

# Milk Producer

Newsletter of Milwaukee Cooperative Milk Producers

July/Aug 2010



## USDA Issues Final

### Decision to Amend the Fluid Milk Product Definitions of All Orders

A final decision and a correction docket were recently issued by the U.S. Department of Agriculture which proposed that the Class I fluid milk product definitions of all Federal milk marketing orders be amended. Under the decision, a product will meet the compositional standards for fluid milk products if it contains at least 6.5% nonfat milk solids or 2.25% true milk protein.

This decision also amends the fluid milk product definition to provide exemptions for drinkable yogurt products containing at least 20% yogurt (by weight), kefir, and products intended to be meal replacements. The decision clarifies how milk and milk-derived ingredients should be priced under all Federal milk marketing orders when used in fluid milk products. The final decision is subject to producer approval by referendum. <http://www.fmma30.com>

### New Producer-Handler Rules in Effect

The new rules for producer-handlers were published in the Federal Register on April 23, following successful producer referenda in all Federal Order markets, and took effect on June 1. Under the new rule, vertically integrated bottlers with over three million pounds of fluid milk sales will be required to participate in the Federal order pool just like any other large bottler.

Before this, subject to certain conditions, a large bottler with its own farm production could avoid contributing to the Federal Order pool in its market, and thus received a significant pricing advantage against other bottlers. The new rules are based on proposals made by the National Milk Producers Federation and the International Dairy Foods Association last year. A successful result on this issue was one of NMPF's major goals of 2009. This change will add millions of dollars to the Federal Order producer pools. More importantly, it will prevent further erosion of producer prices through what had become a loophole for large producer-handlers.

(Reprinted from Michigan Milk Producer, June 8, 2010)



“America’s Dairyland” ranks number one in cheese production and number two in dairy production, signifying the importance of Wisconsin dairy farmers in the state’s economy. Generating over \$59.5 billion annually in state’s economy, with \$26 billion provided by the state’s dairy industry, Wisconsin is a national leader. The Wisconsin Farm Service Agency plays an important role in contributing to the success of the state’s dairy farmers.

The FSA Milk Income Loss Contract (MILC) Program is a safety net provided to producers. MILC financially compensates dairy producers when domestic milk prices fall below a specified level. MILC payments are made monthly to producers. In fiscal year 2009, Wisconsin producers received \$185 million in MILC payments, for 2010, FSA has paid out \$20 million in MILC payments to date.

In addition to MILC, FSA’s farm loan program makes direct and guaranteed farm ownership and operating loans to family farmers who are unable to obtain commercial credit from a bank, Farm Credit System institution, or other lenders. FSA loans allow producers to purchase land, livestock, equipment, feed, seed and supplies. Additionally, FSA focuses on providing financial assistance to credit worthy beginning operators and socially disadvantaged operators who are unable to qualify for conventional loans. In many cases, the applicants have the production and management skills to succeed or get started in farming but lack the availability of credit at commercial rates.

FSA also administers a guaranteed farm loan program that allows access to secondary markets and fixed interest rates. It also provides lines of credit that ease working capital constraints for farmers.

In 2009, Wisconsin FSA provided \$357 million in loans to state producers, with 80 percent of the 2,199 loans provided to dairy producers. There has been a significant increase in loans in 2010, nine months into the 2010 fiscal year FSA has already provided over \$344 million in loans to 1,848 producers.

FSA continues to be available to state dairy farmers by providing assistance and offering a safety net in difficult economic times. Wisconsin FSA is just one part of this nationwide agency, however, to Wisconsin producers; it is an important aspect of the agriculture community and will continue to play an important role in the future of agriculture.

