

# CHEESE MARKET NEWS®

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## High feed costs, surplus milk straining on-farm profitability

By Alyssa Sowerwine

**MADISON, Wis.** — The outlook for dairy producer profitability in 2012 is increasingly grim as the milk supply both domestically and globally continues to grow, saturating the market, and feed costs are projected higher.

USDA in its "Ag Prices" report released Wednesday shows a February 2012 all-milk price estimate at \$17.90 per hundredweight, down \$1.10 from January and the lowest level since January 2011. Meanwhile, the corn price increased 9 cents to \$6.16, and soybeans increased 40 cents to \$12.30, USDA reports.

Analysts say that rising

feed costs and declining milk prices are expected to result in Milk Income Loss Contract (MILC) payments in 2012. This sentiment is echoed in a recently released "Farm Income and Costs: 2012 Farm Sector Income Forecast" report by USDA's Economic Research Service (ERS). The report says that for 2012, dairy producers are expected to receive \$170 million in MILC payments.

Based on the anticipated high prices of the feed components in the dairy feed ration, the National Average Dairy Feed Ration Adjustment (NADFR) in 2012 is expected to raise the benchmark MILC program price, triggering payments to dairy producers, the ERS report says.

The report also shows that net farm income is forecast to be \$91.7 billion in 2012, down 6.5 percent from the 2011 forecast.

Still, analysts such as Mike North, senior risk management advisor with First Capitol Ag, Platteville, Wis., don't necessarily see the situation curtailing milk production; rather, it could lead to some culling of cows and further consolidation within the industry. (For more on the producer consolidation

outlook, see related story in this issue.)

Robin Schmahl, commodity broker and owner of AgDairy LLC, Elkhart Lake, Wis., says that the lower projected milk price has rekindled the idea that Congress should place a milk price floor of \$20 per hundredweight.

"It is unclear how far this idea will go in light of budget cuts," Schmahl says. "One thing we can be sure of is that flooring a milk price at that level would require a supply management program, or milk production would grow by leaps and bounds, increasing supply and greater inventory given current market situations."

It's not just the United States that is seeing an abundant milk supply, either.

Butch Speth, dairy market reporter for USDA's Dairy Market News, notes that milk production in both New Zealand and Australia continues to outpace year-ago levels, and processing plants are working well to handle the volumes.

Weather conditions have been and remain favorable for milk growth in those regions, he says. Australian milk production numbers for January 2012 showed a 5.6-percent increase

over a year earlier, with year-to-date seasonal production through January running at a 3.8-percent increase over last year.

In addition, "international prices haven't dropped back much, which means we're probably largely a domestic market right now," says Bill Brooks, an economist with FCStone LLC/Downes-O'Neill.

In the United States, Class III milk prices in particular have seen some declines as the dry whey market has fluctuated in recent weeks.

"Class III milk price uncertainty is driven in part by the whey market," notes USDA's Dairy Market News. "Dry whey went from being rationed in December and early January to fairly abundant by the end of February."

Dry whey prices reported by Dairy Market News last week ranged from 39 cents to 69 cents in the West and from 66.5 cents to 75.5 cents in the Central region. Dairy Market News figures for this week released Thursday show the dry whey price at 30 cents to 75 cents in the Central region, 30 cents to 66 cents in the West and 68.25 cents to 74 cents in the Northeast.

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## Greek yogurt drives category, plant expansions, milk demand

By Rena Archwamety

**MADISON, Wis.** — The buzz in the dairy aisle on what's driving the yogurt category can be translated into one language: Greek. With its thick, creamy texture and tart accent, Greek-style yogurt is "one of the fastest-growing foods ever to hit the U.S. market," according to global market research provider Mintel's report, *Natural and Organic Food and Beverage: The Market — U.S., October 2011*.

Mintel last spring estimated that Greek-style yogurt accounted for 12 percent of all segment sales, and more recent estimates suggest Greek-style yogurt now accounts for a quarter of category sales.

"Greek yogurt has been the driver of growth for the last few years," says Sophie Schmitt, brand manager for Stonyfield Farms' Greek yogurt business. "It's been a wild ride. It caught everyone by surprise."

Schmitt adds that there have been times when the demand for Greek yogurt far outweighs the supply.

"It's a good problem to have," she says. "They're adding production everywhere. Anyone you talk to right now in the segment is adding capacity."

Stonyfield, which holds a 95-percent share of organic Greek yogurt, currently makes its Oikos-brand Greek yogurt in Pennsylvania with a co-manufacturing partner. The company now is working on expanding its yogurt plant in New Hampshire so it can start producing Greek yogurt in this location by the fourth quarter. Schmitt says the plan right now is to double production capacity in the next couple of years.

Other Greek yogurt processors also are undergoing major expansions. Chobani in the last two years has expanded from a small company of 45 people to now more than 1,000. Mintel calls Agro Farma's Chobani brand "arguably the most spectacular success story of the refrigerated yogurt segment" in its 2011 year-end report of U.S. yogurt and yogurt drinks.

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## Senate, House move on 2012 Farm Bill hearings

**WASHINGTON** — U.S. Sen. Debbie Stabenow, D-Mich., chair of the Senate Agriculture Committee, this week announced changes to the farm bill hearings schedule.

A hearing on nutrition, originally scheduled for March 14, will be moved up a week to March 7, and a hearing on risk management and commodity programs, initially scheduled for March 21, will move up to March 14.

With two hearings on energy and conservation already completed, the changes indicate Stabenow's attempt to get a farm bill ready for committee markup by the end of March, says the International Dairy Foods Association (IDFA). Moving the hearings up a week will give the committee time to negotiate policies after the four hearings are complete.

IDFA notes Stabenow has said she wants to write a new

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## PepsiCo., Theo Müller partner on yogurt venture

**BATAVIA, N.Y.** — PepsiCo., the world's second largest snack and beverage company, and Theo Müller GmbH, Germany's largest privately owned dairy business, have partnered to produce yogurt under the banner of Wave LLC and soon will break ground on a \$206 million facility here in the Genesee Valley Agri-Business Park.

The partnership's first

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# MARKET INDICATORS



## International Dairy Markets

March 2, 2012

### Western and Eastern Europe

**Butter:** 82 percent butterfat \$3,950(-275)-\$4,425(-50);  
99 percent butterfat \$4,600(-150)-\$5,000(-50).

**Skim Milk Powder:** 1.25 percent butterfat \$2,875(-25)-\$3,125.

**Whole Milk Powder:** 26 percent butterfat \$3,600(-100)-\$3,900(+75).

**Whey Powder:** Nonhygroscopic \$1,150(-50)-\$1,350.

### Oceania

**Butter:** 82 percent butterfat \$3,500(-200)-\$4,000(-100).

**Cheddar Cheese:** 39 percent maximum moisture \$3,500(-275)-\$4,400(-100).

**Skim Milk Powder:** 1.25 percent butterfat \$3,050(-150)-\$3,500.

**Whole Milk Powder:** 26 percent butterfat \$3,400-\$3,650(-50).

\*Source: Dairy Market News. Prices reported in U.S. dollars per metric ton, F.O.B. port. To convert to price per pound: divide price by 2,204.6 pounds.

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## Class & Component Prices

	February 2012	January 2012
<b>Class III:</b>		
Price	\$ 16.06/cwt.	\$ 17.05/cwt.
Skim Price	\$ 10.93/cwt.	\$ 11.44/cwt.
<b>Class IV:</b>		
Price	\$ 15.92/cwt.	\$ 16.56/cwt.
Skim Price	\$ 10.79/cwt.	\$ 10.93/cwt.
<b>Class II:</b>		
Price	\$ 16.94/cwt.	\$ 17.67/cwt.
Butterfat Price	\$ 1.5809/lb.	\$ 1.7248/lb.
<b>Component Prices:</b>		
Butterfat Price	\$ 1.5739/lb.	\$ 1.7178/lb.
Nonfat Solids Price	\$ 1.1993/lb.	\$ 1.2141/lb.
Protein Price	\$ 2.6627/lb.	\$ 2.7326/lb.
Other Solids Price	\$ 0.4541/lb.	\$ 0.5032/lb.
Somatic Cell Adjustment Rate	\$ 0.00077/1,000 scc	\$ 0.00080/1,000 scc
<b>Product Price Averages:</b>		
Butter	\$ 1.4712/lb.	\$ 1.5900/lb.
Nonfat Dry Milk	\$ 1.3792/lb.	\$ 1.3942/lb.
Cheese	\$ 1.5410/lb.	\$ 1.6097/lb.
Dry Whey	\$ 0.6400/lb.	\$ 0.6876/lb.

