

WEEKLY UPDATE

April 7, 2017

WUD Opposes SB 1 – The Largest Fuel Tax Increase in California History

Led by Governor Brown and legislative leadership, SB 1 was amended and ushered through the process to impose the single largest gas tax increase we have seen. The bill will generate \$52 billion dollars over the next ten years to fund deferred maintenance on state highways, local streets and roads, and to improve trade corridors, transit and transportation facilities. SB 1 passed yesterday evening in the late hours earning the bare minimum of “aye” votes to secure a 2/3rds vote threshold needed to win approval.

Most impactful to our members is the bill’s tax on diesel fuel which starting on November 1, 2017:

- Increase in the diesel excise tax by \$0.20 per gallon
- Increase in the diesel sales tax by 4% per gallon
- Increase in the vehicle license fee between \$25 - \$175 annually based on the value of the vehicle

WUD communicated strongly to legislators the impact to the dairy industry. And, although this is not the outcome we had hoped for, we are proud of the opposition strategy we executed. With a targeted budget we engaged over 500,000 people on social media, generated 35,000 signed petitions, and drove 2,000 phone calls to legislative offices. WUD’s campaign successfully activated a base of people that we can energize again on future legislative/regulatory battles. This effort demonstrates yet again why elections matter and the need to continue to build our political strength as an industry.

Particularly relevant was the fact legislative democrats enjoy a 2/3rds supermajority in both houses of the Legislature which was earned in the 2016 election cycle. Given the political environment and leadership’s willingness to use that supermajority to pursue rather aggressive policies that impact animal agriculture is a reality WUD’s leadership must consider as we tackle priority issues – including water quality and short-lived climate pollutants – in the coming year.

SB 1 diesel fuel cost increase:

1000/head of cows = \$30,000 annually

2000/head of cows = \$60,000 annually

3000/head of cows = \$90,000 annually



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WEEKLY UPDATE DELIVERY OPTIONS

Send change of address or request for Update delivery to WUD by phone or fax, or email to info@westernuniteddairyman.com

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What's Up and What's Not — Your Weekly Market Update

by Annie AcMoody, Director of Economic Analysis

It seems the block cheese market and the California legislature were in a contest this week for who could be the most annoying. The latter one earned the title with the yes vote on SB1, but blocks were not far behind with a loss of 6 cents throughout the week. The price now stands at \$1.46/lb. USDA's *Dairy products* report pointed to increased American cheese production in February. The jump of 5.4% was driven by an increase in Cheddar production. Indeed, the commodity of choice at the CME was popular with manufacturers in February, with production up 11% from last year. Increased production was a major contributor in February's stock growth, with American cheese stocks standing 8% above year ago level.

The latest CME butter price may not have lost value as fast as the latest Pepsi commercial was dropped, but it still disappointed by dropping a penny this week. This brought the price to \$2.0975/lb – the lowest since December 2016. While reaching a multiple month low is never fun, it is important to keep in mind the butter price is still strong when compared to the April five-year average of \$1.7838/lb. Amidst other declining commodity prices at the GDT, butter recently had a stronghold on positive results, until this week. The average price may have declined 7 cents but it remains strong, at \$2.16/lb. Strong pricing outside our borders will be critical for U.S. butter trade recovery. After 17 months on the negative side in 2015-2016, the butter trade balance switched to positive for two months at the end of 2016. That was unfortunately short-lived, as international competition remains fierce and imports have outweighed exports again these past three months.

The California nonfat dry milk price basically stayed put this week, moving within 0.02 cent of last week, to \$0.8310/lb. On the plus side, a rather significant volume moved through sales this week. The total, 25 million pounds, was the highest weekly sales volume since April 2015. Increased sales is particularly good news because according to USDA data, U.S. powder stocks had climbed significantly in February, up 20% from 2016. Also on the good news side, trade data showed some improvements in February: U.S. powder exports were up 30% year-over-year (adjusting for leap year). The skim milk powder price average at the GDT continued its recent declining trend but the damage was limited to a penny this week, leaving the price at \$0.87/lb.

