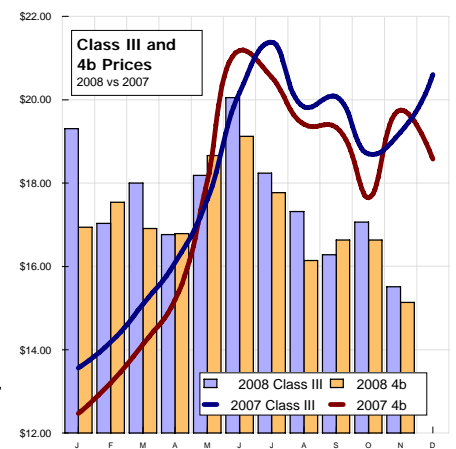




CHEESE REPORTER

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USDA Final Rule Amends MILC, Dairy Product Price Support Programs

CCC Will Only Purchase Surplus Dairy Products From Manufacturers

Washington—USDA's Commodity Credit Corporation (CCC) on Thursday published a final rule that amends the regulations for the Milk Income Loss Contract (MILC) program to extend the program through September 30, 2012.

The final rule also adjusts regulations for the milk price support program, now called the dairy product price support program, to specify that support purchases will only be made from manufacturers and not from third parties such as brokers.

This change is intended to ensure that manufacturers have sufficient incentive to pay the support rate to producers, the CCC explained.

The CCC said it won't purchase eligible dairy products from non-manufacturers because the price support program is not intended to provide a speculative market for third parties.

Effective date of this final rule is December 1, 2008.

The final rule also implements changes in the MILC program

enacted in the 2008 farm bill. This final rule makes several changes to the "old" MILC program regulations, including changes to the payment rate formula and production limits, adding Adjusted Gross Income provisions, and adding feed cost adjustment provisions.

With certain per year, per operation eligibility pound limits, the MILC program provides payments to dairy operations when milk prices fall below a set benchmark. Under this final rule, all prior participants in the "old" program must sign new contracts, and new participants (those not in the "old" MILC program) cannot be affiliated with prior participants.

Also, the rule, as required by the 2008 farm bill, beginning in fiscal 2009, sets new eligibility limits tied to the Adjusted Gross Income (AGI) of persons or entities seeking payment. Payees for the relevant year cannot have nonfarm income in excess of \$500,000.

There is also a per-operation per year pound limit to the MILC payment eligibility of operations. For fiscal years 2009 (which started on October 1, 2008), 2010, 2011 and

2012, the limit for each fiscal year is 2.985 million pounds.

Further, no payments will be made for September 2012 marketings, if the operation's cumulative total for fiscal 2012 is over 2.4 million pounds and if the operation is under that amount the payable marketings for September will be limited to those that will not bring the total over 2.4 million pounds. Payments are computed, however, on a monthly basis.

MILC program payments are made only when the official federal milk marketing order Class I price for Boston, MA, is less than \$16.94 per hundredweight. When the Boston price is under that target, the payment for eligible production will be, for fiscal years 2009 through 2012, 45 percent of the difference.

Otherwise, for September 2012 marketings the percentage will be 34 percent.

The pay rate can be raised, by command of the 2008 farm bill; however, if the national average feed dairy feed ration cost as officially computed exceeds \$7.35 per hun-

• See **CCC Alters Programs**, p. 16

Cheese Production Rose 2.0% In October As Wisconsin Set New Monthly Record; October Butter Output Fell, NDM Jumped

Washington—US cheese production during October totaled 842.3 million pounds, up 2.0 percent from October 2007, the US Department of Agriculture (USDA) reported Wednesday.

October's production was the highest monthly cheese output this year and the second-highest monthly output ever, trailing only last December's record production of 847.3 million pounds. Monthly cheese production typically peaks in March, May or December.

Cheese production during the first 10 months of 2008 totaled 8.156 billion pounds, up 1.5 percent from the first 10 months of 2007.

October cheese production by region, with comparisons to October 2007, was as follows: Central, 374.6 million pounds, up 8.3 percent; West, 352.6 million pounds, down 2.3 percent; and Atlantic, 115.2 million pounds, down 3.0 percent.

Wisconsin's October cheese production totaled a record high 219.6 million pounds, up 4.9 percent from October 2007 and some 5.7 million pounds higher than Wisconsin's previous monthly cheese production record of 213.9 million pounds, set in March of 2006.

Cheese production in the other leading states during October, with comparisons to October 2007, was as follows: California, 175.8 million pounds, down 6.9 percent; Idaho, 68.2 million pounds, up 1.1 percent; New York, 66.5 million pounds, down 0.8 percent; Minnesota, 53.5 million pounds, up 11.4 percent; New Mexico, 50.4 million pounds, down 3.2 percent; Pennsylvania, 31.4 million pounds, down 7.6 percent; South Dakota, 20.0 million pounds, up 5.2 percent; and Ohio, 15.7 million pounds, down 4.8 percent.