## CME FUTURES for the week ended March 1, 2012

### Class III Milk#\*

	Fri., Feb. 24	Mon., Feb. 27	Tues., Feb. 28	Wed., Feb. 29	Thurs., March 1
FEB12	16.08 5,439	16.07 5,439	16.07 5,435	16.07 5,426	16.07 5,432
MAR12	15.28 6,358	15.40 6,270	15.40 6,147	15.54 6,074	15.48 6,025
APR12	15.12 4,280	15.28 4,338	15.20 4,490	15.49 4,481	15.60 4,473
MAY12	15.15 3,498	15.29 3,472	15.25 3,462	15.40 3,429	15.48 3,428
JUN12	15.43 3,037	15.58 3,054	15.54 3,043	15.72 3,041	15.82 3,044
JUL12	15.92 2,285	16.02 2,306	16.01 2,348	16.10 2,361	16.14 2,368
AUG12	16.10 2,244	16.14 2,271	16.17 2,293	16.25 2,316	16.32 2,329
SEP12	16.31 2,159	16.35 2,181	16.35 2,187	16.34 2,193	16.38 2,205
OCT12	16.33 1,888	16.34 1,912	16.35 1,938	16.34 1,947	16.37 1,956
NOV12	16.19 1,712	16.26 1,736	16.26 1,756	16.24 1,766	16.27 1,780
DEC12	16.18 1,656	16.20 1,683	16.20 1,697	16.18 1,709	16.21 1,724
JAN13	16.04 154	16.00 155	16.00 155	16.00 155	16.00 155
FEB13	16.15 106	16.15 110	15.90 115	15.90 115	15.93 115
MAR13	15.99 41	15.98 42	15.75 42	15.75 42	15.80 42
APR13	16.15 20	16.11 20	16.11 20	16.11 20	16.11 20
MAY13	16.15 15	16.15 15	16.15 15	16.15 15	16.15 15
JUN13	16.15 17	16.15 17	16.15 17	16.15 17	16.15 17
JUL13	16.25 15	16.25 15	16.25 15	16.25 15	16.25 15
AUG13	16.40 9	16.40 9	16.40 9	16.40 9	16.40 9
Total Contracts Traded/ Open Interest	1,702/34,934	1,610/35,046	1,633/35,185	1,529/35,132	1,170/35,153

### Class IV Milk\*

	Fri., Feb. 24	Mon., Feb. 27	Tues., Feb. 28	Wed., Feb. 29	Thurs., March 1
FEB12	15.99 340	15.99 340	15.99 340	15.99 340	15.99 340
MAR12	15.44 320	15.43 320	15.43 320	15.43 320	15.43 320
APR12	15.30 323	15.30 323	15.30 323	15.20 323	15.20 323
MAY12	15.35 280	15.35 280	15.35 280	15.33 280	15.33 280
JUN12	15.80 228	15.65 234	15.65 233	15.65 233	15.65 233
JUL12	16.00 55	16.00 55	16.00 55	16.00 55	16.00 55
AUG12	16.29 52	16.29 52	16.20 51	16.20 51	16.20 51
SEP12	16.45 49	16.45 49	16.35 49	16.35 49	16.35 49
OCT12	16.50 56	16.50 56	16.50 56	16.50 56	16.50 56
NOV12	16.60 57	16.60 57	16.60 57	16.60 57	16.60 57
Total Contracts Traded/ Open Interest	54/1,817	6/1,823	4/1,821	0/1,821	0/1,821

### Cash-Settled NDM\*

	Fri., Feb. 24	Mon., Feb. 27	Tues., Feb. 28	Wed., Feb. 29	Thurs., March 1
FEB12	138.00 222	138.00 222	138.00 222	138.00 222	138.00 222
MAR12	131.00 208	131.00 208	131.00 208	131.00 208	131.00 208
APR12	128.00 228	128.00 233	128.00 241	126.75 241	126.00 242
MAY12	128.00 201	128.03 207	128.00 217	127.00 217	126.75 217
JUN12	132.00 277	131.75 281	130.00 296	130.00 299	129.00 299
JUL12	133.03 203	133.00 219	132.00 248	131.25 248	131.25 248
AUG12	134.75 164	134.75 168	134.75 181	134.00 192	134.00 193
SEP12	135.00 123	135.00 128	135.00 130	134.75 130	134.00 135
Total Contracts Traded/ Open Interest	85/1,876	48/1,918	196/2,017	33/2,047	15/2,054

### Cash-Settled Butter

	Fri., Feb. 24	Mon., Feb. 27	Tues., Feb. 28	Wed., Feb. 29	Thurs., March 1
FEB12	147.00 632	147.00 632	147.00 632	147.00 632	147.00 632
MAR12	145.45 822	142.75 825	143.00 830	143.50 825	145.48 824
APR12	150.50 589	149.25 597	149.50 628	149.75 626	151.75 629
MAY12	152.00 564	150.75 568	151.73 571	152.50 570	155.00 574
JUN12	156.25 528	154.50 537	155.00 549	155.50 549	157.00 550
JUL12	157.25 439	156.00 453	157.00 458	157.00 458	158.00 462
AUG12	160.25 438	158.50 468	158.50 470	158.50 470	161.00 476
SEP12	161.50 411	160.00 446	160.00 446	160.00 446	161.50 449
OCT12	163.50 416	162.00 422	162.00 422	163.00 424	163.00 429
NOV12	165.00 369	165.00 372	164.75 371	164.75 371	164.75 373
DEC12	164.50 335	163.00 340	164.00 343	164.00 343	164.00 343
Total Contracts Traded/ Open Interest	143/5,543	229/5,660	135/5,720	32/5,714	70/5,741

Daily market prices are available by visiting CME's online statistics sites at <http://www.cmegroup.com>.  
#The total contracts traded for Class III milk includes electronically-traded contract volumes.  
\*Total Contracts Traded/Open Interest reflect an additional month not included in this chart.

## Dry Products\*

March 2, 2012

### NONFAT DRY MILK

**Central & East:** low/medium heat \$1.2000(-7)-\$1.4500(-4);  
mostly \$1.3000(-1)-\$1.4100(-1).  
high heat \$1.4200(-2)-\$1.5000(-3 1/2).

**West:** low/medium heat \$1.2300(-2)-\$1.3900(-3 1/2);  
mostly \$1.2800-\$1.3600(-1 1/2).  
high heat \$1.3675(-1)-\$1.5000(-1/4).

**Calif. manufacturing plants:** extra grade/grade A weighted ave. \$1.3521(-.0120)  
based on 14,551,213 lbs. Sales to CCC: 0 lbs.

**WHOLE MILK POWDER (National):** \$1.6200-\$1.6700(-3).

**EDIBLE LACTOSE (FOB) Central and West:** \$ .7900-\$ .9950; mostly \$ .8200-\$ .9000.

### DRY WHEY

**Central:** nonhygroscopic \$ .3000(-36 1/2)-\$.7500(-1/2);  
mostly \$ .6200(-6 1/2)-\$.6850(-3).

**West:** nonhygroscopic \$ .3000(-9)-\$.6600(-3);  
mostly \$ .4500(-5)-\$.6400(-5).

**(FOB) Northeast:** extra grade/grade A \$.6825(-1/4)-\$.7400(-1/2).

**ANIMAL FEED (Central):** Whey spray milk replacer \$.5200-\$ .6400.

**WHEY PROTEIN CONCENTRATE (34 percent):** \$1.4200(-4)-\$1.6675(-1);  
mostly \$1.5100-\$1.5400(-1/2).

### DRY BUTTERMILK

**(FOB) Central & East:** \$1.2600-\$1.3425(-1/4).  
**(FOB) West:** \$1.2300-\$1.3050(-1 1/2); mostly \$1.2500-\$1.2900(-1).

**CASEIN:** Rennet \$4.3000-\$4.9000; Acid \$4.8200-\$5.1000.

\*Source: USDA's Dairy Market News

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GUEST COLUMNIST

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**Perspective:  
Dairy Markets**

Katie Krupa is director of producer services at Rice Dairy\* in Chicago. She is a guest columnist for this week's *Cheese Market News*®.