In the midst of all the other declines, dry whey's stability continues to be welcomed. Unchanged at 50 cents per pound is great, but DMN put a damper on the good news by reporting some potential downside in the market: industry contacts "believe that whey prices might move in a negative direction at some point in the near future." The negative result from such a thought process is that some market participants may be tempted to unload some inventory. The plus side is that it may also result in manufacturers' reluctance to produce more dry whey. In other good news, dry whey exports have been up so far in 2017, with year-to-date total volume up 13% from last year. In fact, the total U.S. dairy export volume was also up from last year (+11%). The total export value fared a notch better, up 12% from last year. On a total milk solids basis, USDEC estimates U.S. exports were equivalent to 13.9% of total U.S. milk production in 2017; this compares to 12.2% last year.

Latest Class Prices

Price \$/cwt	Class 1	4a	4b	Overbase	Quota
February	\$18.28	\$15.40	\$15.81	\$15.49	\$17.19
March	\$18.76	\$13.96	\$13.76	\$14.14	\$15.84
April	\$16.91	\$13.69	\$14.26	\$13.99	\$15.69

Prices in italics are estimates.

Commodity Markets: CME - California Plants

Average	AA Butter	NFDM	40# Blocks	Barrels	Dry Whey
March	\$2.1518	\$0.8445	\$1.4358	\$1.4174	\$0.4925
April	\$2.1148	\$0.8310	\$1.4855	\$1.4333	\$0.5000
April 7	\$2.0975	\$0.8310	\$1.4600	\$1.4350	\$0.5000
Week to date	↓ 1 cent	↓ 0.02 cent	↓ 6 cents	↓ 3.50 cents	---

Estimated* producer CWT prices

Producers came in large numbers to support quota

by Annie AcMoody and Paul Sousa

CDFA held a meeting on April 4 in Modesto to collect input from dairy producers on how the quota program should be administered in the event that a Federal Milk Marketing Order is adopted for California. More specifically, CDFA's intent was to gather feedback in response to three main questions:

1. Should all Grade A milk be subject to a quota assessment or only pooled milk?
2. What is the best mechanism to gather the requisite data from handlers to calculate the necessary deduction as this will not be provided for under the FMMO?
3. What is the process by which CDFA shall collect, distribute and enforce quota payments?

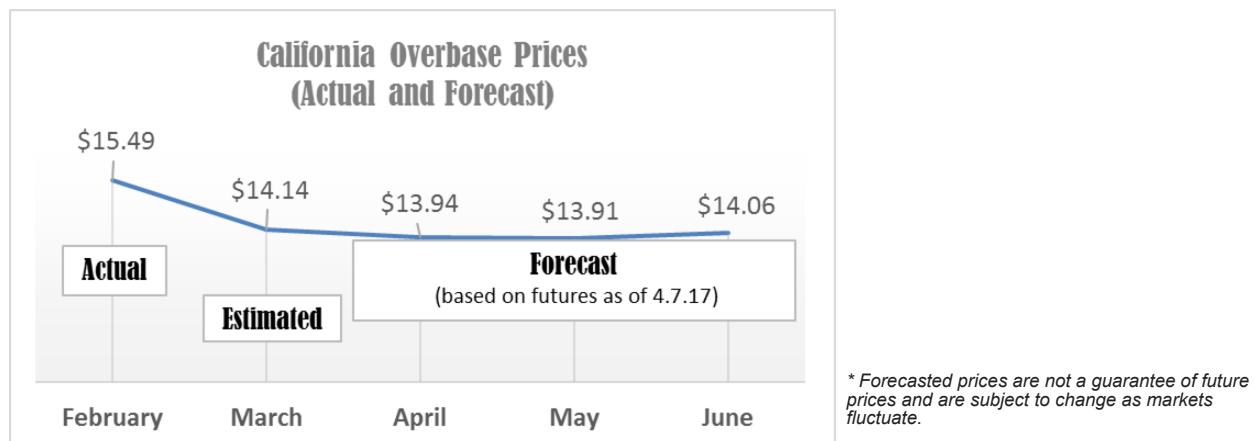
Those who have been to meetings where producers' input is requested know that at times there can be as many opinions in the room as there are producers. This time around, despite the very well attended meeting, it was nowhere near cacophony; rather, it appeared that most everybody was singing from the same song sheet. Maintaining the quota system as it is currently handled mostly resonated through the meeting room like a pleasant melody.