These important FSA programs are administered at the local level. In Wisconsin, there are 56 local FSA offices. For more information, do not hesitate to contact your local office or visit our state website at [www.fsa.usda.gov/wisconsin](http://www.fsa.usda.gov/wisconsin)



Brad Pfaff, Wisconsin FSA State Executive Director  
WI Farm Service Agency  
608.662.4422 x141

Fun Fact:

*The Pilgrims included cheese on the supplies on board the Mayflower*

## CWT ACCEPTS 194 BIDS REPRESENTING 34,000 COWS, 654 MILLION POUNDS OF MILK IN TENTH HERD RETIREMENT

ARLINGTON, VA – Cooperatives Working Together announced today that it has tentatively accepted 194 bids its latest herd retirement, representing 34,442 cows and 653,893,409 pounds of milk. Farmers had submitted a total of 209 herd retirement bids to CWT.

CWT's three herd retirements last year were the primary reason why U.S. cow numbers dropped steeply in 2009, "but cow numbers have leveled off since the end of the year," said Jerry Kozak, President and CEO of NMPF, which administers CWT. "This latest herd retirement will push cow numbers lower still, which is what our industry needs to better align supply and demand."

Starting next week, CWT farm auditors will begin visiting the farms whose bids were accepted, checking their milk production records, counting cows, and then tagging each cow for processing. All farmers will be notified no later than July 30th as to whether their bid was among those accepted in this herd retirement round, the tenth that CWT has conducted since 2003.

Once CWT auditors approve the herds accepted during the bid process, farmers have 15 days in which to send their animals to a processing plant. CWT will again provide each farmer the NMPF animal handling guidelines for the proper culling and transporting of dairy cattle, Kozak said.

Producers whose bids are accepted in this herd retirement will be paid in two installments: 90% of the amount bid times the producer's 12 months of milk production when it is verified that that all cows have gone to slaughter, and the remaining 10% plus interest at the end of 12 months following the farm audit, if both the producer and his dairy facility – whether owned or leased – do not become involved in the commercial production and marketing of milk during that period.

In CWT's three herd retirements conducted in 2009, the program removed a total of 200,000 cows and four billion pounds of milk. Details of past herd retirements can be found here:  
<http://www.cwt.coop/sites/default/files/pdf/past-herd-retirements-060210.pdf>.

Cooperatives Working Together is being funded by dairy cooperatives and individual dairy farmers, who are contributing 10 cents per hundredweight assessment on their milk production through December 2010. The money raised by CWT's investment is being apportioned between two supply management programs that strengthen and stabilize the national all milk price. For more on CWT's activities, visit [www.cwt.coop](http://www.cwt.coop).

### More Fun Facts:

- ◆ Vanilla is America's favorite ice cream flavor
- ◆ The first US cheese factory was established in Oneida County, NY, in 1851
- ◆ The US produces 1.6 billion gallons of ice cream, frozen yogurt, sherbet and other related products
- ◆ First Lady Dolly Madison created a sensation by serving ice cream as a dessert at an inaugural ball
- ◆ More than one-third of all milk produced each year in the US is used to manufacture cheese
- ◆ It takes 12 pounds of whole milk to make 1 gallon of ice cream



## *f Directors Overwhelmingly Adopts Multi-Faceted Proposal To Make Major Changes in U.S. Dairy Policy*

ALEXANDRIA, VA – The National Milk Producers Federation’s Board of Directors overwhelmingly agreed today to move forward with a variety of changes in federal dairy policies that will better protect dairy producers, and position them more favorably in an increasingly volatile global marketplace. ...

The features of NMPF’s plan include: transitioning the existing safety nets of the Dairy Product Price Support and Milk Income Loss Contract programs into a new Dairy Producer Margin Protection Program to guard against periods of severe financial pressures; establishing a Dairy Market Stabilization Program to help address periodic imbalances in milk production and demand; and reforming the Federal Milk Marketing Order program.

Kozak said that the Foundation for the Future is the result of 12 months of detailed deliberations concerning the most appropriate course to follow in reforming federal dairy policies, some of which have been in place for many decades.

“It’s clear we need a new safety net that focuses on margins, not just milk prices,” said Kozak. “It’s also clear we need a system that sends timely, unmistakable signals to farmers that less milk is needed during periods of relative imbalance. The Foundation for the Future addresses both of those key issues, and it does so in a fiscally responsible, politically realistic fashion.”

