

C A L I F O R N I A

Dairy Review

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California Department of Food and Agriculture
A.G. Kawamura, Secretary

USDA AWARDS \$11.64 MILLION FOR NATIONAL ANIMAL IDENTIFICATION SYSTEM

Agriculture Secretary Ann Veneman today announced the selection of 29 state and tribal projects to receive a total of \$11.64 million to advance the national animal identification initiative. "This first phase of funding to states and tribes takes us closer to our goal of implementing a national animal identification system (NAIS) for all U.S. livestock and poultry animals," said Veneman.

USDA's Animal and Plant Health Inspection Service (APHIS) will distribute the funds through 29 cooperative agreements. States and tribes can use the funds to register premises through a standardized system provided by APHIS or through other systems that comply with NAIS data standards. Besides registering premises and establishing necessary data transfer procedures, many states and tribes will also conduct field trials or research in order to test and fine-tune ID technologies and collect animal movement data.

State and tribal plans include collecting intra- and interstate animal movement records electronically; integrating data collection technologies at livestock marketing facilities and processing plants; tracking livestock imported from other countries; and electronically collecting animal movement data as livestock are loaded on and off trucks and trailers at their ship-from and ship-to locations.

The animal identification initiative is a continuing USDA priority. Currently, USDA is holding a series of listening sessions across the country to discuss with producers the development, structure and implementation of the NAIS. The Department's ultimate goal for the NAIS is to gain the ability to identify all animals and premises that have had direct contact with a foreign animal disease or disease of concern within 48 hours of discovery. A functioning system will also be crucial as USDA works to complete disease eradication programs in which states, industry, and the federal government have invested many years and millions of dollars. USDA is committed to developing a program that is tested both on the farm and in the livestock markets to ensure it is both practical and effective. The Department's technology-neutral position will allow industry to determine which animal identification method or methods are the most practical and effective for each species. 

July Milk Production

Milk production in California for July 2004 totaled 3.075 billion pounds, up 3.8 percent from July 2003. USDA's estimate for U.S. milk production for July 2004 in the 20 major dairy states is 12.5 billion pounds, up 0.7 percent from July 2003. Production per cow in the 20 major states averaged 1,613 pounds for July, 16 pounds above July 2003. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	July	August	Sept
1	\$22.18	\$15.46	\$15.78
2	\$15.00	\$13.89	\$13.89
3	\$14.83	\$13.72	\$13.72
4a	\$12.75	\$N/A	\$ N/A
4b	\$12.76	\$N/A	\$ N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	July	August	Sept.
Phoenix, Arizona	\$20.30	\$16.97	N/A
Southern California	\$18.63	\$15.59	\$15.92
Portland, Oregon	\$19.85	\$16.52	N/A
Northern California	\$18.36	\$15.32	\$15.64
Boston (Northeast)	\$21.20	\$17.87	N/A

Quota Transfer Summary

For July 2004, three dairy producers transferred 3,107 pounds of SNF quota. July quota sales averaged \$473 per pound of SNF (without cows), average ratio of 2.37. For August 2004, eight dairy producers transferred 14,927 pounds of SNF quota. August quota sales averaged \$463 per pound of SNF (without cows), average ratio of 2.50. ☀

Alfalfa Update: August

Northern California: Premium and Supreme alfalfa was steady in light test with light to moderate supplies. Most high test hay is coming from out of state. Fair and Good alfalfa was steady with moderate demand and supplies. Some buyers scrambling to find dry cow hay. Retail and Stable hay was also steady with moderate demand and supplies. Exporters are showing interest in alfalfa and Sudan hay. Weather has been mild.

Southern California: Premium and Supreme alfalfa not well tested. Fair and Good alfalfa was steady in a light test. Retail and Stable hay was steady and producers already putting some supplies in barn for later take out. Exporters busy with all types of hay. White flies have been affecting quality of hay. Weather has been more mild, but rain caused some hay damage. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	7/30	8/6	8/13	8/20
Petaluma	\$157	—	\$170	\$158
North Valley ¹	\$165-170	\$157-165	\$160-170	\$158-167
South Valley ²	\$157-178	\$155-185	\$165-173	\$160-185
Chino Valley	\$152	\$156	—	—

¹ North Valley is Escalon, Modesto and Turlock areas.