**The future of producer hedging on the Exchange**

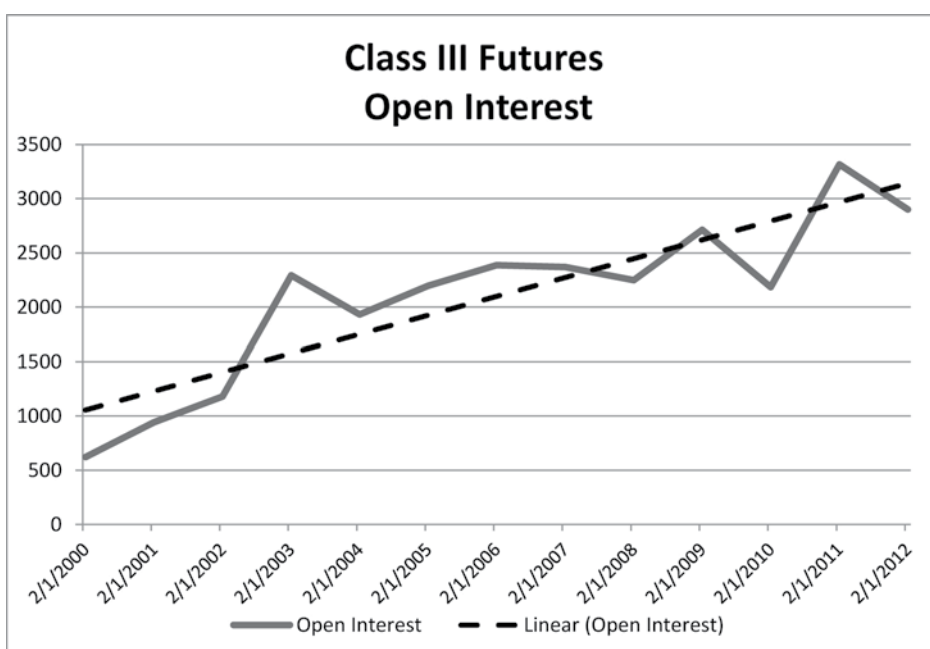
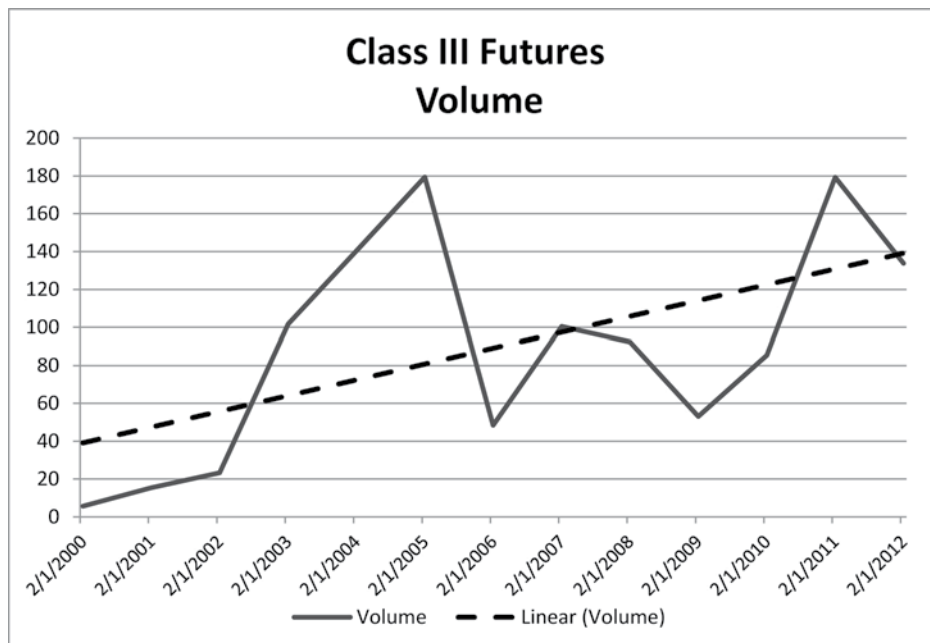
With the growing popularity of non-exchange traded risk management tools such as the USDA's Livestock Gross Margin (LGM) insurance program, cooperative and milk plant hedging programs and over-the-counter hedges, many wonder what the future will bring for producer hedging on the exchange. In my opinion, the introduction and growth of these non-exchange hedging tools will only provide more interest, and subsequently more volume, for exchange traded products.

Cooperatives and milk plants have been offering milk hedging programs since the 1990s with their product offering growing as the Chicago Mercantile Exchange (CME) offers more dairy contracts — such as cheese futures. The use of these programs has never been widespread although it has drastically increased in recent years. In June of 2008 USDA announced that LGM for dairy would be available for the upcoming crop year. Educational efforts were

made, but the first years of the program had very little participation. By year four of the program it sold out in just hours.

The growth in these types of hedging shows the growing appetite dairy producers have for risk management. The programs mentioned above have some advantages over hedging on the exchange — most notably the cost is typically due upon settlement rather than up front and contract size is typically more flexible. But these programs can be rigid in that they don't allow producers to adjust or exit the strategy, and they can ultimately be more expensive than hedging on the exchange (LGM was recently offered with a hardy government subsidy which made the program financially attractive).

As a broker working directly with dairy producers I encourage them to look into all the strategies available, and frequently I recommend a producer hedge with their cooperative or use LGM if it is available. Although producers are



utilizing these non-exchange products, I find that as producers become more comfortable with general hedging strategies, they end up hedging through the exchange for at least a portion of their milk. It is well known that trade volume and open interest has been steadily increasing (see volume and open interest charts for Class III Futures on the CME). I think this trend will continue, although slowly, as producers become more active in the exchange.

Although producer activity will help increase the volume and open interest on the exchange, the growth will be slow for two reasons. Firstly, dairy producers tend to be more cautious when it comes to trying new things, therefore although they start hedging, they may only hedge a small percentage of their milk. Also they may only hedge for a couple months at a time to become comfortable with the process. Secondly, total volume of dairy producer hedging is currently a small percentage of the total trade volume, so even if that volume doubles, triples, or even quadruples, it will not be a majority of the trade volume on the exchange.

Additionally, I think we will also see more diversity in the types of hedges producers are executing. In recent months the whey price has soared to new heights allowing producers to hedge the whey price at historically high levels. This hedge worked for producers who had a cheese contract through their cooperative or milk plant. By hedging the whey price along with the cheese price (which was done separately) producers

are able to essentially hedge their Class III price, and the majority of the risk exposure. Cheese, whey and Class IV have a lot of growth opportunity for dairy producers — the challenge is getting the producers the education they need to understand how these contracts can help them hedge their milk price risk.

As price volatility continues and producers see their profit margin grow and then contract to negative numbers, hedging will continue to gain popularity. Additionally, we'll see growth in other dairy contracts beyond the typical Class III contracts. I am excited to see what the future will bring and how the dairy producer hedges will add to the volume and open interest in the dairy markets. CMN

*\*These observations include information from sources believed to be reliable, but no independent verification has been made and therefore their accuracy and completeness cannot be guaranteed. Opinions and recommendations expressed are the opinion of the author and are subject to change without notice. The risk of loss in trading futures contracts or commodity options can be substantial, and investors should carefully consider the inherent risks of such an investment in light of their financial condition.*

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## NEWS/BUSINESS



## Largest farms produce more than half of milk; IDFA says proposed bill will hurt small farms

WASHINGTON — The largest 1,750 dairy farms now supply more than 50 percent of the U.S. milk supply, according to USDA's "Farms, Land in Farms, and Livestock Operations" 2011 summary published in February.

The 800 U.S. milk cow operations with 2,000 or more head produced 34.6 percent of the U.S. milk supply, up from 32.7 percent in 2010. The 950 milk cow operations with 1,000-1,999 head produced 15.7 percent of U.S. milk in 2011, up from 15.5 percent in 2010.

Meanwhile, one-third of the U.S. dairy farms, or about 19,400, that have fewer than 30 cows, produced only 1 percent of the milk supply in 2011, down from 1.1 percent in 2010.

Overall, the number of milk cow operations for 2011 totaled 60,000, down 4 percent from 2010. The number

of farms in the United States in 2011 is estimated at 2.2 million, down slightly from 2010.

"No one should be surprised by these numbers as the decline of small farms and the trend to larger dairy farms has been going on for decades in the dairy industry," says Jerry Slominski, senior vice president of legislative affairs and economic policy, International Dairy Foods Association (IDFA).

Slominski claims a bill endorsed by House and Senate agriculture leadership, both Democrats and Republicans, will actually increase the rate at which small farms are going out of business.

The Dairy Security Act, H.R. 3062, as introduced by Rep. Collin Peterson, D, Minn., requires dairy farms who participate in a new subsidy program to be subject to reduced milk payments when

the margin between feed costs and milk prices decreases significantly below average, IDFA says. The Congressional Budget Office estimates that 60 percent of dairy farmers will participate in the new subsidy program.

IDFA says as shown by the new USDA statistics, the remaining 40 percent could produce nearly 90 percent of the milk supply. A report, "Farm-Level Financial Impacts of the Dairy Security Act of 2011 (H.R. 3062)" by Charles Nicholson of the Department of Agribusiness, Cal Poly, San Luis Obispo, Calif., and Mark Stephenson of the Center for Dairy Profitability, University of Wisconsin, Madison, Wis., concludes: "While no one can require that farms of any size enroll in the new program, analysis indicates that the impact of the reduced payments under supply management [as required by the act] will have a harsher impact on smaller

farms."

