



MCT COMPASS

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Shootout in the Wild West

In January, USDA announced the termination of the Western Milk Marketing Order, effective April 1, 2004. The Western Order encompasses Utah, southern Idaho and eastern Oregon and Nevada, and was one of the 11 Orders carved out by Federal Order Reform implemented in January 2000.

It is important to note that Federal Orders can be voted in and out by two-thirds of the dairy producers in an Order. In this case, the dairy producers in the Western Order did not approve amendments to a Federal Order decision issued last August that they perceived as not going far enough to stop pool riding. Dairy Farmers of America, the co-op with the largest membership in the region, bloc-voted not to approve the amendments and hence voted out the

Order.

According to DFA's chairman Tom Camerlo, "Right now, dairy farmers who market milk to Class I (fluid milk) markets are shouldering all of the costs related to balancing and servicing this marketplace. At the same time, dairy farmers who sell to Class III (cheese) and Class IV (powder) plants are completely avoiding the expense. We felt this practice should not continue. This step (ending the Order) corrects some of the practices that have not only gotten out of hand, but are counter to the purpose of Federal Milk Marketing Orders."

Simply put, DFA, the largest marketer of Class I milk in the Western Order, decided it was no longer financially palatable to share the value of the Class I market with non-

members that ship to either proprietary processors or other cooperatives that opt-in and -out of the pool – otherwise known as pool riding – whenever it is financially beneficial to do so.

Historically, dairy cooperatives and proprietary processors have sought to increase the pay price to their producers by pooling milk on higher Class I (fluid) Federal Orders. However, recent periods of rising Class III (cheese milk) prices compared to Class IV (butter/ powder) prices have made even the Upper Midwest Order, which has never been considered a high Class I (fluid) milk market, an attractive market for over 100 million lbs. of Idaho milk each month. Thus the termination of

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KEN'S CORNER



**by Ken Meyers
President
MCT Dairies, Inc.**

It's going to take a few months or even a few years to understand the impact of the

elimination of the Western Order.

Will adjoining Orders fall like dominos as large volumes of milk search

for the highest paying Federal Order pools? Will California respond by reducing its regulated milk price?

These questions and others will be answered over time. But one has to recognize the vulnerability of the entire Federal Order system when a single large cooperative can bloc-vote the termination of an Order.

While the elimination of a Federal Order introduces chaos in milk market-

ing, the recent announcement by Monsanto that it will ration Posilac (bST) by 50% effective March 1, 2004, adds uncertainty in rate of output per cow, cull rates and overall milk supply.

In response, futures prices are tacking on healthy premiums and butter prices have hit 2-year highs.

In short, 2004 is lining up to be a very interesting year. **MCT**

The bST Impact?

Monsanto recently announced it was allocating its customers 50% of their historic Posilac (bST) shipments beginning March 1, 2004.

According to Monsanto, 40% of the 9 million dairy cows in the U.S. are in bST-treated herds. Assuming that 7.5 million of the 9 million cows are lactating, that leaves 3 million cows in herds using bST. Based upon a 50% supplementation rate, 1.5 million cows receive bST. A 50% reduction results in

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
JAN	1.3062	1.2539	11.61	1.4320	10.97
FEB	1.3475	1.2730	11.66	1.5700	11.55
MAR	1.3650	1.3350	12.10	1.6000	11.90
APR	1.3850	1.3550	12.40	1.5500	11.80
MAY	1.4450	1.4150	12.65	1.5500	11.70
JUN	1.5300	1.5000	13.60	1.6500	12.05

* Block, barrel and butter are monthly averages of CME prices.

750,000 cows not receiving the supplement and not producing an extra 8 to 12 lbs. of milk a day.

That translates into a 1.1 -

1.6% reduction in total milk supply for the year, or a 186-279 million lb. reduction in cheese production in 2004. **MCT**

Wild West ...

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the Western Order will place more pooling pressure on the existing Orders.

The Western Order consists of more than 700 dairy producers that account for 3% of total U.S. milk supply and more than 8% of U.S. cheese production. As of April 1, 2004, it will represent the largest volume of unregulated milk since the days of the Minnesota-Wisconsin price. Proprietary cheese manufacturers in the former Western Order will have the ability to pay less than regulated milk prices and offer their producers forward contracts in 2005. These are two competitive advantages over their regulated competition.

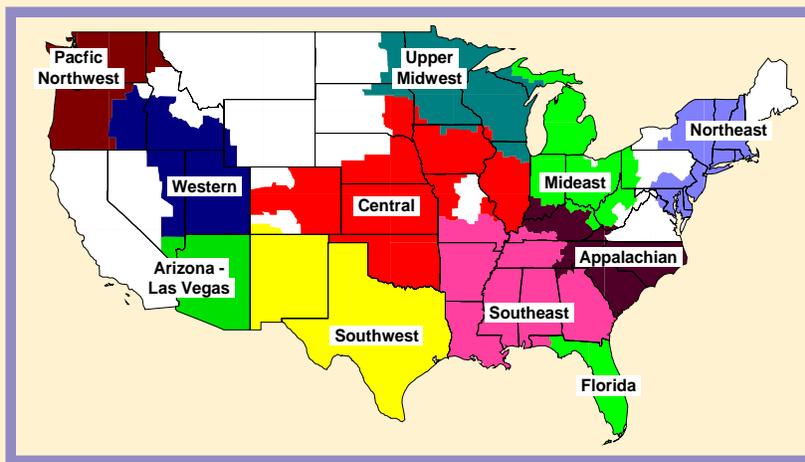
The Forward Contracting Pilot Program that has allowed proprietary cheese manufacturers within the Federal Orders to enter into forward contracts with their producers since July 2000 expires as of December 31, 2004, and legislation to make the program permanent has yet to pass. And, California still has been unable to pass legislation that allows for forward contracting.

Speaking at the Dairy Forum this month in Boca Raton, Fla., Patty Stroup, director of policy and pro-

ducer services for Hilmar Cheese Co., said, "The elimination of the Western Order has the potential of making California an island, meaning that it will be one of the few regulated markets in the West."

Regulated under the California State Milk Pricing Plan, Hilmar is required by law to pay dairy producers the announced regulated milk price. In 2003, the California 4b (cheese milk) price averaged \$11.24 per cwt. That was 18¢ less than the Federal Order Class III (cheese milk) price of \$11.42.

Not bound by regulated pricing post-April 2004, proprietary processors in the former Western Order will have the ability to meet, match and even beat prices of competitors that operate in regulated markets. **MCT**



The termination of the Western Order leaves an additional 3% of the U.S. milk supply, and 8% of the cheese supply, unregulated.