² South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

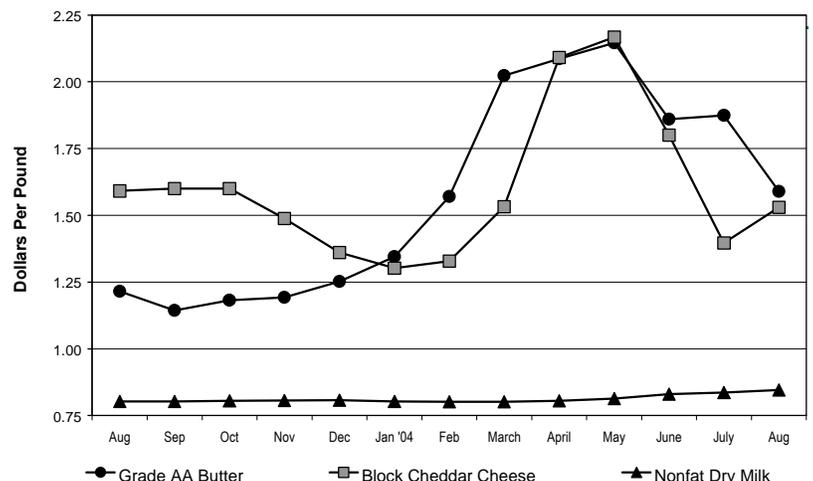
	July	August
Tons Sold ¹	295,876	214,287
Tons Delivered ²	149,855	105,565

¹ For current or future delivery.

² Contracted 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



Milk Producers Security Trust Fund Board Notice of Upcoming Meeting

There will be a meeting of the Milk Producers Security Trust Fund Board of Directors on September 8, 2004, beginning at 9:00 a.m. at the Sacramento International Airport Host Hotel. The purpose of this meeting of the Board is for Department Staff to present financial status reports to the Board for its review and approval.

For additional information, please call Marie Caron-Lyles at (916) 341-5901. 

Producer Reminder:

MILC Program Begins New Fiscal Year October 1, 2004

The MILC Program begins a new fiscal year on October 1, 2004. In order to receive payments in this new fiscal year, producers must once again designate a starting month by the 15th of the month before the month designated. The same start month designated last year will be used unless a change is submitted. The Federal Order Class I price has been higher than the level needed to generate payments - the program has had no authorized payments since April 2004. The program will end September 30, 2005 unless an extension is authorized by legislation. Call your nearest Farm Services Agency office for more information. 

Markets, Weather, and News (DTN) Available on Dairy Marketing Website

The Dairy Marketing Branch website at www.cdfa.ca.gov/dairy has a link featuring "Markets, Weather, and News" where you can access the Data Transmission Network (DTN) information. Information is available on weather, futures markets, Ag Market News, Dairy News, Hay and Feed News, Washington Ag News, and Market News. Simply go to the left side of the branch website and click on "Markets, Weather, and News (DTN)" 

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2003, USDA estimates that overall milk production across the U.S. was up 0.4% in July, led by Texas' 10.5% growth in milk production (on the same number of cows and 145 more pounds per cow). California's estimated production was up 3.7% (on 40,000 more cows and 25 more pounds per cow). Among other western states, Arizona was up 6.3%; New Mexico up 3.0%; and Washington down 2.7%. Four of the top 10 states reported an increase: Idaho 1.2%, Texas 10.5%, New Mexico 3.0%, and California 3.7%.

Quarterly: For the second quarter of 2004 compared to the first quarter of 2004, U.S. milk cow numbers were up 0.1% at 8.997 million, production per cow was up 2.3%; the net effect was a 2.3 increase in milk production to 43.7 billion pounds. USDA projects that for the third quarter of 2004 compared to the second quarter of 2004, U.S. milk cow numbers will decrease 12,000 cows to 8.995 million cows, production per cow will be down 4.5%; the net effect would be a 4.6% decrease in milk production to 41.7 billion pounds.