The meeting opened with reassuring comments from Jim Houston, Undersecretary. The first clarification he made was that the current California code of regulations could be ignored where it conflicted with a FMMO. He also supported the claim that he valued producers' feedback by announcing an upcoming Producer Review Board (PRB) meeting. The objective will be to delve into more details on how CDFA could manage a quota program as a stand-alone program. CDFA is expanding the number of seats on that board from 5 to 13 (see more information on the Producer Review Board on p.5-6).

Following the Undersecretary's comments, a panel representing the coops was given time to express their thoughts. Cornell Kasbergen (LOL), John Moons (CDI) and George Mertens (DFA) were all supportive of the quota program and emphasized that all milk should participate in the quota program's funding. The second panel was comprised of producers from the three trade associations. Their feedback was to the same tune as the coops, with Joe Machado (CDC), Frank Mendonsa (WUD) and Geoff Vandenheuvel (MPC) reiterating the importance of having all grade A milk be subject to a quota assessment.

With that, comments were open to anybody from the audience. Producers with or without quota, with large or small operations, from the north or the south; they may all have been coming from different situations, but they were focused on stating the importance of a viable quota program. Whether producers are convinced or not that the FMMO could help the industry, they all seemed to share the same understanding that without a workable and reliable quota program, it will be hard to get the FMMO anywhere. Well, all, except a few whose refrain was much less positive. In particular, there is currently a very small number of producers whose Grade A milk is currently not participating in the quota program but could be subject to a quota assessment if CDFA decided to include all Grade A. The Dairy Institute (who represents California processors) did not voice a strong opinion on how to handle quota, but did question CDFA's authority to operate the quota program under a FMMO.

This was a great first step of reassurance in CDFA's willingness to work with the industry. The work may be far from over, but having so many producers voice their support in unison bodes well for the next steps. WUD will keep you posted as the process continues to unfold.



Federal Order Class Prices

Month	Class I	Class II	Class III	Class IV	Feb. all milk price
March	\$16.90	\$16.21	\$15.81	\$14.32	\$18.50

* Federal Milk Marketing Orders (FMMO) are a very timely topic. To keep you informed on what prices are doing in parts of the country under Federal Orders, we will frequently include those class prices in the Friday Update.

WUD Opposes SB 1 – *continued*



Social Media Impact:

300,000-500,000

impressions per image pictured in this *Update*.

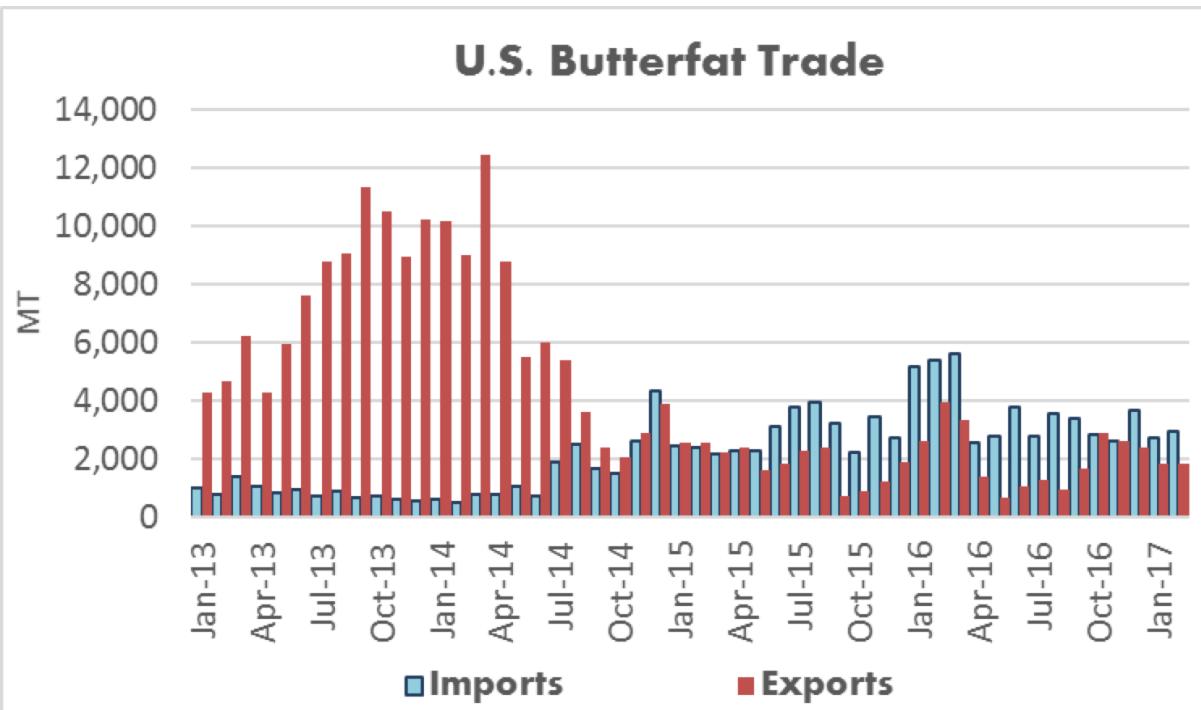
Petitions Signed via NO on SB 1:

