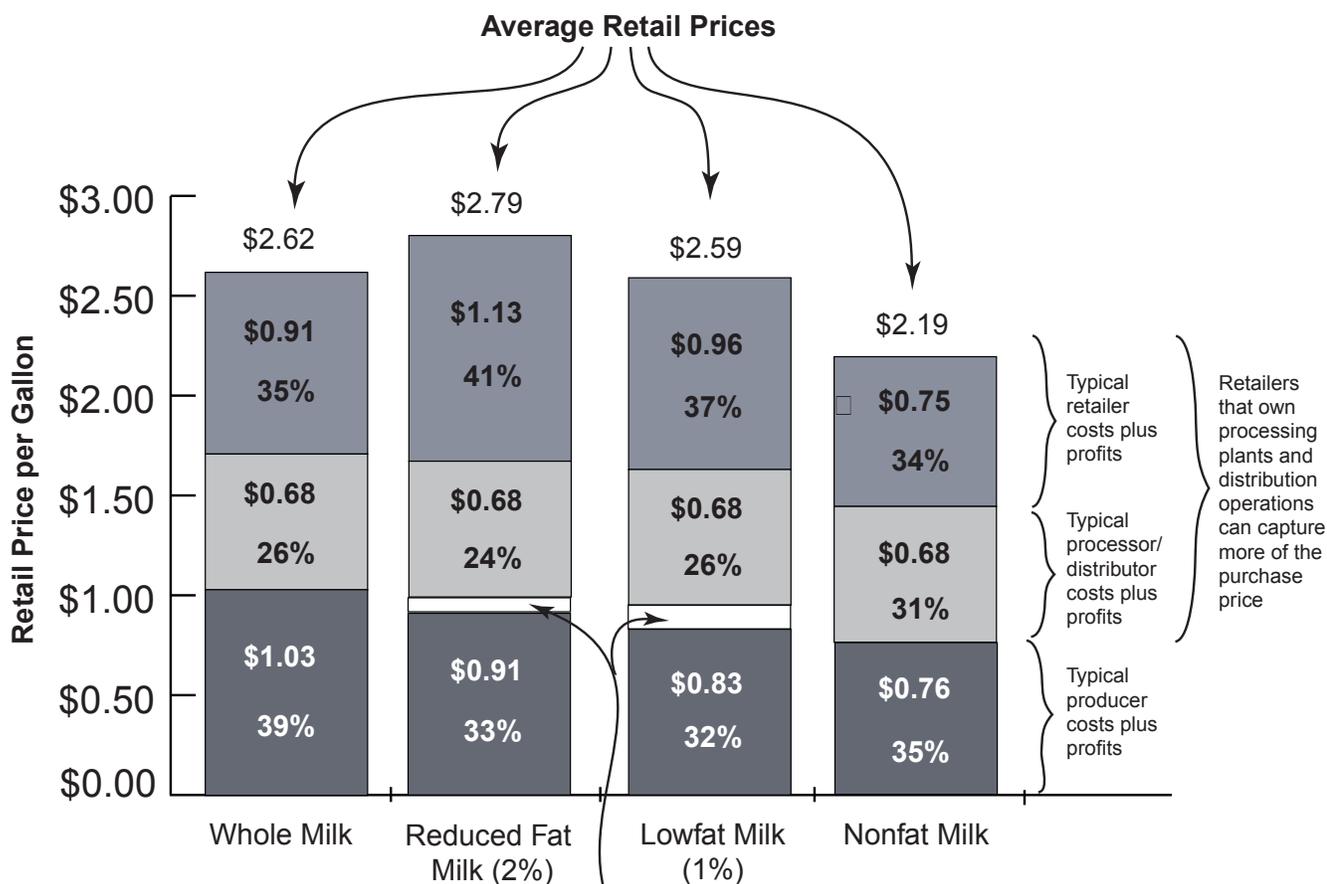


Where Do Consumer's Milk Dollars Go?

William (Bill) Lyons, Jr.
Secretary

Sacramento, October 2002

Under both California and federal milk marketing orders, minimum farmgate prices are regulated, but retail prices are not. Consumers often assume that most of their milk dollar goes to dairy farmers. The chart below shows that farmers receive less than 40 percent of the retail price of milk.



