



NEWS & NOTES

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www.nedairyfoods.org

JANUARY 2010

Dear Dairy Foods Member,

This newsletter is being mailed to you as a service of our association. We have the ability to email this newsletter to you which would save everyone time and money. If you would provide us with an email address we'll email this out to you in the future. We'll keep your email address confidential and not share it with anyone. Please email us at info@nedairyfoods.org and tell us to email you the newsletter. If we don't hear from you then we'll continue to send this via U.S. mail service, thank you!

Message from the Executive Vice President Bruce W. Krupke

First I would like to thank all our members for your continued support of our work and efforts on your behalf. Your understanding of the importance of the work we conduct on your behalf is extremely important and appreciated.

2009 was a year of major changes for our association. We expanded our services from just NY State to all New England and New Jersey. We now are responsible for monitoring legislation and regulation in 8 states. The transition has been smooth, although as you can expect, full of learning curves, experiences, networking and lobbying. To help cover the expanded workload, we hired one new full time employee, Gary Latta, Director of Industry Relations who is doing a great job. We expanded our office's administrative assistant, Leanne Ziemba's hours, she has taken on new responsibilities and doing a great job as well.

2009 was a year of intense lobbying on your behalf. Legislatures in many states introduced laws that would increase your costs of doing business. We successfully stemmed the tide of those introductions. We expect even more in 2010.

In this time of economic recession it is important to monitor expenses more than ever. Our association has taken measures to lower expenses. In addition I encourage you to review our association services that could lower your expenses. One key area of helping you to reduce expenses is insurance. We have insurance service suppliers that can lower your costs. I encourage you to review our association services information on line at our website, www.nedairyfoods.org and contact these companies for quotes.

I'm looking forward to a successful 2010. We have our work cut out for us on many issues and in many states. We are up to the challenge and with your support we can be effective, thank you again for your support. Now to some timely news.

Northeast State Issues and Legislative Activities –

Our association has been extremely active over the last six months monitoring and becoming involved with dairy issues throughout the northeast states. We have participated in a plethora of agribusiness meetings, hearings, conferences, and legislative visits addressing such topics as state over-price premiums, price thresholds, free hauling, school nutrition, raw milk sales, bonding, labeling, couponing, Federal Orders regulation, and many others. Many of the ideas presented are beneficial, while others are threatening and would have severe negative consequences for our industry.

Among our greatest challenges and activities are continuing education efforts and communications. We regularly work with key legislators regarding the way our industry is structured and operates. In many cases, legislators proceed with a lack of specific understanding as to how their proposed bill or idea would impact the state and industry. Our association has been successful in enlightening and guiding most of these legislative efforts.

In the last few months, much of our attention has been in New Jersey, where ideas for solutions to assisting state dairy farmers have been the focus. There have been two informational meetings and three public hearings to date. The next hearing date is set for January 28th. We have some excellent ideas and possible solutions that would be in the best long term interest of New Jersey producers, processors, and consumers. New Jersey is a small but very important dairy state due to its large population and close proximity to other key northeastern states where members do business. You may be asking why is it important to focus on New Jersey, the reason is due to the fact that if one state initiates a new regulation, other states tend to imitate and adopt the same. It is important to put out the fires where they start so they don't spread.

Less Milk and Greater Demand Mean Higher Prices in 2010—After many months of low prices and culling herds, U.S. milk production has finally turned lower in recent months. This follows several years of steady milk supply growth. The downturn in the world economy and drop in demand led to a of surplus milk production which resulted in a painful low price period for the world's producers in 2009. The latest USDA and university economist forecasts indicate higher prices in 2010. Lower milk production and firming global demand are combining to elevate new price forecasts. Feed costs have fallen, and are forecast lower for 2010. The dairy herd will continue to contract. Most of 2010's herd contraction will take place early in the year. USDA is expecting a 2.5% year- over-year herd decline in 2010. However, lower feed costs and rising milk prices will generate a positive response in output per cow. USDA expects gains in output per cow will take place before growth in herd size which requires livestock \$ investment. World markets are firming and export opportunities are possible, particularly for nonfat dry milk. Price projections are being revised upward. Class III and Class IV prices are forecast to increase. The all milk price is expected to average \$12.70-\$12.80 in 2009 and then rise to an average of \$16.35-\$17.50 in 2010.