The Federation’s proposal to revamp the federal safety net involves creating an insurance program tied to the margin between the national average cost of feed, and the national average all milk price. After farmers choose to enroll in the base level of the Dairy Producer Margin Protection Program at no cost to them, they would receive indemnity payments during periods when their margins are severely compressed, as they were for most of 2009. In addition, farmers would have the option of purchasing supplemental coverage to protect a higher margin level between feed costs and milk prices.

Another key element of the Foundation for the Future will be a Dairy Market Stabilization Program that sends a signal to producers that an imbalance in the marketplace could result in lower farm level margins. Like the Dairy Producer Margin Protection Program, the Stabilization Program is tied to farmers’ margins that could be reduced either by low milk prices and/or high feed costs.

The Stabilization Program was shaped by some key principles: that it allows for the growth of U.S. production, doesn’t encourage imports or hinder exports, and keeps government intervention at a minimum.

Lastly, the Foundation for the Future also calls for changes in the Federal Milk Marketing Order program to create a competitive milk price, maintain Class I differentials, and eliminate unpopular aspects of the current system, such as make allowances. The changes in the Federal Order system are intended to be revenue neutral so that farmers’ milk checks are not adversely impacted.

Kozak said that NMPF will now begin a comprehensive education effort to inform the entire dairy producer community, as well as policymakers, about the merits of Foundation for the Future.

The **National Milk Producers Federation**, based in Arlington, VA, develops and carries out policies that advance the well being of dairy producers and the cooperatives they own. The members of NMPF’s 30 cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of more than 40,000 dairy producers on Capitol Hill and with government agencies.

<http://nmpf.org>

## The FAPRI Analysis of NMPF's Foundation for the Future

During the last twenty-five years, the University of Missouri Food and Agricultural Policy and Research Institute (FAPRI) has been used by Congress to provide independent and unbiased analyses of both current and proposed policies for US agriculture. FAPRI has developed a global economic model to carry out these analyses, focusing on the impact of farm policies on various markets and sectors of US agriculture. This model was used in FAPRI's analysis of the National Milk Producers Federation's Foundation for the Future dairy policy package.

The goal of FAPRI's analysis was to determine the impact on milk production, dairy product prices, and dairy producer margins when those dairy policies currently used to determine FAPRI's baseline data are replaced with the Foundation for the Future programs. FAPRI accomplished this by comparing the future annual market outcomes of current dairy policies with the future annual market outcomes under the new set of dairy policies developed through the Foundation for the Future.

FAPRI's model of US dairy markets captures the important factors that determine US milk supply and the demand for dairy products. In addition, the FAPRI model is able to interpret how the interaction of market supply and demand factors, in conjunction with government dairy programs, will determine future dairy prices and production levels. As such, the FAPRI model looks at what would happen to dairy product prices and milk production under a wide range of possible future conditions.

When FAPRI considers the impacts of a potential policy change, it is important to understand that when the policies being compared include programs designed to make payments only under certain price levels, these payments are not necessarily expected to occur regularly. For example, the MILC program only pays out when the Boston Class I milk price falls below a certain level. Similarly, Foundation for the Future's new dairy margin insurance program (Dairy Producer Margin Protection Program) only pays out if dairy producers' margins (milk price minus feed cost) fall below a certain level. By considering 500 different market conditions, FAPRI was able to calculate the probability that milk producers would receive a payment under a given program. Averaging payments across all 500 market conditions allowed FAPRI to compare the average impacts of a policy change. In addition, by specifically targeting the small subset of market conditions that give rise to extremely poor market conditions, FAPRI was able to measure how well milk producers would be protected when market conditions deteriorate.

There are two key results from the FAPRI analysis. First, replacing the dairy product support and MILC programs with the proposed Dairy Producer Margin Protection Program and Dairy Market Stabilization Program would have a negative impact on dairy market fundamentals. More precisely, this finding means that on an annual basis the market-clearing product price levels and milk production are nearly identical between the current and proposed policies. While it may appear that the choice of policy has little impact on an annual average basis, it does not mean that current dairy policy offers milk producers the same level of equity protection when significant adverse market conditions strike as does Foundation for the Future.