Costs to meet California's higher nutritional standards
(\$0.07 {3%} for reduced fat milk; \$0.12 {5%} for lowfat milk)

Retail price data for Sacramento for October 2002 obtained from A.C. Nielson Company

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NOVEMBER MILK PRODUCTION

Milk production in California for November 2002 totaled 2.8 billion pounds, up 3.4 percent from November 2001. USDA's estimate for U.S. milk production for November 2002 in the 20 major dairy states is 11.7 billion pounds, up 1.8 percent from November 2001. Production per cow in the 20 major states averaged 1,501 pounds for November, which is 16 pounds above November 2001. ☀

MINIMUM CLASS PRICES

Statewide average hundredweight prices

Class	December	January
1	\$12.46	\$12.79
2	\$11.00	\$11.00
3	\$10.83	\$10.83
4a	\$10.08	----
4b	\$ 9.43	----

FEDERAL ORDER AND CALIFORNIA MINIMUM CLASS 1 PRICES

Average Hundredweight Prices

Regions	December	January
Phoenix, Arizona	\$12.87	\$12.91
Southern California	\$12.80	\$12.93
Portland, Oregon	\$12.42	\$12.46
Northern California	\$12.33	\$12.65
Boston (Northeast)	\$13.77	\$13.81

QUOTA TRANSFER SUMMARY

For November 2002, 2 dairy producers transferred 957 pounds of SNF quota. November quota sales averaged \$526 per pound of SNF (without cows), an average ratio of 1.97. For December 2002, 6 dairy producers transferred 7,415 pounds of SNF quota. December quota sales averaged \$538 per pound of SNF (without cows), an average ratio of 2.39. ☀

ALFALFA UPDATE: DECEMBER

Northern California: Premium and Supreme alfalfa trading was steady but very light, as wet and windy weather moved into California. Near the end of the month, there was not enough sales of any class of hay, for dairies, for any type of accurate comparison. Interest from export buyers was beginning to pick up at the end of the month.

Southern California: Supreme alfalfa not well tested. Good and Premium alfalfa dairy hay was steady with very light offerings and demand. Dairies continue to be reluctant to adding to current inventories. Exporters were aggressive on Bermuda hay. Retail and Stable hay was steady with supplies coming out of barn storage now. ☀

SUPREME HAY PRICES

Statewide average prices per ton

Area	12/6	12/13	12/20	12/27
Petaluma	-----	-----	-----	-----
North Valley ¹	\$152-163	\$148-155	\$150-155	-----
South Valley ²	\$146-165	\$155-160	\$150	-----
Chino Valley	-----	-----	-----	-----

¹North Valley is Escalon, Modesto and Turlock areas.

²South Valley is Tulare, Visalia and Hanford areas.

ALFALFA HAY SALES/DELIVERY

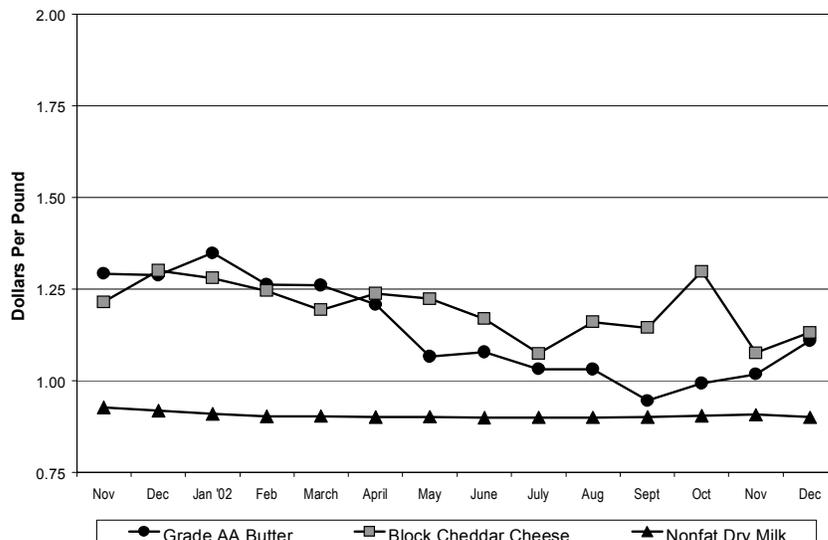
	November	December
Tons Sold ¹	114,018	66,415
Tons Delivered ²	62,193	29,170

¹For current or future delivery.

²Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, <http://www.ams.usda.gov/marketnews.htm>

Grade AA Butter, Block Cheddar Cheese, and Nonfat Dry Milk Prices Used in the Calculation of California Class 1 Milk Prices



How Classified Prices Contribute Revenues to the Pool

If milk is milk, then why do cheese plants pay a lower minimum price than fluid milk plants? The answer to this question can be found in the classified minimum milk pricing system that exists in California and other regulated milk markets. Simply, milk has a different minimum price depending on what products are made from the milk.

How it works:

Milk processors must pay to producers at least the minimum prices announced by the Department every month. Moreover, what price the processors pay depends on how the milk that they purchase is used. For example, a plant that produces cheese will pay a different price than a plant that produces ice cream, butter or yogurt. California's milk pricing regulations allow for five classes of milk. In general, the classes are represented by the following products:

- Class 1 = Fluid products
- Class 2 = Cottage cheese and yogurt
- Class 3 = Ice cream and other frozen desserts
- Class 4a = Butter and powdered milk
- Class 4b = Hard cheeses

Classified pricing gives dairy producers higher returns for their milk by allowing different prices to be charged for each class, a practice called "market segmentation". Classified pricing also reduces potential milk price instability. Typically, classified prices are structured such that prices cascade downward in relation to market value. For example, Class 1 milk prices tend to be higher than Class 2 milk prices, which tend to be higher than Class 3 milk prices and so forth. The products that are more perishable, such as fluid milk, are usually associated with higher class prices. Similarly, the products that have longer shelf lives and that are marketed as commodities (e.g., not differentiated), are usually associated with lower class prices. However, even with a classified pricing structure in place, complete milk price stability is not assured. Erratic price movements in dairy commodity markets (e.g., wholesale prices for butter, powder and cheese) may feed back into the pricing system to disrupt this generalized pricing order.

Class prices and "the Pool":

Most of the dairy industry speaks of class prices in terms of the hundredweight price of standard milk,

i.e., milk testing 3.5% fat and 8.7% solids-not-fat (SNF). While the Department publishes the hundredweight prices every month, they are not used to determine how much revenue is accumulated in the pool of revenues from milk sales. For Classes 2, 3, 4a and 4b, the Department establishes prices for fat and SNF. For Class 1, the Department also establishes a price for the fluid carrier in addition to the prices for fat and SNF. The component prices for each class and their associated utilizations determine what the value of the pool will be each month. The utilizations needed to determine the pool value are taken from monthly reports submitted by processors and indicate how many pounds of fat and SNF were used in each of the five classes.

In this article, the explanation focused on how class prices relate to the pool — class prices are how money is paid into the pool. In next month's article, the focus will be how money is paid out of the pool in the form of quota and overbase prices. ☀

2003 Assessment Rates Established for CMAB and CMMAB

The Department recently approved the 2003 assessment rates applicable to the California Milk Advisory Board (CMAB) and the California Manufacturing Milk Advisory Board (CMMAB). These two producer-funded programs conduct dairy promotion and research activities on behalf of California's dairy farmers.

The 2003 CMAB assessment rate for market milk and the 2003 CMMAB assessment rate for manufacturing milk have both been set at ten cents (**\$0.10**) per hundredweight: unchanged from the 2002 rates. As in the past, these assessments will be collected from the first handlers who purchase or otherwise acquire possession of milk from producers. Each handler shall in turn deduct such assessments from payment owed to their producers.

These assessments are authorized separate and apart from the fifteen-cent (\$0.15) assessment of the National Dairy Promotion and Research Board (NDPRB), but qualify California milk producers for a credit toward the NDPRB assessment. Please call Dennis Manderfield of the CDFA Marketing Branch at (916) 654-1245 if you have any questions about these assessments. ☀

Department Prepares For Upcoming Hearing

The Department has scheduled a public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas. The Department is busy preparing data and resources for the hearing that will be held on January 29, 2003, beginning at 9:00 a.m., in Sacramento, at the Holiday Inn Capitol Plaza, 300 J Street, in the California Room. If necessary, to ensure opportunity for all persons in attendance on January 29th who wish to testify to present testimony and evidence into the hearing record, the hearing may be continued to the following day, January 30, 2003, at the same location.