Milk Prices

Comparing the second quarter of 2004 to the first quarter of 2004, U.S. average milk prices were up \$4.50/cwt. to \$18.60/cwt. USDA projects that for the third quarter of 2004, U.S. average milk prices will be down \$3.25-\$3.95/cwt. compared to the second quarter; including a \$4.60-\$4.95 decrease/cwt. Class 4b price change and a \$1.60-2.00 decrease/cwt. Class 4a price change.

Utility Cow Prices

Comparing the second quarter of 2004 to the first quarter of 2004, average U.S. utility cow prices were up \$7.00/cwt. to a national average of \$54.86/cwt. USDA projects that utility cow prices will average \$52-54 in the third quarter of 2004.

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

California Dairy Review Available on Dairy Marketing Website

A reminder to readers that this publication is available at http://www.cdfa.ca.gov/dairy/ca_dairyrev_newsletter.html. If you would prefer to download this publication each month, thus helping us reduce printing/mailling costs, please email Karen Dapper at kdapper@cdfa.ca.gov stating your request.



California Brings Home Cheese Awards

Considered one of the world's most prestigious competitions in recognizing the art of artisanal and specialty cheesemaking, the American Cheese Society announced this year's winners. For the fourth year in a row, California won more awards for cow's milk cheeses than any other state.

California walked away with a record 38 awards at the competition, held in Milwaukee, Wisconsin during late July. This year, 116 North American cheesemakers entered 726 cheeses for judging.

The state's first-place winners included: Belfiore Cheese, Berkeley, for ricotta; Cantare Foods, San Diego, for Burrata; Cowgirl Creamery, Point Reyes, for Mt. Tam; Marin French Cheese, Petaluma, for Camembert; Fagundes Old World Cheese, Hanford, for Hanford Jack with jalapeño and Maria's Panela; Karoun Dairies, Los Angeles, for soft yogurt cheese, soft yogurt cheese with jalapeño, and marinated string cheese with olive oil and herbs.

In all, 14 California cow's milk cheesemakers — almost half of the state's cow's milk specialty cheese producers — received awards. Among the big winners were Fiscalini Farmstead Cheese with eight awards, Fagundes Old World Cheese and Karoun Dairies Inc., with five awards each, Cowgirl Creamery and Marin French Cheese Co. with four awards each, and Sierra Nevada Cheese Co. with three awards. Cow's milk cheese is the largest of the categories judged.

California is the second-largest producer of cheese in the country with approximately 45% of all milk produced in the state being used to produce cheese. For a complete list of winners, go to www.cheesesociety.org. 

USDA

Questions and Answers: National Animal Identification System

USDA Animal and Plant Health Inspection Service

Q. What is the national animal identification system (NAIS)?

A. The national animal identification system is a national program intended to identify all food animals and livestock, as well as record their movement over the course of their lifespan. The U.S. Department of Agriculture (USDA) is committed to designing a comprehensive animal identification system that will allow for the tracing of all animals and premises potentially exposed to a foreign animal disease within 48 hours to ensure rapid containment of the disease and further protect U.S. animal health.

Q. Why is USDA developing the NAIS?

A. The key to safeguarding U.S. livestock and economic health from the effects of animal diseases is to have a national surveillance system in place that is comprehensive, integrated, and coordinated. The ability to identify livestock more quickly will enhance USDA's ability to respond to pests and animal diseases.

Q. What is USDA's goal for the NAIS?

A. USDA's goal is to create an effective, uniform, consistent, and efficient system by:

- Allowing producers, to the extent possible, the flexibility to use current identification systems or adopt new ones, but not burden them with multiple identification numbers, systems, or requirements;
- Providing data element standards;
- Remaining technology neutral in order to utilize all existing forms of effective technologies and new forms of technology that may be developed;
- Ensuring that the system does not preclude producers from being able to use it to add value by aligning production management with market incentives.

Q. Will USDA utilize the U.S. Animal Identification Plan (USAIP)?

A. USDA strongly values and appreciates the effort that the USAIP team has put forth in developing an animal identification plan. USDA plans to use the data standards developed through this partnership of more than 100 animal and livestock professionals from 70 associations, organizations, and government. USDA

(Continued on next page)

USDA - Continued from page 6

will continue to seek input from industry and other interested parties throughout the design and implementation of a national animal identification system.