IDFA says this report supports Slominski's assessment of the situation.

"It's pretty easy to see how the small farms will get squeezed out of business faster by this new government program," Slominski says.

However, others in the dairy industry support the Dairy Security Act. Last fall when it was introduced, the National Milk Producers Federation (NMPF) announced its full support for the bill, which is modeled on the dairy reforms developed and promoted by NMPF.

"It's been a long journey of reforming dairy policy following the difficult days of 2009, when America's dairy producers lost billions of dollars in equity, but the introduction of the Dairy Security Act is a huge step toward ending an ineffective program, and replacing it with something much better," says Jerry Kozak, president and CEO, NMPF. CMN

## Four Idaho lawmakers urge Congress not to limit varieties of milk offered in schools

WASHINGTON — In a letter sent last week to U.S. Agriculture Secretary Tom Vilsack, four Idaho legislators urged Congress not to limit milk varieties offered in schools and called for any new requirements for a la carte lines and vending machines in schools to remain consistent with the 2010 Dietary Guidelines for Americans, which allow lowfat flavored milk, yogurt and single serving cheeses, among other dairy products.

"We do not want federal regulations in Idaho that will limit our milk and dairy consumption in schools," say Idaho lawmakers Sens. Mike Crapo and James Risch and Reps. Mike Simpson and Raúl Labrador.

USDA has announced plans to release a rule this spring that would regulate foods and beverages sold in addition to the reimbursable school meal programs. (See "Industry continues to push for more school milk options" in the Jan. 20, 2012, issue of Cheese Market News.)

"While many schools have trended towards fewer varieties of milk offerings, these same cafeterias are filling their coolers and vending machines with more sports drinks, flavored waters, fruit drinks and diet beverages," the lawmakers write. "Though these

beverages may be marginally lower in calories, they are incomparable to milk in terms of nutritional value."

The lawmakers say they do not want federal regulations that limit milk and dairy consumption in schools and request the following recommendations when implementing the a la carte requirements:

- Allow lowfat and fat-free milk, flavored and plain, consistent with the 2010 Dietary Guidelines for Americans and recommended by the Institute of Medicine.

- Allow a variety of serving sizes for a la carte milk, both inside the cafeteria and in vending machines found throughout schools.

- Allow yogurt, single serving cheeses and other dairy products consistent with the 2010 Dietary Guidelines for Americans that recommend 3 cups per day of fat-free or lowfat milk and milk products for adults and children ages 9-18.

"The recent limitation on lowfat flavored milk in the final reimbursable school meal rule puts milk at a considerable disadvantage relative to competing beverages in schools, and we hope you will correct this situation in the yet to be proposed a la carte rule," the lawmakers add. CMN

## Yancey's Fancy sponsors Mazda Raceway at Laguna-Seca during 2012 event season

CORFU, N.Y. — Artisan cheese producer Yancey's Fancy will sponsor the Mazda Raceway at Laguna-Seca in Salinas, Calif., during the 2012 season.

Yancey's Fancy also has sponsorship deals with Watkins Glen Raceway in New York, Phoenix International Raceway in Arizona, the American Le Mans Series and the Grand Am Series.

"We've had success with Laguna-Seca in the past through Le Mans and the ROLEX Grand Am Series," says Mike Wimble, executive vice-presi-

dent of sales and marketing, Yancey's Fancy. "This is just the next logical step after everything we've seen over the past couple years. They're doing some fantastic things at the track, and we're happy to officially support the track."

Mazda Raceway at Laguna-Seca hosts such events such as the Red Bull U.S. Grand Prix, the American Le Mans and the Grand Am series, which offer substantial marketing opportunities, Yancey's Fancy says. CMN

## Sysco will purchase European Imports

HOUSTON — Sysco Corp. has reached an agreement to purchase Chicago-based European Imports Ltd. The acquisition is expected to be completed in the coming weeks.

"European Imports has a well-earned reputation and impressive track record in the high-end, specialty import products segment, and we are thrilled that they will be joining Sysco," says Chuck Staes, Sysco's Northern Region senior vice president. "This is an excellent strategic fit, which will help Sysco be a better competitor in this segment. European Imports will be a stand-alone business that will complement our Sysco broadline and specialty operations."

European Imports, which in its most recent fiscal year had annualized sales

of \$124 million, was founded in 1978 by Seymour Binstein, beginning as a cheese importer supplying primarily the Chicago market. Today, it has emerged as a full-line specialty food distributor to the central United States with concentration in the Midwest, Texas, Arizona, Colorado and Atlanta.

The management team and employees of European Imports will remain with the company, resulting in no changes in how customers, suppliers and vendors are served by European Imports.

"We are excited to be joining the Sysco family of companies," says Jeff Binstein, vice president-European Imports. "Our customers and partners can expect to receive the same great service that we have always offered." CMN

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## USDA announces recommended decision to amend Mideast milk marketing order

WASHINGTON—USDA in Wednesday's Federal Register issued a recommended decision that proposes adoption of an amendment to the pool plant definition of the Mideast milk marketing order.

The decision is based on testimony and evidence given at a public hearing held Oct. 4-5, 2011, in Cincinnati, Ohio. The decision recommends that the pool plant definition be amended to more adequately identify the plants that service the fluid milk needs of the marketing order.

Specifically, the proposed amendment would regulate fluid milk plants physically located within the Mideast

marketing area that have a Class I utilization of at least 30 percent and whose combined Class I route disposition and transfers into federal milk marketing areas are greater than 50 percent.

Comments on the decision are due by April 30 to the hearing clerk, USDA, STOP 9200-Room 1031, 1400 Independence Ave., S.W., Washington, D.C. 20250-1031. Comments also may be submitted online at [www.regulations.gov](http://www.regulations.gov).

For more information, contact Paul Huber with USDA's Agricultural Marketing Service/Dairy Programs, at 330-225-4758; e-mail: [phuber@fmmaclev.com](mailto:phuber@fmmaclev.com). **CMN**

## Land O'Lakes focuses on global growth, 'world of opportunity' at annual meeting

MINNEAPOLIS—After Land O'Lakes recorded its second highest net earnings in 2011, the company is focused on growth in a "world of opportunity."

That was the message delivered by Chris Policinski, president and CEO, at Land O'Lakes, at the cooperative's recent annual meeting. (*Please see "Land O'Lakes releases financial results; 2011 figures show record net sales" on page 12 of the Feb. 26 edition of Cheese Market News for detailed 2011 financial information.*)

Policinski says Land O'Lakes remains focused on continuing its strong performance and growth trajectory,

noting that agriculture and the food industry offer exciting opportunities going forward.

"Analysts estimate that feeding a growing global population—projected to expand from about 7 billion people today to more than 9 billion by 2050—is going to demand a 70-percent increase in food production," Policinski says. "Given the strong productivity record of U.S. agriculture, that increasing demand translates into significant opportunity for well-positioned producers, processors and agribusinesses."

The cooperative CEO says Land O'Lakes is positioned to capitalize on that opportunity, pointing to research and development capabilities, the cooperative's unique "farm-to-market" scope and global experience as catalysts for continued growth.

"Opportunity attracts competition and we expect competition—both domestic and global—to be aggressive," he says. "However, we remain focused on delivering a level of performance and strategic growth that enables us to compete and win, generating enhanced value for members and customers." **CMN**

## Tasmanian Dairy Products Co. will open \$80 million dry milk plant

SMITHTON, Australia—Tasmanian Dairy Products Co. Ltd plans to begin production of dry milk products at a former sawmill here by the end of year.

GEA Process Engineering recently announced it has agreed to a contract worth more than \$44.1 million to outfit the facility with equipment capable of producing 13,200 pounds of milk powder per hour.

The facility will produce milk powder exclusively for export and will target buyers in Asian and Middle Eastern markets, according to Tasmanian Dairy Products.

Tasmanian Dairy Products estimates the plant's total cost will exceed \$80.3 million.

"There is a strong focus on quality and security around the production of powdered milk, and that was one of the primary considerations for selecting GEA Process Engineering to be our supplier for this plant," says Gregg Pollack, board director, Tasmanian Dairy Products. "With their track record, ability to deliver complete plants such as ours on time and with assurance of quality, as well as their state-of-the-art technology, they were simply the best supplier."