The Department will accept alternative proposals for consideration at the hearing which must be received by the Department's Dairy Marketing Branch by 4:00 p.m. on January 8, 2003. Alternative proposals should be mailed to: Hearing Officer; c/o The Dairy Marketing Branch; California Department of Food and Agriculture; 1220 N Street; Sacramento, CA 95814. Proposals can also be faxed to (916) 654-0867. In addition to a signed copy, please email a copy of the proposal to: dairy@cdfa.ca.gov so we can more easily post it to our web site.

To assist interested persons in preparing for the hearing, a public workshop will be held on January 22, 2003 at the Holiday Inn Capitol Plaza, 300 J Street, Sacramento, in the Fresno Room, beginning at 9:00 a.m. The Department will supply background and analysis of the petitions and alternative proposals submitted by the January 8, 2003 deadline. The workshop will be informal and educational in nature and discussion during the workshop will not be part of the official hearing record. Hearing information is also accessible on the Department's web site at www.cdfa.ca.gov/dairy. From the web site, click on "Public Hearings." ☀

Dairy Marketing Branch Moving

The Department of Food and Agriculture is currently housed in the building located at 1220 N Street (both the main building and annex section) in Sacramento. At the time of this printing, the main building is scheduled to be vacated, gutted, and renovated beginning in early 2003. During the renovation project, the Division of Marketing Services (including the Dairy Marketing Branch) and the Division of Inspection Services will be relocated to the Downtown Mall office space at 560 J Street. The mailing address will remain 1220 N Street, however phone and fax numbers will be changing. Watch for more details as they become available. ☀

Cattle Producer Update



CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE

Next month's California Dairy Review will feature the latest update on the bovine tuberculosis disease in California from the California Department of Food and Agriculture and United States Department of Agriculture task force working to control and eradicate the disease from California.



California Voluntary Johne's Disease Control Program

Information for Dairy and Beef Cattle Producers
December 2002



What is Johne's disease? Johne's disease is caused by a bacterium (*Mycobacterium paratuberculosis*) that infects the intestinal tract of ruminants. Cattle are usually infected as calves but do not show clinical signs until three or more years of age. The disease develops slowly and eventually kills the infected animal. There is no effective treatment. Cattle with advanced Johne's disease have chronic diarrhea and continually lose weight despite having good appetites.

How does Johne's disease affect the cattle industry?

A 2000 study of the California dairy industry reported that more than 60% of the dairies tested were infected with Johne's disease at low levels. A 1997 study of the U.S. beef industry reported that about 8% of beef cattle herds in the U.S. were infected.

Are there human health consequences?

Mycobacterium paratuberculosis has been isolated from some people with Crohn's disease, a chronic bowel condition of people. However, a link between Johne's disease and Crohn's disease has not been established.

What is the California Voluntary Johne's Disease Control Program?

A Johne's disease advisory committee was formed in 1999 to evaluate Johne's disease in California, and, if necessary, develop a disease control plan. Representatives from the beef and dairy industries, academia, private practitioners, the California Department of Food and Agriculture (CDFA) and the United States Department of Agriculture (USDA) participate in this ongoing committee. This group developed the voluntary Johne's disease control program.

What are the phases of the control program?

1. Education of beef and dairy producers.
2. Herd-specific management plans to control disease.
3. Testing to classify herds.

Certification is available at each phase of the program. The California Dairy Quality Assurance Program and the California Cattlemen's Association keep lists of dairy and beef producers, respectively, who have completed each phase.

How do you begin the program? Producers may complete the education phase by attending a class taught by a Johne's disease certified veterinarian. Watch for announcements of upcoming classes in trade journals, extension newsletters and other sources.

How do you start the second phase? Producers must complete the first phase, then work with a certified veterinarian to do a risk assessment and develop a herd plan to control Johne's disease in their herd.