The second key conclusion of the FAPRI analysis is that the Dairy Producers Margin Protection Program (DPMPP) offers better protection of producer equity especially during those times when it is most needed. Even though the MILC may trigger more often than DPMPP, the MILC covers only 45% of the price difference on a maximum of 2.985 million pounds of milk production. The DPMPP by comparison covers 90% of a producer's base milk production providing a greater floor in protecting every producer's income.



## **Legal Tips – Turning Your Land into a Retirement Plan**

Phil Maples, Attorney

One thing common to many of my farm clients has been that they own a wealth of land but often very few investments to allow them to enjoy a comfortable retirement. Farming by its nature as self-employment does not afford the retirement benefits given to an employee of a large company or government. I find it both surprising and disappointing that Wisconsin, which has what by comparison to the private sector can only be called a lavish retirement system in its government employee benefit package, has done precious little over the years to assure the retirement of those who toil in farming here in "America's Dairyland."

Many farmers have set aside their desire to transfer their land to the next generation, having concluded that it is no longer practical because of the high land values and difficulties making a living in farming, while their children have decided this for them by seeking other careers. This leaves them, often, with a wealth of land and no retirement plan.

The problem is compounded by the fact that the land, often bought inexpensively many, many years ago has now dramatically increased in value. If sold, however, would yield a large, taxable capital gain because of the substantial appreciation.

There is an industry which offers some relief for this problem. The relief comes in the form of the IRS Sec. 1031 – Exchange of Business Property – also known as the "Like/Kind Exchange."

While this option has been available for a long time for farmers to turn farm land into other real estate which generated some cash flow, it required those farmers to purchase things like apartment buildings or commercial office buildings in their entirety and put farmers into the business of real estate management when they preferred to be retiring.

The industry has changed a bit. Now, farmers can sell their land to a third party and receive in a like/kind exchange a fractional ownership interest as a "tenant in common" in a piece of productive commercial real estate like an office building, apartment building or shopping mall. The commercial office building may then generate revenue which can supplement retirement income for the former farm landowner. In this way, the farmer can convert his land to productive income-producing property, receive an income stream, avoid having to become a manager of a commercial enterprise he or she is not interested in managing and continue to defer the capital gains tax on the sale of the real estate.

If properly planned, in a Community Property state (like Wisconsin) where a husband and wife own the real estate as Marital Property, then upon the death of either spouse, the fractional interest they received in the exchange can then be sold without any capital gains tax consequence and reinvested in something with fewer restrictions and lower risk than being involved in commercial real estate. \

This option provides an income stream between the time that the farmer decides to exit farming and the time that the first of the two spouses to the farm couple passes away. While investing in commercial real estate does come with some risk, this offer can offer an improvement to the quality of life of many retired farm couples.

I caution anyone from attempting one of these transactions without legal assistance. There are very strict requirements and deadlines which must be followed in order to qualify the exchange of property and not trigger capital gains tax. Moreover, there is considerable financial evaluation which must be done with respect to the replacement property to judge whether that replacement property is suitable, of "like/kind," and offers an acceptable level (ideally a low level) of risk to the retiring farmer.

I hope that those of you holding farm land which, as is typically the case, generally produces only enough rent to cover the taxes and expenses of holding it and is thus a break-even, might consider this option as a way of improving your retirement income stream. I note that if there is a desire to pass some farm land on to the next generation, this option need not be exercised as an all or nothing approach, but rather, only as to the land that you don't wish to retain.