The plant, which is slated for completion in about seven months, will produce 33,000 tons of milk powder annually and will have 65 full-time employees, the companies say. **CMN**

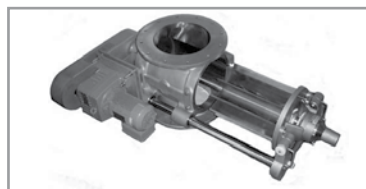


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# NEWS/BUSINESS



## IDFA, Cheese Importers Association urge Congress to fund FSMA rather than collect fees

WASHINGTON — More than 30 business associations and organizations, including the International Dairy Foods Association (IDFA) and the Cheese Importers Association of America (CIAA) recently sent a letter to leaders of the House Committee on Appropriations urging them to support the Food Safety Modernization Act (FSMA) with adequate funding rather than collecting fees from food companies.

The administration's 2013 budget request for the FDA includes a proposal to impose a food facility registration fee to fund activities required by FSMA. If approved by Congress, the fees would bring in \$220 million in fiscal year 2013 from food producers, makers and distributors, according to FDA estimates.

In a letter sent last Thursday to Reps. Harold Rogers, R-Ky., House Appropriations Committee chair, and

Norm Dicks, D-Wash., ranking member, the groups express their support for FSMA, noting that the food industry has worked diligently with FDA over the past year to aid with the act's implementation.

However, the groups note that Congress has twice rejected proposals to impose registration fees as a way to pay for FSMA and ask the members to reaffirm their opposition.

"If FDA requires additional funds to support FSMA implementation, the agency could have included such a request in its fiscal year 2013 budget proposal, rather than seeking authorization of new regulatory taxes, which Congress has twice previously rejected," the groups write. "We stand ready to work with Congress and the administration to find a better and less burdensome solution." CMN

### Raising Hope



Photo courtesy of Organic Valley

LA FARGE, Wis. — Tanzanian Ambassador to the United States Mwanaiidi Maajar recently visited the Organic Valley headquarters in La Farge, Wis., to discuss sustainable agriculture. With her are Ryan Skaife (left), co-founder of the Hope in Tanzania Foundation, and George Siemon (right), CEO for Organic Valley.

The Hope In Tanzania Foundation and the Center for Cooperatives at the University of Wisconsin-Madison are forming Hope Cooperative, an international cooperative that will assist in communication between Tanzania and Wisconsin, highlighting five sustaining pillars: agriculture, energy, education, health care and infrastructure. CMN

## CWT accepts 20 requests to assist exports

ARLINGTON, Va. — Cooperatives Working Together (CWT) has accepted 20 requests for export assistance from Dairy Farmers of America, Darigold, Maryland & Virginia Milk Producers Cooperative, Michigan Milk Producers Association and United Dairymen of Arizona to sell a total of 1,129 metric tons (2.5 million pounds) of Cheddar, Gouda and Monterey Jack and 1,385 metric tons (3.1 million pounds) of butter to customers in Asia, Central America, the Middle East and

North Africa. The product will be delivered February through June 2012.

In 2012, CWT has assisted member cooperatives in making export sales of Cheddar, Gouda and Monterey Jack totaling 26.9 million pounds and butter totaling 23 million pounds to 16 countries on four continents.

CWT will pay export bonuses to the bidders when delivery of the product is verified by the submission of the required documentation. CMN

## NDB is accepting scholarship applications

ROSEMONT, Ill. — The dairy checkoff will once again award 20 academic scholarships to students currently enrolled in programs that emphasize dairy and have shown potential to become future dairy leaders.

The National Dairy Promotion and Research Board (NDB), through Dairy Management Inc., which manages the national dairy checkoff, annually awards up to 19 \$1,500 scholarships. In addition, the NDB awards a \$2,500 James H. Loper Jr. Memorial Scholarship to one outstanding scholarship recipient.

Eligible majors include journalism, communications/public relations, mar-

keting, business, economics, nutrition, food science and agriculture education. Scholarship criteria include academic achievement and a career interest in a dairy-related discipline, along with demonstrated leadership, initiative and integrity.

Interested students can download an application from the "about us" section of [www.dairycheckoff.com](http://www.dairycheckoff.com). Completed applications and all required documentation should be submitted to the NDB c/o Jolene Griffin, DMI, 10255 W. Higgins Road, Suite 900, Rosemont, IL 60018-5615, by April 15. Questions can be directed to Griffin at 847-627-3320 or at [jolene.griffin@rosedmi.com](mailto:jolene.griffin@rosedmi.com). CMN

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## Obituaries

## LaVerne E. Johnson

**GROSSE POINT, Mich.** — LaVerne E. Johnson, founder of VernDale Products Inc. and manufacturer of dried milk powder for more than 50 years, died Feb. 22. He was 86.

Johnson was born to dairy farmers Eddie and Clara Johnson in West Sweden, Wis., and enlisted in the United States Marine Corps in 1944 after his high school graduation. He was deployed to the Kwajalein Atoll in the Marshall Islands from 1944-1945 before he was honorably discharged as a sergeant in 1946.

After the war, Johnson moved to Chicago where he met and married Marlene Kramme in 1951. They moved to Detroit in 1958 to start VernDale Products Inc. The milk powder manufacturing plant continues today as a family business with second and third generation leadership. His connection to agriculture continued in 1961 when he planted his first citrus grove outside of LaBelle, Fla. In 1968, he started VernDale Farms, a hog farm in Fowlerville, Mich. Both are still in operation.

He was a member of American Dairy Products Institute (ADPI), Gulf Citrus Growers Association and Classic Car Club of America. He will be missed by the many whose lives he has touched.

In lieu of flowers, memorial contributions may be made to St. Paul Evangelical Lutheran Church, or to Beaumont Hospice-Grosse Pointe.

Johnson is survived by wife Marlene, children Dale (Robin), Rhondi (Fred), LaMar (Dan) and Barry (Nancy), 11 grandchildren and two great-grandchildren. CMN

## Paul M. McShane

**NAPLES, Fla.** — Paul M. McShane, who spent decades working in the cheese business, passed away Feb. 22 following a brief illness. He was 66.

McShane was born and raised in Chicago and moved to Wisconsin with his family in 1983. He spent his entire career in the cheese business and for the past 20 years he worked in sales at Emmi Roth USA LTD.

Paul is survived by his wife of 40 years, Mary; children Katie (Adam) Bruckner and Tim McShane; a brother John A. (Mickie) McShane; a sister, Ellen Soulis; nieces, Kara (Bryan), Nora, Megan, Shana and Sabrina; and many cousins, friends and business associates. Memorials can be made to the Paul McShane College Scholarship Program or to a charity of your choice. CMN

## Comings and goings

**Dairy Farmers of America**, Kansas City, has named **Harry De Lint** as its director of process design and improvement. He will work on various projects at various locations to improve efficiency and plant operations in his new role. De Lint has extensive background in the dairy industry, having built several dryer and evaporator plants and butter operations. He has worked for Land O'Lakes, Tetra Pak and California Dairies Inc. He was involved in engineering and designing major projects and overseeing the implementation and commissioning of them.

**Viking Pump Inc.**, Cedar Falls, Iowa, has announced that **Kerry Baskins** has been appointed vice president of sales. In his new role, Baskins will be responsible for the worldwide sales for Viking Pump and Wright Flow Technologies products. Kerry previously worked in sales and marketing at Viking Pump from 1990-1997 and since has held positions at Liquid Handling Systems, JCI Industries and at Grundfos Pump as vice president. Viking Pump also announced the appointment of **Bill Canady** to general manager of parts and service. He will be responsible for building a portfolio of genuine parts and kits for the Viking Pump and Wright Flow Brands. Canady previously was the vice president of marketing for Viking Pump.

**Expro Manufacturing**, Los Angeles, has announced that **Patrick Masson** has been appointed vice president of ingredient sales. He will be responsible for leading the company's sales growth in the United States with customers in the food processing and manufacturing industries. Prior to his appointment, Masson was a co-owner of Lelio and Sons Brokerage Co. and also served as sales representative for Chateaux Cheese Corp. CMN

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# EVENTS



## Nebraska Dairy Convention features dairy economist, host of industry insiders

LINCOLN, Neb. — Dairy economist Marin Bozic has been added to the lineup of speakers for the Nebraska Dairy Convention to be held here March 13-14 at Divots Conference Center.

Bozic, an assistant professor at the University of Minnesota, will present a session titled "Managing Risk and Seizing Opportunities in 2012 and Beyond" at 4:30 p.m. March 13. Prior to that, Tom Trehwitt of the Nebraska Department of Environmental Quality will provide an update on nutrient management regulations.

The Nebraska Dairy Convention carries a theme of "The Future...Is Now," and begins with a trade show

at 10 a.m. March 13 followed by a presentation titled "Managing Today's Commodity Prices" by Archer Daniels Midland nutritionist Ron Linnquist; a session called "Open Cow Mystery," presented by Dennis Hermes DVM, Novartis Animal Health; a presentation by Midwest Dairy Association on Fuel Up to Play 60; and a session on "Animal Welfare – the Next Challenge" led by We Support Agriculture.