How do you start the third phase? You must first complete the education phase and use a herd management plan to control Johne's disease. The third phase has specific requirements and strategies for test-negative herds and for test-positive herds. The Johne's disease prevalence (percent of positive cattle) and length of time at a given category determine the status of test-positive herds. The herd status improves as the disease prevalence is reduced.

What are Johne's disease certified veterinarians?

Veterinarians who have completed Johne's disease certification training. They can offer education classes, assist in developing herd plans, and help you in the classification phase of this program. Lists of trained veterinarians are available from CDFA at the numbers listed below.

For more information, contact:

CDFA-Animal Health Branch offices:	
Redding	(530) 225-2140
Modesto	(209) 491-9350
Tulare	(559) 685-3500
Ontario	(909) 947-4462
Sacramento (HQ)	(916) 654-1447
Web site	www.cdfa.ca.gov

California Dairy Quality Assurance Program:
info@cdqap.org (530) 752-7507

California Cattlemen's Association (916) 444-0845

California Farm Bureau (916) 561-5610

USDA-Veterinary Services (916) 857-6170

National Dairy Situation and Outlook

Milk Production and Cow Numbers

Monthly: Compared to 2001, overall milk production across the U.S. was up 1.8% in November, led by Arizona's 15.9% growth in milk production (on 10,000 more cows and 135 more pounds per cow). California's production was up 4.4% (on 56,000 more cows and 15 more pounds per cow). Among other western states, New Mexico was up 7.9%, Idaho up 2.3%, and Washington up 1.1%. Two of the top 10 states reported decreases: Minnesota - 5.1% and Pennsylvania -0.8%.

Quarterly: For the third quarter of 2002 compared to the third quarter of 2001, U.S. milk cow numbers were up 0.7% at 9.159 million, production per cow was up 2.5%; the net effect was a 3.2% increase in milk production to 41.9 billion pounds. USDA projects that for the fourth quarter of 2002 compared to the fourth quarter of 2001, U.S. milk cow numbers will increase 20,000 cows to 9.135 million cows, production per cow will be up 2.7%; the net effect would be a 2.2% increase in milk production to 41.7 billion pounds.

Milk Prices

Comparing the third quarter of 2002 to the second quarter of 2002, U.S. average milk prices were down \$0.75/cwt. to \$11.37/cwt. USDA projects that for the fourth quarter of 2002, U.S. average milk prices will be up \$0.50/cwt. compared to the third quarter; including a \$0.50/cwt. Class 4b price increase and a \$0.25/cwt. Class 4a price increase.

Utility Cow Prices

Comparing the third quarter of 2002 to the second quarter of 2002, average U.S. utility cow prices were down \$4.60/cwt. to a national average of \$38/cwt. USDA projects that utility cow prices will drop to \$35-36 levels in the fourth quarter of 2002.

Information from the USDA-NASS publication "*Milk Production*" and the USDA-ERS publication: "*Live-stock, Dairy, and Poultry Outlook*." 

Beware of Aflatoxin in Your Feed Sources

by Steven D. Wong

Aflatoxin is a natural occurring carcinogenic toxin produced by certain *Aspergillus* fungi growing on many kinds of plants, many of which are harvested for feed or food. Cottonseed and corn are two common materials used for feed. When feed or feed ingredients containing aflatoxin are fed to livestock including lactating dairy cows, the aflatoxin can affect the health of the animal as well as pass through the animal in the milk. Producers should be suspicious of damaged, wet or moldy feed or feed ingredients.