Q. Will producer participation in the animal identification program be mandatory?

A. Initially, producer participation will be voluntary during the development of USDA's animal identification program. As the system continues to take shape and is tested for all livestock and food animals, USDA will reassess the need for making some or all aspects of the program mandatory.

Q. What technology will be used?

A. USDA recognizes that there is no "one-size-fits-all" technology. USDA supports a system that does not limit users to only one type of identification tool. Instead, USDA will remain technology neutral so that all existing forms of effective technology and new forms of technology that could be developed in the future may be utilized.

Q. How will the system be funded?

A. While there is funding in the fiscal year (FY) 2005 budget request for this program, USDA understands the need to get the animal identification system started now. As a result, \$18 million in emergency funding has been transferred from the Commodity Credit Corporation (CCC) to initiate the development of the infrastructure and initial implementation of an animal identification system in 2004. Eventually, both private and public funding will be necessary to make the animal identification program fully operational. Federal and State governments, as well as industry, will share the cost of maintenance, probably with each of these entities covering certain aspects of the system.

Q. How will USDA protect producers' privacy?

A. USDA is aware of producers' concerns about the privacy of information collected in the animal identification system and is taking them very seriously as we explore the most effective means for collecting animal identification information. Federal legislation addressing the confidentiality and accessibility of information in a national animal identification database may be needed to address the concerns of livestock producers and processors, while expediting the implementation of the national animal identification system.

Q. What will be the cost to producers?

A. USDA is currently determining costs to individual producers.

Q. What is the timeline for implementation?

A. Although we are still developing our specific timeline for implementation and deciding on a funding mechanism, there are some preliminary and general indications of activities for 2004. An assessment of the capabilities of current systems in operation that will determine the capacity of any of these systems to serve as the basis for a national system has been completed. Our first priority is to identify animal premises and develop a national repository where this premises information can be stored. We would like to develop the premises registration system in FY 2004, because it would allow us to allocate premises identification numbers to cooperating States and tribes that are ready to register premises. Once cooperators have integrated with the national system and are registering their premises, USDA would be in a position to issue animal identification numbers to producers through these early cooperators.

Beginning in FY 2004, USDA will also focus on identifying and qualifying third parties, such as private industry and trade associations, that have identification products or programs that could be integrated into the national system. By late fall 2004, USDA would then be in a position to issue premises and animal identification numbers to third parties and to begin receiving information from these parties into the national animal identification database.

Q. Where can I get more information?

A. For additional information visit <http://www.aphis.usda.gov/lpa/issues/nais/nais.html>



MILC Program Payment Schedule 2004

Payment rates to date are as follows:

Year	Month	Rates (\$/cwt)
2004	January	\$0.8280
2004	February	\$0.9450
2004	March	\$0.7875
2004	April	\$0.0225
2004	May	\$0.0000
2004	June	\$0.0000
2004	July	\$0.0000
2004	August	\$0.0000



CWT Outlines Program For 2004-2005

Recently, the Cooperatives Working Together (CWT) Committee approved operating plans for the second year of the CWT Program. As a result of rapidly declining milk prices, as well as recent increases in both the number of cows in the national herd and overall milk production, the committee voted to allocate 80% of this year's funds to the Herd Retirement Program and 20% to the Export Assistance Program in addition to utilizing the remaining monies left over from the previous year.

The CWT Committee agreed that a request for bids for the Herd Retirement Program would not be announced before October 2004. The final decision ratifying both an October 1, 2004 commencement date and the details for implementation of the Herd Retirement Program will be made in mid-September. The CWT Export Assistance program will continue to receive bids for both cheese and butter at the target price levels of \$1.40 per pound and \$1.30 per pound, respectively. The CWT Program is being funded by dairy cooperatives and individual dairy farmers, who are contributing 5 cents per hundredweight assessment on their milk production. For more on CWT activities, visit www.cwt.coop. 