For more information, contact Rod Johnson, Nebraska State Dairy Association, at 402-261-5482 or rod@nebraskamilk.org. Attendee and sponsorship registration forms are available at nebraskamilk.org. CMN

## Eighth annual Oregon Cheese Festival set for March 17, benefit dinner is March 16

CENTRAL POINT, Ore. — Oregon-inspired culinary events, including a farmer's market-style artisan food and wine festival, will highlight the Oregon Cheese Festival to be held here at Rogue Creamery March 17.

Cow, sheep and goat cheese from Oregon creameries will be available for sampling.

"The farmer's market format will present an interactive experience between makers and visitors, giving everyone an opportunity to talk about the product, the process and learn each individual cheese-maker's story," says David Grem-

mels, co-owner of Rogue Creamery. "It's a way to truly be connected with the source of the cheese being presented."

The festival will be open to the public from 10 a.m.-5 p.m. March 17th. A \$15 entry fee includes tasting and demonstrations. A \$5 wine tasting fee includes a commemorative wine glass. Tickets to a benefit dinner for the Oregon Cheese Guild March 16 are \$90 per person and are available by calling 866-396-4704. For more information, visit [www.oregoncheeseguild.org](http://www.oregoncheeseguild.org) or [www.roguecreamery.com](http://www.roguecreamery.com). CMN

## CDFA plans meetings on milk pricing

SACRAMENTO, Calif. — The California Department of Food and Agriculture (CDFA) plans to hold four meetings to foster dialogue on the state's milk pricing system.

Karen Ross, CDFA secretary, says the meetings will focus on trends in manufactured dairy products, long and short term issues in the cheese pricing formula and the

state's competitiveness in global dairy markets.

The meetings will be held at the CDFA auditorium, 1220 North St., Sacramento, from 2-4 p.m. March 12, 10 a.m.-12 p.m. March 30, 1-3 p.m. April 13, and 2-4 p.m. April 27.

A full agenda for the meeting will be available March 2 at [www.cdfa.ca.gov](http://www.cdfa.ca.gov). CMN



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## NEWS/BUSINESS



## GREEK

Continued from page 1

“The Chobani brand grew from \$196 million in 2010 to an estimated \$490 million in 2011 in FDMx (food, drug and mass merchandiser sales excluding Walmart) alone while its kid’s line, Chobani Champions, grew from \$1 million in 2010 to an estimated \$9 million in 2011,” Mintel says in its report.

To accommodate continued growth, Chobani at its South Edmeston, N.Y., plant currently is increasing capacity by 30 percent and has broken ground for another large building expansion at this site that includes more filling and palletizing equipment. It is expected to be running by early fall. Chobani also

broke ground in December on a new facility in Idaho, where it expects to be running its first lines in July. By the end of the year, Chobani will have doubled the capacity of its company production.

“You can only describe the growth of Chobani as explosive,” says Mike Pederson, Chobani’s chief operating officer. “We bring in over 3 million pounds of milk a day and are still growing ... when we look at where we launched and began providing product, in four years we went from a small great company to the No. 1 spot, the leading Greek yogurt in the United States.”

• **Farmer support**

In addition to the yogurt category, the tremendous growth of the Greek Yogurt industry also has benefitted dairy farmers, particularly on the East Coast where many of the Greek yogurt

processors are located.

Chobani, which sources its milk through DMS (Dairy Marketing Services), receives 95 percent of its milk from New York dairies. Pederson says it is important for the company to have a local foothold in its community, to be a good member of the community as well as being close to the source. Pederson estimates that over time, Chobani has created 500 dairy farm jobs due to the milk it is using.

“I think it’s very special. I have been in the dairy industry for a while, and seeing the dairy industry struggle in the East and New York, this has come as a breath of fresh air,” he says of the growing demand for milk for Greek yogurt. “It’s a new opportunity for a source for milk. When I talk to farmers in this area, they say it’s a new opportunity for

another generation, an opportunity for farms to grow and put on more cows.”

Part of the benefit of Greek yogurt production to dairy farms is that, due to the process that requires straining off excess liquid and whey to create the thicker consistency, much more milk is needed for Greek yogurt compared to the same amount of regular yogurt. This has increased the demand for milk supply, which at times has even been short.

“The challenge is when you make a cup of Greek yogurt, you need three times as much. So that’s a giant amount of milk, and a giant amount of organic milk, which is of course in tight supply right now,” Schmitt says.

Stonyfield Farms partners with the CROPP, the parent cooperative of Organic Valley, to provide the organic milk supply for its regular and Greek yogurt products.

“We’ve been lucky, because with our relationship with CROPP, we haven’t had any shortages,” Schmitt says. “But we do see pressure in price at this stage. With the reduction in supply, price is going up. We’re lucky we do have a strong partner in CROPP to manage our needs.”

While there has been some cannibalization in the yogurt category—slowing sales of regular yogurt due to consumers switching to Greek yogurt—the overall category still is growing.

“As more consumers converted to Greek yogurt, it took the wind out of regular yogurt’s sales. That said, last year was really a race of folks moving to Greek. Now we’re starting to see more growth in the regular segment,” says Tripp Hughes, director of category management, Organic Valley.

The continued growth of Greek yogurt and Stonyfield’s Oikos brand also continues to be a benefit for CROPP organic farmers, Hughes says.

“Certainly the demand for ingredients that we’re supplying for their Greek yogurt has experienced a phenomenal growth,” Hughes says. “From the supply side, Greek yogurt has been a boon to growing the category, and helping to grow the amount of milk our farmers are selling.”

He adds that the cooperative grew by a total of 212 farms last year, approximately a 12-13 percent membership growth.

“Yogurt was definitely a role in that,” Hughes says. “We continued to add farms on to support raw milk demand in the East, and we continued to add farms on in other parts of the country to support value-added ingredients like nonfat dry milk powder.”

• **Greek innovation**

While spoonable Greek yogurt is driving the category, more innovations in Greek yogurt products are being introduced as well.

Stonyfield launched drinkable Oikos Greek yogurt in July and Oikos Organic Nonfat Greek Frozen Yogurt in August of last year.

Schmitt says the drinkables haven’t taken off as fast as the spoonable Oikos, but it slowly is gaining acceptance and Stonyfield is working on expanding

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Turn to YOGURT, page 11 ⇨



## NEWS/BUSINESS



### VENTURE

*Continued from page 1*

yogurt production facility is expected to create 186 new manufacturing and support jobs and was fostered through state tax credits.

New York State, through Empire State Development, will provide the company with \$3.3 million in Excelsior Jobs Program tax credits, as well as \$1 million from NYS Homes & Community Renewal and a \$10 million NYS Investment Tax Credit. Genesee County will also provide an estimated \$12 million in sales and property tax savings, according to the office of New York Gov. Andrew Cuomo.

"This project demonstrates that leading international companies like PepsiCo and Müller see New York as a premier place to invest and the natural choice for their first venture into the yogurt business. With over \$200 million in private investment and nearly 200 new jobs, this opportunity is another strong boost to the region's growing dairy industry," says Cuomo.

The companies considered other locations both in and outside of New York for the facility. However, due to the location's access to dairy resources, water supply and distribution routes to key markets, the company chose the Genesee Valley Agri-Business Park in Batavia.

"Location, location, location. That mantra holds true for yogurt production in New York State as we are ideally situated in an area of the country that is not only great for producing high quality milk, but is also close to numerous metropolitan markets with consumers hungry for this dairy dense product. This growing sector of the dairy industry heavily supports our hard-working family farms, creates

**"Location, location, location. That mantra holds true for yogurt production in New York State as we are ideally situated in an area of the country that is not only great for producing high quality milk, but is also close to numerous metropolitan markets with consumers hungry for this dairy dense product."**

Darrel Aubertine  
NEW YORK STATE  
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thousands of jobs in our rural communities, and puts a healthy and locally made product on store shelves that all New Yorkers can be proud of," says Darrel Aubertine, New York State Agriculture Commissioner.

While the facility is being developed over two years, Wave may import Müller products in order to establish a foothold in the fast-growing United States yogurt business, according to the companies.

New York currently has 29 yogurt plants, which employ more than 2,000 people and produced a total of 530 million pounds of yogurt in 2011— a 43 percent increase from 2010. Chobani and FAGE Inc., two of the largest yogurt producers in the nation, announced major investments in New York in 2011. **CMN**

ing from new flavors, and also I think in new formats," Schmitt says of the Greek yogurt category. "There are parfaits out there, with cereal in a ready-to-go breakfast. There are new formats like squeezers, nutrition bars, and granola bars made with Greek yogurt. I think there's lots of potential for expanding beyond the category with Greek yogurt."