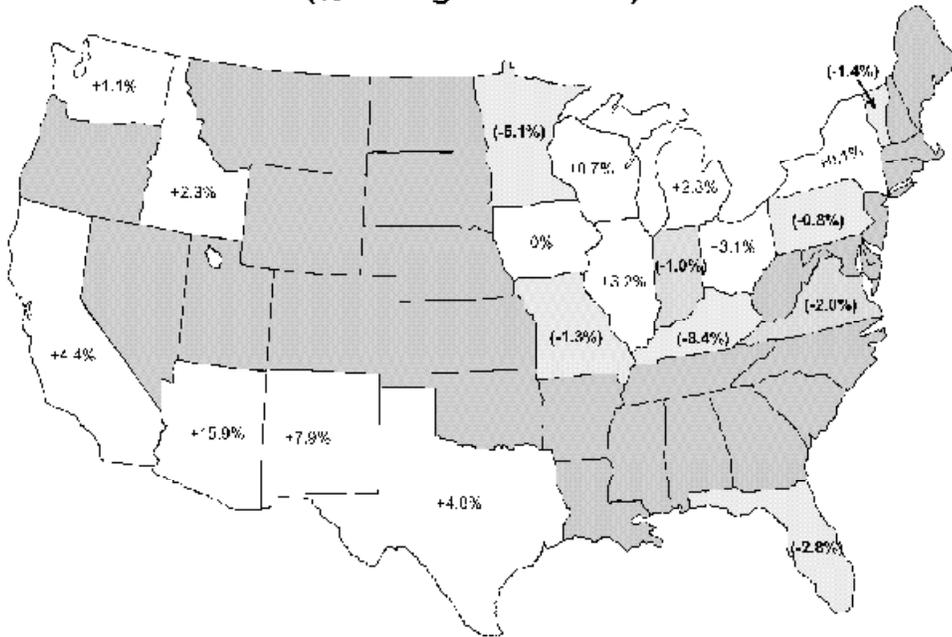
Industry and official grain grading agency results from testing of the 2002 mid-western states corn crop have shown aflatoxin levels above the federal and California tolerances for animal feed. In California the aflatoxin tolerance is 20 parts per billion of aflatoxin B₁ in all animal feeds and feed ingredients. This is more restrictive than the federal level of 20 parts per billion of total aflatoxin.

Recently, the Feed Inspection Program quarantined several rail car shipments of corn from Nebraska, with official grain grading certificates showing aflatoxin above the tolerance. Dairy and other consumers of corn for animal feed should make certain that their suppliers are either testing for aflatoxin or that the corn has been sampled and tested by an official grain grading agency and the certificate of testing shows that the aflatoxin is within the tolerance for animal feed.

All imported cottonseed and cottonseed grown in Riverside and Imperial Counties are required to be tested for aflatoxin prior to shipment for animal feed. Cottonseed produced in the San Joaquin Valley has not been found to have aflatoxin. The Department's Feed Inspection Program monitors the importation of cottonseed from within the United States as well as foreign sources.

In addition to concerns regarding aflatoxin in animal feeds, the Agricultural Commodities & Regulatory Services Branch recently observed some dairies feeding cotton gin trash to lactating and non-lactating animals. We remind dairy producers that cotton gin trash is prohibited from feed by the labeling of pesticides used in the production of cotton. The Department of Food and Agriculture's Agricultural Commodities & Regulatory Service Branch may be contacted at (916) 654-0574 should you have concerns about the safety of the feed you use. 

November Milk Production in the Top 20 States (% Change from 2001)



For the U.S. overall, comparing November 2002 to November 2001:

- Milk production during November was up 1.9%
- The number of cows on farms was 9.167 million head, up 61,000 head
- Production per cow averaged 1,479 pounds, 18 pounds more than November 2001 (+1.0%)

Milk Production Cost Index for California

Month	Del Norte / Humboldt		North Bay		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
<i>Dollars per Hundredweight</i>												
January	14.68	15.39	13.66	14.17	12.60	12.97	12.09	12.90	13.04	13.10	12.5165	13.0110
February	14.68	15.39	13.66	14.17	12.60	12.97	12.09	12.90	13.04	13.10	12.5165	13.0110
March	12.66	13.18	13.10	14.11	12.39	12.50	12.00	12.49	13.20	12.98	12.3930	12.6245
April	12.66	13.18	13.10	14.11	12.39	12.50	12.00	12.49	13.20	12.98	12.3930	12.6245
May	11.43	11.59	13.15	13.36	12.66	12.50	12.39	12.94	13.57	13.05	12.7255	12.8019
June	11.43	11.59	13.15	13.36	12.66	12.50	12.39	12.94	13.57	13.05	12.7255	12.8019
July	11.75	11.36	13.50	13.82	12.75	12.59	12.95	13.57	13.91	13.42	13.0678	13.1835
August	11.75	11.36	13.50	13.82	12.75	12.59	12.95	13.57	13.91	13.42	13.0678	13.1835
September	12.89	12.22	13.57	14.37	13.04	12.89	12.99	13.39	14.19	13.70	13.2516	13.2803
October	12.89	12.22	13.57	14.37	13.04	12.89	12.99	13.39	14.19	13.70	13.2516	13.2803
November	14.23		14.09		12.86		12.69		13.45		12.9463	
December	14.23		14.09		12.86		12.69		13.45		12.9463	