Latest USDA Milk Production Reports Show Supply Contraction-The latest USDA milk production report was released on December 18th for November's supply. Production was down 1.0% from November of '08 in the 23 major milk producing states. Production per cow averaged 25 pounds above November of last year. There were 209,000 fewer cows than November of last year and 6,000 less than October '09. The western states again showed the biggest decline while the Midwest, particularly WI, increased. For the major northeast states in November:

NY down (2.1) % NY was down in cow numbers and even in production per cow.

PA up + 1.3 % PA was down in cow numbers but up in production per cow.

VT down (2.5) % VT was down in cow numbers but up slightly in production per cow.

Feds Announce New Round of Financial Assistance for U.S. Dairy Farmers- In another effort to help struggling dairy producers, the U.S. Department of Agriculture recently announced the implementation of the Dairy Economic Loss Assistance Payment program. Authorized by the 2010 Agricultural Appropriations Bill, \$290 million will be paid out to eligible producers across the country to help stabilize their operations that have taken substantial financial hits over the past year as milk prices have continued to decline. Eligible producers with an annual average adjusted gross nonfarm income of less than \$500,000 will receive a one-time direct payment based on the amount of milk produced and commercially marketed by their operation from February 2009 to July 2009. Dairy producers who participated in one of the other USDA Farm Service Agency programs do not need to apply for the DELAP program as FSA will use existing production records to calculate and issue payments. FSA officials estimate that more than 95 percent of eligible producers will receive benefits without having to fill out a new application. Based on current information, FSA estimates that 875 million cwt of milk production will be eligible for payment, which is expected to be approximately \$0.32 per cwt. This latest \$290 million dairy support increase approved by the US Congress follows a July boost in USDA dairy subsidies of \$243 million.

USDA to Buy \$60 Million Worth of Cheese to Support Dairy Prices- Also part of the 2010 Agricultural Appropriations Bill, the USDA announced on December 18 its intent to purchase approximately \$60 million in cheese and cheese products for use in domestic feeding programs through the agency's Food and Nutrition Services. "This purchase will provide food to people in need, while helping dairy producers who are facing economic challenges by increasing demand for dairy products," said Secretary Tom Vilsack. USDA is expediting this cheese purchase to help provide much-needed support for low-income families struggling to put nutritious food on their tables, and to deliver timely assistance to dairy farmers who have been challenged by high feed costs and low dairy prices. "USDA is committed to helping dairy producers weather current challenges in the market, and this cheese purchase serves as one more example in a long line of USDA efforts this year to provide support," said Jim Miller, Under Secretary for Farm and Foreign Agriculture Services.

U.S. Takes Several Steps to Support Dairy Farmers in 2009- USDA took a number of steps this past year to provide relief to dairy farmers around the country. Some of these steps include:

- USDA reactivated USDA's Dairy Export Incentive Program (DEIP), to help U.S. dairy exporters meet prevailing world prices in addition to encouraging the development of international export markets in areas where U.S. dairy products are not competitive due to subsidized dairy products from other countries.
- USDA spent approximately \$1 billion in fiscal year 2009 on purchases of dairy products (Dairy Product Price Support Program) and payments to producers (Milk Income Loss Contract (MILC)).
- USDA increased the amount paid for dairy products through the Dairy Product Price Support Program (DPPSP). USDA estimates that these increases, which were in place from August 2009 through October 2009, increased dairy farmers' revenue by approximately \$243 million.

In March, USDA transferred approximately 200 million pounds of nonfat dry milk to USDA's Food and Nutrition Service, which will not only remove inventory from the market, but also support low-income families struggling to put nutritious food on their tables.

CWT Cow Removals 2008 through 2009 – CWT is designed to reduce milk production and increase demand for dairy products in order to provide financial returns to dairy producers. CWT is a voluntary farmer-led and farmer-funded non-government program. CWT basically uses two programs to strengthen and stabilize prices, herd retirement and export assistance. CWT has completed eight herd retirements since it began in 2003, removing a total of 451,000 cows that produced over 8.6 billion pounds of milk. CWT's Export Assistance Program has been able to financially help CWT member cooperatives compete in the world marketplace. Since 2003, CWT has helped to export over 186 million pounds of cheese,