Pederson says Chobani is in the innovation stage for a host of new products, and the company plans to continue to innovate and produce new products.

"I am so proud of this team at Chobani I work with. They are such a great reflection of the organization and enthusiasm that goes into the product," Pederson says.

"We certainly see a huge opportunity," he adds on the future of Greek yogurt. "It's a great product, and consumers continue to move to this yogurt and particularly Chobani. We don't know how high it is, but we see a lot of growth. I don't know where it's going to end. I don't think it's ever going to end." **CMN**

### YOGURT

*Continued from page 10*

distribution.

"It's very innovative, and we had to make sure to position it in the right place," she says. "It's an on-the-go solution for Oikos users with extra protein. We developed very Greek-like flavors, including honey vanilla, pomegranate and peach."

The Frozen Oikos is just now gaining some national distribution, and it comes in vanilla, chocolate, blueberry and honey flavors, Schmitt says.

"It is for people looking for a healthy alternative," she says. "It has the probiotic advantage, zero-percent fat, and it's tarter and has more protein. It's a very healthy snack."

In January, Stonyfield introduced a Greek yogurt for kids under its YoKids brand, and Schmitt says it has received rave reviews from both kids and adults.

"There is a lot of innovation now com-

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1601H



## NEWS/BUSINESS



## EPA finalizes non-cancer science assessment for dioxins; cancer assessment is pending

WASHINGTON—The U.S. Environmental Protection Agency (EPA) recently finalized its non-cancer science assessment for dioxins, which was last reviewed in the 1980s.

The International Dairy Foods Association (IDFA) and other members of the Food Industry Dioxin Working Group—a coalition of agriculture, processing and retail food organizations—late last year asked the White House to take a role in EPA's ongoing efforts to finalize a draft dioxin risk reassessment.

"We are concerned with EPA's plan to break from longstanding international science-based dioxin standards and split the reassessment into non-cancer and cancer risk assessments, while setting a reference dose (RfD) for non-cancer risk," the coalition said in a letter sent late last year. "Since the primary route of human exposure to dioxin is through food, this would not only mislead and frighten consumers about the safety of their diets, but could have a significant negative economic impact on all U.S. food producers." (See "Coalition voices concern on dioxin assessment" in the Dec. 16, 2011, issue of Cheese Market News.)

On Feb. 17, EPA finalized its final

"Reanalysis of Key Issues Related to Dioxin Toxicity and Response to NAS Comments, Volume 1." The document provides hazard identification and dose-response information on 2,3,7,8-tetrachlorodibenzo-p-dioxin (TCDD) and the most up-to-date analysis of non-cancer health effects from TCDD exposure. The report also includes an oral reference dose (RfD) and a detailed and transparent description of the underlying data and analyses.

The cancer assessment is pending.

IDFA notes that in this new assessment, EPA does call the U.S. food supply "one of the safest and most nutritious in the world."

According to EPA, dioxins are toxic chemicals that naturally exist in the environment and can be released into the environment through forest fires, backyard burning of trash, certain industrial activities and residue from past commercial burning of waste. The recent findings show that generally, over a person's lifetime, current exposure to dioxins does not pose a significant health risk.

Over the past two decades, EPA has worked to reduce emissions from all of the major industrial sources of dioxins.

Known and measurable air emissions of dioxins in the United States have been reduced by 90 percent from 1987 levels. The largest remaining source of dioxin emissions is forest fires.

Most Americans have low-level exposure to dioxins. Non-cancer effects of exposure to large amounts of dioxin include developmental and reproductive effects, damage to the immune system, interference with hormones, skin rashes, skin discoloration, excessive body hair and possibly mild liver damage, EPA says.

EPA has identified many known sources of dioxins. Working with other federal partners, such as the U.S. Department of Health and Human Services and USDA, EPA has taken steps to address dioxin. This includes supporting research on dioxin exposure and effects; assessing dioxin human health risks; measuring dioxin levels in the environment, diet and in bodies; and reducing exposure to dioxin.

For more information on dioxin, visit [www.epa.gov/dioxin](http://www.epa.gov/dioxin). CMN

## HEARINGS

*Continued from page 1*

five-year farm bill rather than extend the current bill or draft a slightly altered bill that would last only a year or two.

"Even with the Senate's attempt to speed up the farm bill process, we will remain diligent against any inclusion of a dairy supply management component that would inhibit exports and burden the free market with more regulations," says Jerry Slominski, IDFA senior vice president of legislative affairs and

economic policy.

The Senate has agreed to work on the farm bill first to give freshman House Agriculture Committee members enough time to acclimate themselves with the bill's details. If the Senate produces a bill and holds a markup, the House would then consider the legislation.

Also this week, the House Agriculture Committee announced plans to hold four field hearings on the Farm Bill starting next week. The dates and proposed locations are March 9 in Saranac Lake, N.Y.; March 23 in Galesburg, Ill.; March 30 in State University, Ark.; and April 20 in Dodge City, Kan. CMN

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## NEWS/BUSINESS



## Forum speakers discuss dairy prices, volatility

By Rena Archwamety

WASHINGTON — USDA's 2012 Agricultural Outlook Forum wrapped up Feb. 24 as speakers discussed the outlook, economic issues and driving factors of the dairy industry. (See "Factors driving dairy sector discussed at Outlook Forum" in last week's issue of Cheese Market News.) Rising feed costs and increased milk price volatility were among the topics discussed in the dairy session.

Milton Madison, agricultural economist for USDA's Farm Service Agency, presented the 2012 outlook for U.S. dairy.

"The U.S. dairy industry enters 2012 in an environment of falling dairy product prices and rising feed costs. These high feed costs and the declining milk prices are pressuring returns to dairy farmers," Madison said in his speech.

"Unfortunately, as dairy farmers' feed costs are rising, their milk prices received are falling," he adds. "Increasing milk production has pressured milk prices since their peak in the third quarter of 2011 and milk prices are staged to fall further during the first half of 2012."

Madison says the milk-feed price ratio could decline to 1.6 during the first half of 2012, the lowest since 2009.

Domestic demand is expected to con-

tinue to improve as economic recovery is on track to continue this year, but demand for dairy products is not keeping pace with production increases, Madison says. World demand also is expected to be strong, especially in Asia. Chinese imports of whole milk powder are forecast at 827 million pounds in 2012, a 7-percent increase from last year, and Chinese imports of skim milk powder are expected to total more than 300 million pounds in 2012, a 19-percent increase from 2011, Madison notes.

He also mentions U.S. cheese exports for 2011 reached a record high and were 29 percent above 2010. U.S. cheese exports are expected to remain near the 2011 level this year as well, he says.

In his speech, Madison said USDA projections for farm business income show average net cash income per dairy farm recovered significantly in 2011, but the outlook for 2012 is for average net cash income to drop by 27 percent to average \$175,500 per farm. In 2012, dairy producers likely will continue to adjust production practices to lessen the impact of higher costs, especially for feed, he says.

"Given projected income forecasts, 2012 could be a challenging year for those U.S. dairy producers who rely on purchased feed and have high debt levels," Madison

Turn to OUTLOOK page 15 ⇨

## MARGIN

Continued from page 1

Dry whey futures Wednesday were at 64.48 cents for March and trending lower moving into the second part of the year.

Analysts note that every penny change in the dry whey price contributes 6 cents per hundredweight to the Class III price; therefore, a dime drop in the NASS dry whey price reduces the Class III price by 60 cents.

Class III futures prices on Wednesday showed an average of \$15.54 per hundredweight in March, dropping to \$15.40 by May, and then rising back into the \$16-\$16.40 range in the latter part of the year and in early 2013.

Meanwhile, excess milk is ramping up dairy product production throughout the United States, Dairy Market News says.

"With the capacity of some cheese manufacturers in the Midwest already nearing limits, some Midwest milk has also been shipped to the Southeast for use in cheese plants operated only part of each year to accommodate heavy milk supplies," Dairy Market News says.

With increasing dairy product production levels, the cash price outlook for cheese and butter is uncertain at the Chicago Mercantile Exchange (CME).

While analysts note some increased domestic demand for the upcoming Easter holiday buying period, there is uncertainty over where prices will go in the weeks after that.

"Prices may go back down after the holiday period unless there's a positive change in demand or renewed buyer interest," North says.

Dairy Market News notes that some manufacturers and brokers have been waiting for an uptick in retail advertising with more price focus to help move sales.

"The anticipated increase in advertising and promotions has been attributed to more frequent expression of confidence by retail buyers that there will not be significant upward cheese price 'surprises' in the coming weeks before ads can run," Dairy Market News says.

