that consumers are choosing specialty food as part of their everyday lives," said Ron Tanner, vice president, communications and education for the

Specialty Food Association.

"Not only the foods but the artisans and entrepreneurs behind them are enjoying remarkable attention and interest across the US," Tanner added.

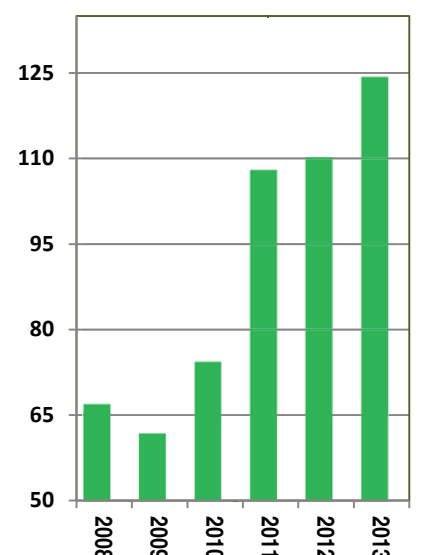
Specialty cheese and cheese alternatives recorded sales of \$3.6 billion last year, up 11.5 percent from 2010. Retail sales of all cheese and cheese alternatives last year reached \$17.4 billion, up 10.9 percent from 2010.

Specialty cheeses and cheese alternatives accounted for 20.8 percent of total retail cheese and cheese alternative sales last year.

Specialty yogurt and kefir sales last year reached \$2.3 billion, up 99.1 percent from 2010. Retail sales of all yogurt and kefir last year totaled \$6.9 billion, up 18.6 percent from 2010.

• See **Specialty Cheese**, p. 9

US Lactose Exports
January – February 2008 vs. 2013



New Rail Link Will Carry 200,000 Metric Tons Of Fonterra Milk Powder To Key Ports For Export

Wellington, New Zealand—A new rail link into Fonterra Darfield's site opened this week and is expected to carry 200,000 metric tons of milk powder in its first year of operation.

At the official opening, Fonterra director John Monaghan said it is all about taking Canterbury's milk to the world.

"This new rail link connects Fonterra's Darfield's distribution center to New Zealand's busiest rail line through to Lyttleton Ports of Christchurch. From there it's on to China, South East Asia and the Middle East," Monaghan said.

Andy Sanderson, general manager logistics network development and design, said rail connects Fonterra to New Zealand's key ports, from where dairy products are exported to over 100 markets around the world.

"Fonterra Darfield is on track to produce 85,000 metric tons of milk powder for customers this season, and our new rail link will provide a safe, efficient connection to Lyttleton Ports of Christchurch," Sanderson said. "The train is expected to carry the freight of approximately 90 trucks every day when the second dryer comes on line later this year.

"Rail also delivers environmental and financial benefits with fewer emissions and economies of scale that mean we drive better returns to our farmer-shareholders," Sanderson added.

Key to the success of the project was the partnership between Fonterra, KiwiRail, building contractors and the local community.

"The close working relationship has enabled the project to come in on time and on budget on a site that's also processing milk and building a second milk powder dryer," Sanderson said.

The site's second distribution center has also been completed on schedule and progress on the site's second dryer remains on track, with the first milk powder scheduled for late August.

Fonterra offered a few facts about its newly opened Darfield rail link including that the new rail link measures 700 meters in length and connects the site's distribution center to the main trunk line; there are three 620-meter rail sidings for loading containers; with both dryers running at capacity, the rail link will save approximately 17,000 truck journeys per year, or 90 per day at the peak of the season.

Dairy Security Act

(Continued from p. 1)

alternative of stand-alone margin insurance without supply management controls is more fiscally responsible, more sensitive to farm-level decision-making, and brings considerably less government intrusion.

In his presentation at the National Dairy Producers Conference, Bozic's analysis of the DSA, although not shown in comparison with the supply management-free alternative, indicates that margin insurance without supply controls at almost all levels is better for dairy farmers than the Dairy Security Act, DBA reported.

Small farms in particular do better without a supply management program, DBA stated.

At the base levels of coverage, fees are higher and penalties are greater under the Dairy Security Act than under the Goodlatte-Scott alternative, which is a

stand-alone margin insurance program.

"The stabilization program in DSA is so complex and any analysis is so full of assumptions, that it is more difficult, not less difficult, for dairy farmers to make a responsible decision," said Jerry Meissner, president of the DBA's board of directors.

The Goodlatte-Scott alternative would have removed the stabilization provision, and also would provide dairy farmers with the ability to obtain margin insurance, with catastrophic coverage, as a risk management tool for times of low milk prices and high feed costs. The proposal is expected to be offered as a bill in advance of the House mark-up of the farm bill, DBA reported.

Jerry Kozak, NMPF's president and CEO, said that competing approaches to the Dairy Security Act, either featuring no market stabilization element, or exempting all but the largest farms from

market stabilization, are both overly costly and politically unacceptable.

"Any proposal featuring margin insurance alone, such as the Goodlatte-Scott amendment, which severely limits the amount of milk that farmers can insure, will hamper the growth of their operations. Beyond that, it's a prescription for lower milk prices and higher government costs, which will scuttle the whole economic basis for margin insurance in the future," Kozak said.

Further, "any approach that attempts to drive a wedge between farmers of differing sizes by exempting large numbers of farmers from the market stabilization program is divisive and wrong.

In addition, it would dramatically increase the cost of the overall farm bill. The industry has moved beyond the regional divisiveness of past dairy policies and Congress needs to do so as well," Kozak added.

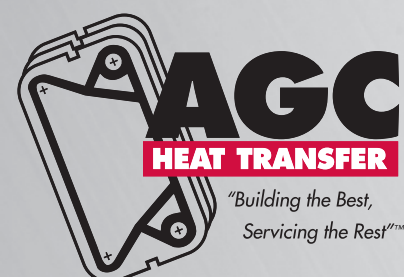
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