Creative Packaging Boosts Kids' Meal Choices and Milk Sales at Wendy's

In order to accommodate parents that are looking for nutritious choices for their children, Wendy's recently began offering families the option of substituting milk and a fruit cup for soft drinks and French fries in their kids' meals. Families can substitute eight-ounce, single serve plastic containers of reduced fat (2%) white or lowfat (1%) chocolate milk and a four-ounce cup of mandarin oranges at no additional charge - these items can now also be ordered a la carte.

Just one month after nationally introducing these new options, Wendy's announced that weekly milk sales exceeded one million units for the first time. Prior to these new containers and offerings, sales of traditional paper cartons averaged 65,000 units. In addition, 425,000 mandarin orange cups are also being ordered each week. Wendy's is the first quick-service restaurant chain to feature the American Dairy Association's 3-A-Day logo on its milk labels, encouraging people to consume three daily servings of milk, cheese, or yogurt. 

Dairy Cow Replacements

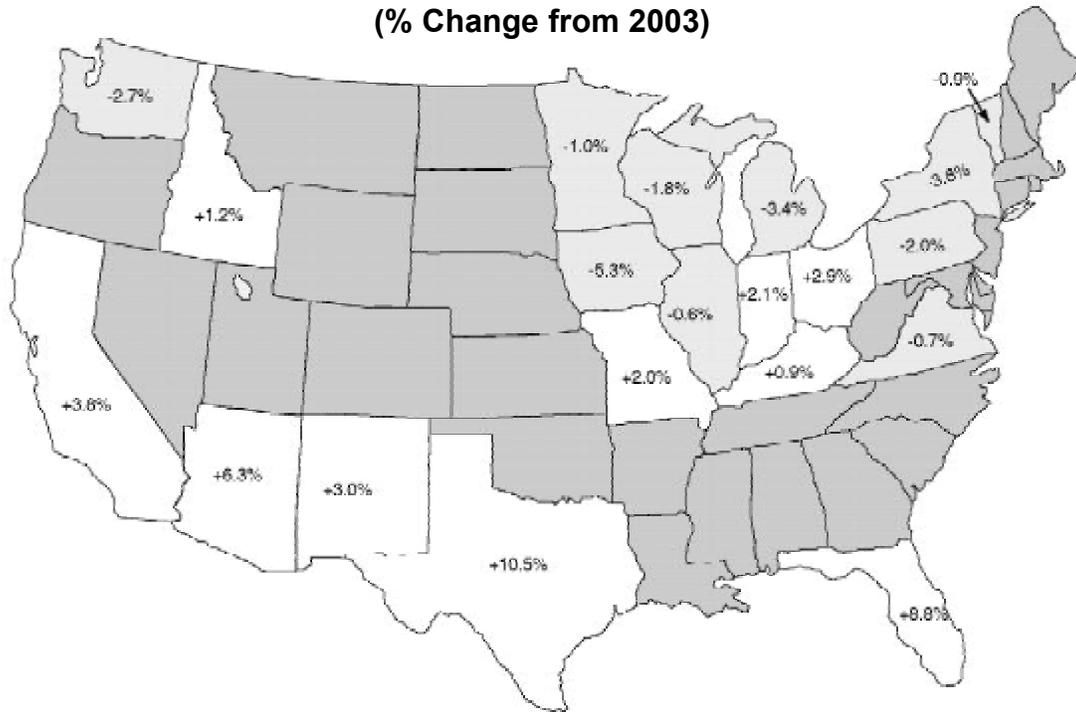
According to USDA's Economic Research Service, prices of dairy cow replacements hit a record \$1,720 per head in July, up more than \$400 from a year earlier. Replacement prices have jumped since early 2004 partly attributed to record milk prices boosting the demand for dairy heifers. However, the difference between the average replacement price during April-June and the slaughter value for dairy cows was considerably less than it had been during late 2001 and most of 2002 because of higher cull cow prices.