Cheddar barrel prices at the CME saw slight increases this week, rising 0.25 cents Tuesday to \$1.4725 per pound and 2.75 cents Wednesday to \$1.5000, where they remained Thursday.

Blocks also bumped up this week to \$1.4875 as of Thursday. (For today's prices, see chart on page 2.)

Cash butter prices, which have been hovering in the upper \$1.30s to low \$1.40s range in the past two weeks, bumped up 6.75 cents on Thursday to \$1.4650 per pound.

"I think some folks are wondering how butter is staying up where it's at given inventory levels," Brooks says.

However, analysts note that the Cooperatives Working Together program in recent weeks has helped to move both excess cheese and butter internationally.

"Very good export demand has increased the volume of 82-percent butter production," Dairy Market News says. "Export interest is very good, with some plants receiving export queries almost daily."

Dairy Market News notes that seasonal domestic demand increases are being reflected in expanded private label orders for butter as well.

James Dunn, professor of agricultural economics at Penn State University, says the butter market seems to be stabilizing a bit after a "troublesome" pricing period.

Still, "I wouldn't be shocked to see it go down further," he says. "Maybe not in the short run, but once we get into April/May with this surplus milk production." CMN

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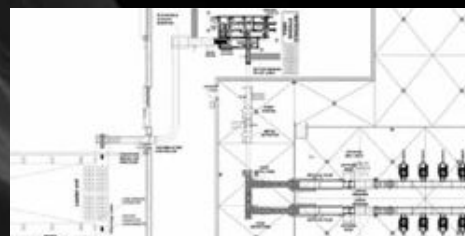
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## NEWS/BUSINESS



### OUTLOOK

*Continued from page 14*

says. "Price formation in the U.S. dairy industry is becoming more dependent on events in global markets. The result is likely to be greater variability in prices for dairy products and milk."

Andrew Novakovic, E.V. Baker Professor of Agricultural Economics at Cornell University, chair of the USDA Dairy Industry Advisory Committee (DIAC) and senior economist in the USDA Office of the Chief Economist, followed up on the 2012 dairy outlook with a presentation on the economic issues underlying proposals for new dairy policy.

"What I tried to do is give some interpretation of the (dairy outlook) numbers from the standpoint of not only what do these annual events, but more importantly multi-year outcomes, mean for the industry, and what are their implications to dairy policy?," Novakovic says of his Feb. 24 presentation.

After describing the purpose of the DIAC, Novakovic outlined the four themes surrounding DIAC's recommendations on dairy policy: existing authorities, or how the USDA secretary can make the most of what he has; price stabilization and regulation, including what can be done to prevent or reduce price volatility; income stabilization and protection, including what can be done to reduce the effects of volatility on net farm income; and profitability and market improvement, covering what else can be done to enhance dairy farm profitability and the markets for milk or dairy products.

Novakovic says his presentation was not so much aimed at providing a conclusive answer about what the best policy is, but rather examining what exactly is meant when problems involving profitability and volatility are discussed. For example, he says discussions of volatility tend to get wrapped up in three fundamental questions: "Is it predictable?" "Is it stable?" and "Are the prices adequate?"

Novakovic presented a series of charts that mapped out volatility in farm milk prices and margins.

"In the last 15 years, milk and corn have been very volatile," he says. "If you're in the dairy business, this tells you two things: one, the perceptions of increased volatility is validated, and milk is just as volatile as other commodities can be by a significant degree; and two, if you're a dairy farmer, most important are the price of milk and the price of corn. This makes for a very difficult situation."

Showing a graph comparing the steady increase of livestock expenses with the widely fluctuating all-milk price over the past decade, Novakovic explained in his presentation the importance of focusing on margins and not just milk price.

"Highs and lows on milk price, relative to the history of milk prices, no longer tells us the story of dairy farm profitability," he says. "We need to look at the gap between the price of milk and the prices or costs of inputs used to make milk, especially feed."

He also notes that the weighted average

prices of inputs used in livestock production have very little volatility but show a strong upward trend, gaining altitude relative to the price of milk.

"Clearly in recent years, the inflation in input prices is overwhelming the tempering effect of productivity gains. Prices are increasing exponentially," he says.

The question of how the industry and government can use these data came up in the question and answer section.

"One of the things you can draw from this is that there is risk in the dairy business. For people who have been around a long time, this is kind of a new realization," Novakovic says. "Many folks historically would say dairy was one of the least risky of agricultural enterprises, and data from the 1970s is evidence of that. That old truism is out the window. It is legitimate

to say there is risk in dairy agriculture."

Establishing that there is risk, the industry can ask what tools it has and what tools are needed to deal with the risk, such as more public policy programs for risk mitigation or risk management such as margin insurance and growth management plans.

"Nothing in the presentation says either one is a good idea, but they certainly do deal with the risk issue," Novakovic says. "If you look at it all through dairy glasses, you say yeah, of course. But in Washington, not everyone wears dairy glasses. It's important to justify why we want to do this stuff."

Whether it is cheesemakers or farmers, Novakovic says everyone in the industry should pay attention to proposed dairy policies including growth and risk

management, how these will affect them, and what tools would be good to adopt.

"Really think through pretty carefully about what these proposals are doing and how the company or farm will be impacted," he advises. "Do the math, figure it out, and don't rely on someone to say this is good for you. Find out for yourself if it's good for you, a rational decision."

He adds that processors are more downstream from these actions, but inasmuch as the price of milk is a huge percentage of the total cost for manufacturers, it's also important that the processors are involved in this discussion.

"If you don't like the tools proposed in public support, think about 'How can I work with my suppliers to deal with this issue?'" he says. "Because this is a legitimate issue." **CMN**

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## NEWS/BUSINESS



## New Zealand court halts sale of dairy farms to China, directs ministers to reconsider deal

WELLINGTON, New Zealand—A judge in New Zealand's High Court has put a hold on the sale of 16 New Zealand dairy farms to a Chinese company, directing New Zealand's ministers of land information and finance to reconsider the Chinese company's application.

Earlier this year, Milk New Zealand Holdings Ltd., (Milk NZ) a subsidiary of the Chinese company Shanghai Pengxin Group Co. Ltd., received permission from the New Zealand Overseas Investment Office (OIO), Land Information Minister Maurice Williamson and Associate Minister of Finance Jonathan Coleman to acquire the 16 Crafar Farms which went into receivership in late 2009. (See "New Zealand approves sale of 16 farms

to Chinese company" in the Feb. 10, 2012, issue of Cheese Market News.)

A group of New Zealand farmers and businessmen called the "Crafar Farms Independent Purchaser Group" (CFIPG) wanted the court to quash the ministers' consent on judicial review, complaining that the people who control Milk NZ lack the necessary skills to operate the dairy farms and that the ministers should not have allowed the sale to a foreign company when any buyer, including a New Zealand buyer, could bring the farms into full production. CFIPG also wants to buy the farms.

New Zealand law considers it a privilege for overseas persons to own sensitive New Zealand assets, including farms,

and any overseas person wanting to buy a farm must first receive ministerial consent. Consent can be withheld unless, among other things, the overseas person possesses relevant business experience and the transaction will likely bring substantial benefit to New Zealand.

Judge Forrest Miller said if the ministers were wrong in New Zealand law, the court will not make the decision for them, but he did direct that they reconsider milk NZ's application and set aside the consent to the sale for this reconsideration.

"If Milk NZ's price is much better than any competitor's ... then the receivers face an incentive to wait so long as they think Milk NZ enjoys reasonable

prospects of success," Miller wrote in his decision. "No one suggested that reconsideration need take long. On the face of it, the OIO may simply recalibrate its existing recommendation."

New Zealand's Labour Party, which has voiced opposition of this sale, applauded the decision.

"The current level of interest in Kiwi farming by foreign investors is understandable. Labour, however, is not prepared to see the long-term ownership and control of our farming land given away to the highest bidder," says Damien O'Conner, Labour's primary industries spokesperson. "This decision is a good one for New Zealand farmers and for young Kiwis seeking farming opportunities in the future."

Shanghai Pengxin issued a statement that recently was published in China's state-run news service Xinhua.

"Our bid has been accepted by the receiver, and the Overseas Investment Office will make sure we keep our promises if they give their approval following the current review," says Shanghai Pengxin spokesman Cedric Allen in the statement.

"Other Chinese companies interested in investing in various sectors of the New Zealand economy are closely watching our bid to become involved in the dairy industry in New Zealand and will be encouraged if approval is given," Allen adds. "But like Shanghai Pengxin, they will also be disappointed to see the level of anti-Chinese sentiment expressed in the recent months and the lengthy, expensive and uncertain approval process will be discouraging." CMN

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