butter, anhydrous milk fat, and whole milk powder to 52 countries on four continents. CWT had implemented two herd retirements in the second half of 2008 that removed over 75,000 cows that would have produced 1.4 billion pounds of milk in 2009. CWT member cooperatives and individual producer members, representing 67% of U.S. milk production, were asked to make a two-year investment commitment at 10¢ per hundredweight. With that commitment, CWT was able to secure the financial resources and take actions that would move the milk price recovery timeline up by six months. Starting in the spring of 2009, with the resources secured, CWT began implementing a series of herd retirements that over a period of six months would remove an additional 201,000 cows that would have produced four billion pounds of milk a year. The five programs implemented beginning in 2008 retired a total of 276,000 cows, 5700 bred heifers and 5.4 billion pounds of annual milk production. CWT had raised the producer investment to 10¢ per hundredweight in 2006 and received a two-year commitment from members to invest in CWT through 2010. This enabled CWT to secure a line of credit providing the capability to carry out the largest reduction in milk production capacity and cow numbers since the government-run Dairy Termination program in the mid-1980s. Since the beginning of 2009, CWT has removed 226,000 cows that would have produced 4.5 billion pounds of milk. These actions, made possible by the financial commitment of tens of thousands of dairy farmers, have in just a matter of months moved milk prices for all producers back to where they were a year ago.

	2004	2005	2006	2007	2008	2009
Herd Retirement	\$0.20	\$0.50	\$0.60	\$0.86	\$0.78	\$1.50
Export Assistance	\$0.02	\$0.01	\$0.09	\$0.20	\$0.09	\$0.04
Total CWT Impact	\$0.22	\$0.51	\$0.69	\$1.06	\$0.87	\$1.54

Raw Milk Sales, a Growing Controversy- In recent months, the debate over legal sales of raw unprocessed milk directly to consumers, either off the farm or through supermarkets in many states has heated up. Proponents claim the raw milk is not only safe, but actually healthier than the pasteurized product. Health authorities advocate pasteurization to destroy any disease-producing bacteria that may be present. Health faddists claim that it destroys essential nutrients. About 15 states now allow raw milk sales from the farm if the bottler is licensed and regulated with respect to safety concerns. Advocates say pasteurization, which was introduced years ago when dairies were not as sanitary, also destroys many of the good things in natural milk along with the bad bugs.

Both sides on this issue make strong supporting arguments. Presently, 122 dairy farms hold raw milk permits in Pennsylvania, which is more than any other state. The number has tripled over the last three years. PA state officials claim another 40 permits are pending approval with more to come. The raw milk market is relatively small. The Food and Drug Administration (FDA) banned interstate sales, 22 years ago. The FDA reports that unpasteurized milk is "inherently dangerous". The agency claims that raw milk could "contain a host of potentially lethal pathogens, including salmonella, E. coli and listeria." The FDA does allow raw milk dairies to operate, but only under warranted permits and approved health inspections. Many officials and doctors claim contaminated raw milk can be a source of harmful bacteria, such as those that cause undulant fever, dysentery, salmonellosis, and tuberculosis. "Certified" milk, obtained from cows certified as healthy, is unpasteurized milk with a bacteria count below a specified standard, but it still can contain significant numbers of disease-producing organisms.

Recently two Connecticut families had three children that were hospitalized in July 2008 from E. coli bacteria in raw milk. The families are suing the dairy and retailer there. The suits seek reimbursement for medical expenses, suffering and future care. The oldest child ended up in intensive care after consuming the tainted raw milk. In mid-December, a dairy in New York had suspended raw milk sales after the Department of Agriculture and Markets detected listeria in a lab sample. Fortunately no illnesses were reported. Listeria can cause listeriosis, a disease producing flu-like symptoms. The effects can create even more serious conditions in sick people. In recent months, several farm agricultural organizations

including the National Mastitis Council have announced their recommendations against raw milk sales to the consuming public. Our association opposes the sale of raw milk to consumers. It is our position all sales of milk for public consumption should be pasteurized.