**Class Pricing and Component Values for May / June 2010**

Announced Class Prices	Upper Midwest		Central		Mid-East	
	Order 30		Order 32		Order 33	
	May	June	May	June	May	June
Class I	\$15.40	\$16.88	\$15.80	\$17.28	\$15.80	\$17.28
Class II	\$14.90	\$16.01	\$14.90	\$16.01	\$14.90	\$16.01
Class III	\$13.38	\$13.62	\$13.38	\$13.62	\$13.38	\$13.62
Class IV	\$15.29	\$15.45	\$15.29	\$15.45	\$15.29	\$15.45
Producer Price Diff. **	\$0.39	\$0.52	\$1.08	\$1.56	\$1.38	\$1.98

\*\* Zone 1 Chicago per cwt/subject to location adjustments

(All per cwt. Class Prices at 3.5% BF Value)

<b>Statistical Uniform Price*</b>	\$13.77	\$14.14	\$14.46	\$15.18	\$14.76	\$15.60
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\* Statistical Price = monthly Class III + PPD at 3.5% BF

Over Order Agency Class I Price	C.M.P.C.		I.M.M.A.		M.M.M.A.	
M.A. & processor fee not included in price	\$19.05	\$20.59	\$18.75	\$20.23	\$18.88	\$20.37

**Farm Test Averages**

BF test market average	3.61%	3.56%	3.51%	3.44%	3.58%	3.51%
Pro. test market average	2.98%	2.94%	3.02%	2.95%	2.99%	2.94%
OS test market average	5.76%	5.78%	5.76%	5.75%	5.73%	5.72%
Somatic Cell Ave.	241	266	242	262	213	237
<b>Total Producer. Milk pooled (billion. lbs.)</b>	3.00	2.90	1.00	1.00	525 mil	1.30

**Component Prices**

	May	June
Butterfat Price	\$1.7058	\$1.7234
Protein Price	\$2.1523	\$2.2040
Other Solids Price	\$0.1704	\$0.1748
Somatic Cell Adj. Rate	\$0.00071	\$0.00072

**Nass Monthly Product Price**

Cheese	\$1.4257	\$1.4475
Butter	\$1.5801	\$1.5946
Nonfat Dry Milk	\$1.2520	\$1.2631
Dry Whey	\$0.3645	\$0.3668

<b>Gov. Milk Income Loss Payment (est)</b>	\$0.00	\$0.00
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**Milk Producer**

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**Please contact one of the insurance professionals for all of your insurance needs.**

**Fun Facts:**

◆Cheese-making dates back more than 4000 years.

◆Federal regulations say that ice cream must have at least 10% milk fat

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## Milwaukee Cooperative Milk Producers is again awarding two (2) \$750 scholarships.

### ELIGIBILITY CRITERIA:

- Be graduating from high school in 2010-2011 or enrolled in college or technical school and maintaining a 2.50 GPA, certified by your school
- Be planning a post-secondary education and
- Be the son, daughter or grandchild of a MCMP member

**DEADLINE: OCTOBER 31, 2010** (applications **must be postmarked** by this date)

Request an application by calling 262.786.3120 or email [mcmpoffice@milwmilk.com](mailto:mcmpoffice@milwmilk.com)

Mailing Address: Milwaukee Cooperative Milk Producers  
Att: Scholarship Committee  
2965 N Brookfield Rd  
Milwaukee, WI 53045

### A complete application includes:

- The scholarship application form  
(**Note:** give one copy of the reference sheet to three people (instructors, youth agents, bankers, employers, others)  
**At least one reference should be completed by someone not in the education field.**
- A one-page summary of some of the significant events of your life and a description of you educational goals and future career plans
- Give **three (3)** reasons why you should be considered for the MCMP scholarship award
- An official transcript from your high school, college or technical school

Winners will be selected based on information provided in the application, transcripts and their expressed interest in pursuing post-secondary education. *Applicants do not have to be pursuing careers in agriculture.*



## Welcome New Members

John Toepel, Southwood Dairy Farm LLC, New Holstein, Roger Camp Jr., Monroe  
Harvey & Marcella Spiegelhoff, Columbus

**REMINDER:** Please notify your field representative or the MCMP Office if you have any changes in your name, address, phone number or farm operation (i.e. new partners or incorporate)  
Dan Zeleske: (414) 531-1199      Pat Yeagle: (815) 291-4581      MCMP Office: (262) 786-3120





