American-type cheese production during October of this year totaled 342.1 million pounds, up 6.5 percent from October 2007. American-type

• See **Cheese Output Rises**, p. 6

US Dairy Exports Topped \$4.0 Billion In Fiscal 2008; Drop Of \$900 Million Predicted For Fiscal 2009 On Lower Values, Volumes

Washington—The value of US dairy exports reached a record high \$4.034 billion in fiscal 2008, up \$1.6 billion, or 63.8 percent, from fiscal 2007, according to a report released Monday by USDA's Economic Research Service (ERS).

Fiscal 2008 dairy exports were more than double the value of dairy exports in fiscal 2006 (\$1.766 billion), ERS noted in its quarterly *Outlook for US Agricultural Trade*.

However, reflecting both lower volumes and lower unit values, the dairy export forecast is lowered \$500 million from August and \$900 million from fiscal 2008, to \$3.1 billion.

Global prices of major dairy commodities, particularly nonfat dry milk, are dropping sharply due to increased supplies from Oceania and the European Union (EU) and contracting demand, the report noted.

• See **Exports To Decline**, p. 11

Southern Resorts Extend Culinary Excellence To New Artisan Farmstead Cheese Operations

Madison—Two cheese makers trained in California and Wisconsin have headed to the Southeast to lead artisan farmstead cheesemaking operations at stately resort hotels known for culinary excellence.

Flat Creek Lodge of Swainsboro, GA, and Blackberry Farm of Waldland, TN, are hunting and fishing resort destinations, as well as leaders in eco-tourism and sustainable agriculture.

Both began farmstead operations to supply cheese to on-site restaurants. Over the past couple of years, however, Flat Creek Lodge and Blackberry Farm have entered the southern specialty retail market with their artisan cheeses.

Flat Creek Lodge, Swainsboro, GA
Working in tandem with the Georgia Department of Agriculture, Flat Creek Lodge Dairy is one of only two licensed specialty cheese producers in the state.

Last year, former Wisconsin

cheese maker Dane Huebner joined Flat Creek Lodge as head cheese maker and culinary scientist. Huebner had most recently worked at Cedar Grove Cheese, Plain, WI.

"I wanted to have the opportunity to be as creative as possible," Huebner said.

Flat Creek Lodge's creamery had been running for roughly one year before Huebner arrived. Before he came on board, the majority of the creamery's inventory was Edam and Gouda cheeses.

Under Huebner's leadership, some of the manufacturing logistics were altered and recipes re-designed. Now, Flat Creek Lodge Dairy produces a full line of specialty cheeses, including aged and flavored Cheddars – Horseradish, Aztec, and Thai Chili; Onion Mustard Kase; smoked varieties like Smokin' Jack; original Flat Creek Farmhouse cheese and Farmhouse Blue; Dutch-style Leiden

• See **Resorts**, p. 10

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CHEESE CASH PRICES - Dec. 1- 5, 2008 CME

Visit www.cheesereporter.com for daily prices

	CHEDDAR BARRELS	40-LB. BLOCKS	AA BUTTER	GRADE A NFD	EXTRA GRADE NFD
MONDAY December 1	\$1.7900 (NC)	\$1.7900 (-1¼)	\$1.3400 (-16)	\$0.9025 (NC)	\$0.9025 (NC)
TUESDAY December 2	\$1.7900 (NC)	\$1.7900 (NC)	\$1.3100 (-3)	\$0.9025 (NC)	\$0.9025 (NC)
WEDNESDAY December 3	\$1.7600 (-3)	\$1.7700 (-2)	\$1.2800 (-3)	\$0.9025 (NC)	\$0.9025 (NC)
THURSDAY December 4	\$1.7600 (NC)	\$1.7900 (+2)	\$1.2600 (-2)	\$0.9025 (NC)	\$0.9025 (NC)
FRIDAY December 5	\$1.7475 (-1¼)	\$1.7900 (NC)	\$1.2575 (-¼)	\$0.9025 (NC)	\$0.9025 (NC)
Week's AVG Change	\$1.7695 (+0.0020)	\$1.7860 (-0.00817)	\$1.2895 (-0.24467)	\$0.9025 (NC)	\$0.9025 (NC)
2007 AVG Same Week	\$2.1115	\$2.1255	\$1.3550	\$1.8500	\$1.8500

DIRECTLY FROM THE CME FLOOR - RICE DAIRY

It's been a pretty exciting week with volatility in cheese prices and heavy volume in both futures and options.

Starting out the week we did see offers get posted in the block market, this is something we have not seen in weeks. From that it didn't take long for futures to start drifting lower where they settled roughly 5 lower below settlement.



Going in to Tuesday's cash session we were trading even \$1.79 in both blocks and barrels with futures trading just below settlement. Buyers managed to put up a good fight and hold cheese prices unchanged by lifting unchanged offers in the blocks. As a result, we quickly rallied futures to levels above unchanged and stayed there for the remainder of the session.