The New NY State Bottle Deposit Law in Effect - New York State's returnable container act for bottled water officially went into effect on November 8th. Some larger retailers now face extra costs in complying with a provision of the expanded state bottle bill, passed last year, requiring additional reverse vending installations be added to a store location, depending upon store square footage. Deadline to comply with the law is March 1. The law, which requires a dealer or retailer who operates 10 or more stores in New York to install and maintain a certain number of reverse vending machines, was originally aimed at big-box chains that were not redeeming bottles. The new law requires retailers that have stores in the 40,000- to 60,000-square-foot range to install three RVMs; stores in the 60,000- to 85,000-square-foot range to install four RVMs; and stores more than 85,000 square feet to install eight RVMs. The previous bottle bill law had no such requirements.



Northeast Senators Ask For Anti-trust Probe- Spearheaded by Vermont's two U.S. Senators Patrick Leahy and Bernie Sanders, there has been a call to probe the northeast processing community. Their concern is that a lack of competition may allow a few processors and cooperatives dominance that forces depressed prices to dairy farmers. Late last year, the U.S. Assistant Attorney General for the Justice Department's Anti-Trust Division, Christine Varney spoke at a hearing in St. Albans, Vermont. Varney explained to the audience of 100 people in the St. Albans City Hall that some dairy processors have become vertically integrated. These manufacturers not only process raw milk, but also may own parts of the supply chain "such as distribution of its products or supply of its inputs." "Vertical relationships in dairy markets would include, for example, a processor entering into exclusive agreements with a specific cooperative to buy raw milk," Varney testified. Varney said her division would pursue an investigation of anti-trust violations allegedly perpetrated by dairy processors and would examine complaints about a lack of transparency in the industry as a whole. Why processors did not to use this influence to keep prices from reaching record highs in previous years was not addressed.



Sen. Patrick Leahy and Sen. Bernie Sanders listen to testimony at the Senate Judiciary Committee hearing on antitrust issues in the dairy industry in St. Albans, VT in late September.

Russ Redding Confirmed as New PA Agriculture Secretary- Russell Redding was officially confirmed by the Pennsylvania Senate and announced by Governor Rendell in mid-December as the state's 24th secretary of agriculture. Rendell nominated Redding on Sept. 12 after the resignation of Dennis Wolff. Since then, Redding has served as acting secretary. Redding served in a leadership position in the Department of Agriculture since being appointed to serve as a deputy secretary in 1995. He has served as the department's executive deputy secretary since 2003, overseeing more than 1,000 full-time, part-time and seasonal employees. Redding said that he will focus on ensuring that the department is open and

accessible to preserving strong relationships with consumers and businesses, enhancing food safety, expanding environmental stewardship efforts through continued leadership on farmland preservation, making full use of the authority from the Farm Bill for conservation by balancing the needs of farmers and the public with the need for clean water in the Chesapeake Bay, supporting Pennsylvanians who are at risk for hunger, redoubling efforts of existing programs and initiatives to benefit future generations of producers and consumers, and strengthening the department's connection to its sister agencies and related state and local partners.



Russell C. Redding

The School Chocolate Milk Debate Heats Up-Because one 8-oz. serving of reduced-fat chocolate milk has nearly as many calories and sugar as a 12-oz. can of Coke, some school districts and nutrition experts are removing chocolate milk from lunchrooms, claiming the drink has too much sugar. The dairy lobby is fighting back with a \$1 million campaign, "Raise Your Hand for Chocolate Milk." The National Dairy Council claims, "Chocolate milk is the most popular milk choice among children, and it only has 60 more calories than white milk does." Officials with the Milk Processor Education Program, a trade group for the dairy industry, said they did not know how many school districts pulled flavored milk from their cafeterias. But they said anecdotal examples from around the country and growing concerns about childhood nutrition convinced them that they needed to promote a message that chocolate milk is healthy. Most national health organizations agree that milk, whatever its flavor, has benefits for young bodies. Bone density peaks during adolescence, and calcium is vital to bone strength.

Milk offers calcium, vitamin D and a host of other nutrients. Children need about 32 ounces of milk daily just to get the recommended allotment of vitamin D nutrition experts say. "We know that when flavored milk is taken out of the school, kids' milk consumption goes down," says Ann Marie Krautheim, senior vice president of nutrition affairs for the National Dairy Council. Krautheim argues that children don't drink enough milk as it is. And if schools remove chocolate milk, kids will choose less nutritious drinks.