HUNDREDWEIGHT POOL PRICES

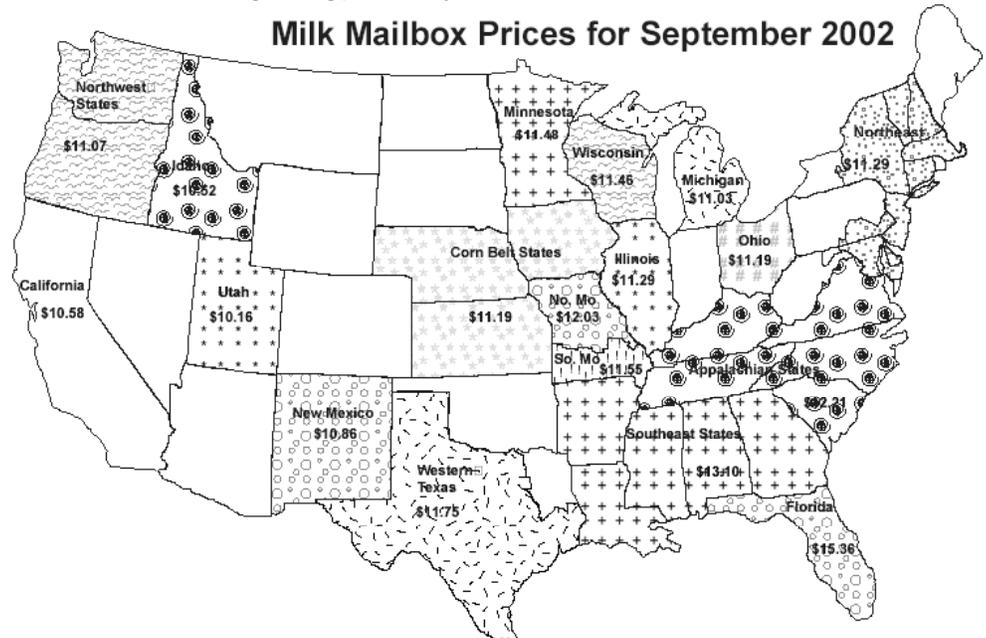
Month	Quota	Overbase
July '01	\$16.35	\$14.65
August	\$16.70	\$15.00
September	\$16.95	\$15.25
October	\$14.71	\$13.01
November	\$13.67	\$11.97
December	\$12.93	\$11.23
January '02	\$13.18	\$11.48
February	\$12.53	\$10.83
March	\$12.37	\$10.67
April	\$12.41	\$10.71
May	\$12.06	\$10.36
June	\$11.60	\$ 9.90
July	\$11.28	\$ 9.58
August	\$11.48	\$ 9.78
September	\$11.58	\$ 9.88
October	\$11.84	\$10.14
November	\$11.44	\$ 9.74

Milk Mailbox Prices in Dollars per Hundredweight

	March	April	May	June	July	August	September
California ¹	\$11.46	\$11.37	\$10.98	\$10.44	\$10.11	\$10.35	\$10.58
USDA ²	\$12.39	\$12.16	\$11.83	\$11.33	\$10.95	\$11.18	\$11.40

¹ California mailbox price calculated by CDFA.

² All federal milk market order weighted average, as calculated by USDA.



September 2002, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$11.40 per cwt., \$0.22 more than the figure in the previous month. On an individual reporting area basis, mailbox prices increased in 13 reporting areas, decreased in 4 areas, and ranged from \$15.36 in Florida to \$10.16 in Utah. In September 2001, the Federal milk order all-area average mailbox price was \$16.82, \$5.42 higher.