The inventory of dairy replacement heifers (500 pounds and more) stood at 3.6 million on July 1, unchanged from a year earlier but down slightly from 2 years earlier. Increased demand for replacements has had the greatest impact on prices. Very high milk prices tend to make farmers keep their facilities completely full and even to stretch capacity if possible. The second quarter difference between a cow's purchase price and salvage value was just over \$900, \$200 less than during the strong expansion period in 2002. 

Hurricane Charley Hits Florida and East Coast

In August, hurricane Charley cut a wide swath of property damage and power outages across Florida and the East Coast area. Many towns and cities in the Central and Southern parts of the state were without power. Milk transportation schedules were in chaos and reports noted that one dairy operation/farm was totally destroyed and the whereabouts of the cows were not known. Farms with portable generators were operating, but well below typical efficiencies. Getting the milk picked up and moved to plants were issues unto themselves. Charley also dumped heavy amounts of rain as it moved up the Eastern Coastline, but few problems were reported in milk pick-ups, processing, and disposition. As power to stores was restored, they were furiously placing orders for bottled milk and other dairy products, putting a strain on the plants that were operating as well as the delivery system for these products. Fortunately, school re-openings were postponed until a week later which allowed processors to better clean up and get back to more normal operating levels. Some milk was lost at the farm and plant levels, but volumes are not yet known. 

July Milk Production in the Top 20 States (% Change from 2003)



For the U.S. overall, comparing July 2004 to July 2003:

- Milk production during July was up 0.4%
- The number of cows on farms was 9.027 million head, down 60,000 head
- Production per cow averaged 1,587 pounds, 17 pounds more than July 2003
- Ten of the top twenty milk producing states showed a decrease in milk production

As reported by USDA
and CDFA (for California)

Hundredweight Pool Prices

Month	Quota	Overbase
January '03	\$11.40	\$ 9.70
February	\$11.11	\$ 9.41
March	\$10.93	\$ 9.23
April	\$11.02	\$ 9.32
May	\$11.05	\$ 9.35
June	\$11.17	\$ 9.47
July	\$12.72	\$11.02
August	\$13.96	\$12.26
September	\$14.34	\$12.64
October	\$14.45	\$12.75
November	\$13.56	\$11.86
December	\$13.09	\$11.39
January '04	\$12.71	\$11.01
February	\$13.32	\$11.62
March	\$15.44	\$13.74
April	\$18.23	\$16.53
May	\$18.69	\$16.99
June	\$17.46	\$15.76
July	\$15.03	\$13.33

Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

**	November	December	Jan '04	February	March	April*	May
California ¹	\$12.82*	\$12.54*	\$12.11	\$12.89	\$14.65	\$17.21	\$17.57*
USDA ²	\$14.50*	\$13.81*	\$13.12	\$13.54	\$15.28	\$17.40*	\$19.01*

¹ California mailbox price calculated by CDFA.
² All federal milk market order weighted average, as calculated by USDA.



In May 2004, mailbox prices for selected reporting areas in Federal milk orders averaged \$19.01 per cwt, \$1.61 more than the figure for the previous month. The component tests of producer milk in May 2004 were: butyrfat, 3.57%; protein, 2.98%; and other solids 5.71%. On an individual reporting area basis, mailbox prices increased in all reporting areas except one, and ranged from \$20.95 in Florida to \$16.59 in Northwest States. In May 2003, the Federal milk order all-area average mailbox price was \$10.80, \$8.16 lower.

**Mailbox prices for Idaho and Utah are being discontinued due to the termination of the Western Federal Order.

In accordance with the California Government Code and ADA requirements, this publication can be made available in an alternative format by contacting Karen Dapper at (916) 341-5988, by email at dairy@cdfa.ca.gov, or contacting TDD 1-800-735-0193.

Dairy Marketing Branch:
 Website: www.cdfa.ca.gov/dairy
 Phone (916) 341-5988; Fax (916) 341-6699
 Email: dairy@cdfa.ca.gov

Milk Pricing Information:
 Within California 1-800-503-3490
 Outside California 1-916-442-MILK

The California Department of Food and Agriculture Dairy Marketing Branch publishes the California Dairy Review monthly. Please direct any comments or subscription requests to Karen Dapper at (916) 341-5988 or send an email to dairy@cdfa.ca.gov

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