35,000

#OpposeSB1

There is No Guarantee That The Money Will Go To Fix Roads.

www.NoSB1.com



Allied Business Members



Nominations Open for Milk Pooling Producer Review Board

The CDFA is seeking nominations from California producers for individuals to fill vacant positions on the Milk Pooling Producer Review Board. CDFA will task the Board to meet regularly to develop a detailed proposal regarding a stand alone Quota program in response to the recommended decision released by USDA to establish a CA FMMO.

To be eligible for appointment to the Board, a nominee must be a California market milk producer. All newly appointed members of the Board will be required to: 1. fill out appointment documentation; 2. complete an annual Conflict of Interest Statement that must include investments, interests in real property, and business positions currently held per CDFA's Conflict of Interest Code; and 3. complete an Ethics Training module. A producer may serve up to two four-year terms and will not be eligible for re-appointment thereafter.

Please refer to page 6 for the nomination form.

MILK POOLING PRODUCER REVIEW BOARD NOMINATION FORM

Department of Food & Agriculture
Milk Pooling Branch – ATTN: S DONALDSON
1220 N Street
Sacramento, CA 95814



**NOMINATION
DEADLINE:**
May 1, 2017

INSTRUCTIONS:

PLEASE FOLLOW THESE STEPS:

- 1) Please determine your eligibility to nominate, and if eligible sign your nomination form in Section I
- 2) Nominate three market milk producers in Section II. We will accept additional nomination forms in order to fill positions on the Producer Review Board.
- 3) Please return this form by: E-mailing a legible scanned copy to pooling@cdfa.ca.gov, or fax a legible copy to (916) 900-5340. Signed nomination forms may also be mailed to the address above.

SECTION I: ELIGIBILITY and CERTIFICATION

- 1) **In order to be eligible to nominate, you must currently be a milk producer as defined below:**
"Producer" means any person that produces market milk in the State of California from five or more cows.
- 2) If you are an eligible producer based upon the definition above, complete the certification and nomination sections below. **I hereby certify that I am an eligible producer as specified above and that I have the authority to sign on behalf of the producer entity addressed.**

Date (REQUIRED)

Type or Print Name (REQUIRED)

Signature (REQUIRED)

Telephone (REQUIRED)

Business entity legal name (If applicable - REQUIRED)

UNSIGNED NOMINATION FORMS ARE INVALID AND WILL NOT BE COUNTED

SECTION II: NOMINATIONS

Please use this section to nominate market milk producers to fill the vacancies on the Producer Review Board.

NOMINEE # 1:

Name of Nominee:	Phone #:
Name of Dairy:	E-Mail:
Dairy Address:	

Has above nominee been contacted and agreed to be nominated? Yes No

NOMINEE # 2:

Name of Nominee:	Phone #:
Name of Dairy:	E-Mail:
Dairy Address:	

Has above nominee been contacted and agreed to be nominated? Yes No

NOMINEE # 3:

Name of Nominee:	Phone #:
Name of Dairy:	E-Mail:
Dairy Address:	

Has above nominee been contacted and agreed to be nominated? Yes No