Wednesday came and sellers managed to drive cheese lower with blocks settling three cents lower and barrels two cents lower; as a result futures continued to trail off from levels they were trading at prior to cash settling out at roughly 28 - 30 lower.

The volatility in cheese prices continued as buyers came right back at sellers and ran block prices two cents higher, however futures reacted as if we were lower by settling around 30 lower on the day.

That kind of reaction leads me to believe the trade is pricing a further break in the price of cheese.

We rounded out the week with offers coming in cheese to take prices lower. This time the barrels came under some pressure with sellers taking it down 1 ¼ pennies lower; with futures trading well below unchanged we didn't see a whole lot of activity coming out of futures after the cash session.

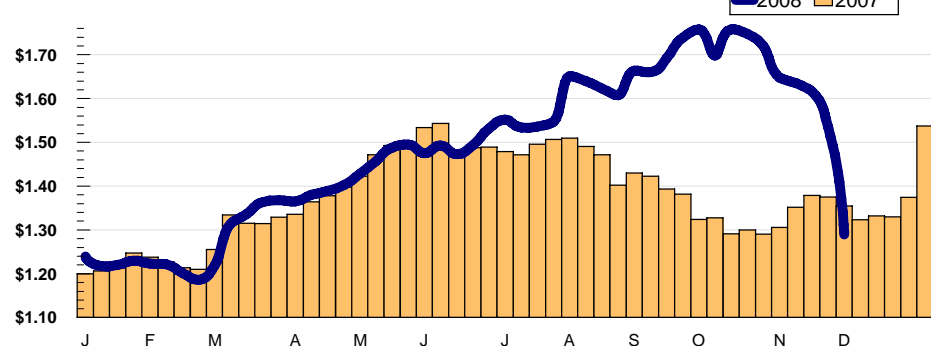
Next week I would look for sellers to come back and continue to apply pressure to cheese prices with futures following suit to the downside.

WHEY MARKETS

FOR THE PERIOD DECEMBER 1, 2008 - DECEMBER 5, 2008

Whey Protein Concentrate—Central and West: Edible 34% Protein: .3700(+3)–.4900(NC) Mostly: .4000(+3)–.4400(+1)
Dry Whey—Central (Edible): Nonhygroscopic: .1500(NC) –.2075(+¼) Mostly: .1700(NC)–.1950(NC)
Dry Whey—West (Edible): Nonhygroscopic: .1050(NC)–.1900(NC) Mostly: .1450(NC)–.1750(NC)
Dry Whey—Northeast: .1750(NC) - .2125(NC)
Lactose—Central and West: Edible: .0900(NC)–.3050(NC) Mostly: .1000(NC)–.2300(NC)
Casein: Rennet: \$4.7000(NC)–\$5.2500(NC) Acid: \$4.9500(NC)–\$5.3500(NC)
Animal Feed Whey—Central: Milk Replacer: .1100(NC)–.2000(NC)

Butter Prices - 2007 vs 2008



CCC Alters Programs

(Continued from p. 1)

dredweight (\$9.50 per hundred for September 2012 marketings).

If the triggering feed ration amount is exceeded, the benchmark \$16.94 figure for the MILC payment rate will be increased by the percentage amount by which the feed ration cost exceeded its own benchmark (\$7.35 or \$9.50, depending on the month involved).

Feed ration cost is calculated using the same procedures used to calculate the feed components of the estimated price of 16 percent mixed dairy feed per pound as reported in the USDA *Agricultural Prices* publication. Entire month prices used to calculate feed price ratios for each month will be used.

As to the calculation, if, for example, the May 2009 feed ration cost exceeds by 14 percent the \$7.35 per hundredweight benchmark, then the MILC payment benchmark for May 2009 marketings would be increased by 6.3 percent and upped by \$1.07 to \$18.01 for May 2009 marketings only.

For purposes of applying the yearly pay limits on pounds per operation, the rule will continue to use a start month concept for each year. The operation must, with limitations set out in the rules, pick a start month for each fiscal year.

Once the start month is picked, any marketing in the month and subsequent months of the fiscal year that generate a payment will count against the operation's fiscal year limit.

Under the new rule, if the operation signs its new MILC contract within 30 days of the beginning of the application period for this new program, it can pick any preceding fiscal 2009 month as its start month for that period. Also, whenever the operation submits its fiscal 2009 through 2012 contract, it can pick the month of the submission as the start month for that fiscal year.

No payment will be made for any fiscal year that has ended before the program contract is submitted. Producers to be paid must: sign the contract; provide verifiable data; be actively engaged in milk production; meet the AGI test for payment; and pick the start month.

MILC has paid about \$2.5 billion to dairy operations over the five initial years of operation. Annual expenditures during the last two years of the program have totaled over \$350 million in fiscal 2006 and \$160 million in fiscal 2007.

Expenditures during the period authorized by the 2008 farm bill are expected to be between \$300 million and \$400 million based on estimated milk prices during the period. r



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