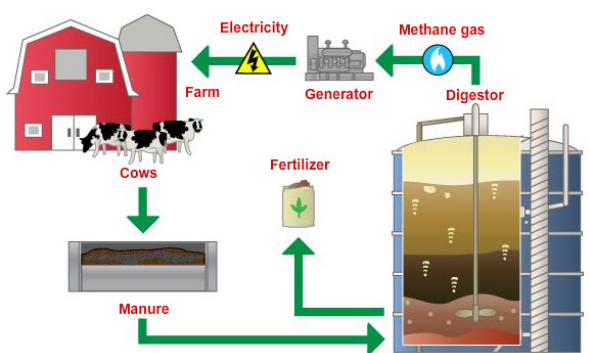
New York Truck Restrictions Update and Rally- At least 28 leading organizations have joined forces to form a coalition in opposition to Governor Paterson's proposed truck restrictions in and around the Finger lakes region of upstate New York. The proposed restrictions would be particular hard on agricultural and food entities that depend on freedom in truck route access in their businesses. The regulations would be particularly hard on the dairy farm community and New York Farm Bureau is opposed.

The last thing the New York dairy community needs right now are more unnecessary regulations that increase the cost of production and makes state milk uncompetitive. It's been over a year now since the Governor first announced his proposed restrictions, and the coalition is the primary reason why we don't already have a regulation in place. Coalition attorneys were successful in obtaining a comment period extension through December 14th, and several Northeast Dairy Foods Association member companies submitted comment. Proponents of the new truck restrictions claim that only seven pieces of upstate New York roadway would be restricted, and that the real target is garbage trucks not regular traffic. However this is not specific in the new regulations. The threat of proliferation to other towns, villages, and boroughs as well as other trucks traffic looms. The New York State Motor Truck Association (NYSMTA) has secured a permit to hold a truck rally and press news event on Wednesday January 6th at the State Capitol in Albany. This is the day of the State of State address, and should get some well-timed attention.

Methane Digesters to Assist Dairy Industry to Reduce Emissions- The U.S. Department of Agriculture (USDA) and the Innovation Center for U.S. Dairy are working together to help the U.S. dairy industry reach its goal to reduce greenhouse gas (GHG) emissions by 25 percent over the next decade. One part of the strategy is to turn methane gas from livestock manure into electricity. USDA and the dairy group identified a variety of projects that can help the dairy industry meet its greenhouse gas reduction goals, while increasing its financial and environmental sustainability. Some initiatives will help the industry develop future technologies, support renewable energy and improve energy efficiency. The agreement could help accelerate opportunities to capture methane gas from livestock manure and convert it into electricity, coordinate research information on life-cycle assessments and support the industry's efforts in energy audits, feed management and energy conservation, according to the Innovation Center. These actions will also help accelerate adoption of methane gas (anaerobic) digesters for all sizes of dairy farms, making it easier to connect digesters to electricity grids and help digester operators capture potential carbon offset payments, said the Innovation Center. Using anaerobic digesters is a proven method of converting waste products, such as manure, into electricity.

New York Holds Its First Dairy Power Summit- The USDA dairy energy initiatives agreement mentioned above comes in the wake of the Dairy Power Summit held in October in New York to discuss the potential for dairy-supplied renewable energy. The Innovation Center for U.S. Dairy, with sponsorship from GE Energy, coordinated the conference in order to identify ways to increase anaerobic digester adoption by dairy farms of all sizes. Attendees set a goal to generate electricity from 40 percent of all manure from New York dairy farms by 2020, which could power 32,000 homes, reports the Innovation Center. The dairy group said the pilot program could be adopted by farms and communities across the nation. The project is expected to reduce New York's greenhouse gas emissions by 500,000 metric tons of carbon, equivalent to taking 100,000 cars off the road, according to the dairy association.

The strategy fits in with New York Governor Paterson's "45 by 15" program, which calls for the state to meet 45 percent of its electricity needs through improved energy efficiency (15 percent) and renewable energy, including methane (30 percent) by 2015. To meet the 40 percent anaerobic digester use by 2020, summit attendees also developed an action plan, consisting of more than a dozen projects including a Small-Farm Digester Initiative and a Digester Implementation Project. All of the projects are designed to promote efforts to increase the availability of energy and fuel from methane digesters, while strengthening the role that farms play in their regions. The Northeast Dairy Foods Association has long supported legislative and economic efforts that assist dairy producers in ways that enhance their profitability and competitiveness without distorting markets.



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