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

SECRETARY OF AGRICULTURE ANN VENEMAN RESIGNS



On November 12, 2004, Ann Veneman, the 27th Secretary of Agriculture, announced her resignation. After serving the first four years of the Bush Administration, she felt it was an appropriate time to move on to new opportunities. In her letter of resignation to President Bush, she expressed her feeling humbled and thankful at her being entrusted to serve our nation during these extraordinary times.

CDFA Secretary Kawamura issued a statement on USDA Secretary Veneman's resignation, acknowledging that "Ann Veneman has earned our high praise, admiration and gratitude for her public service and dedication to California agriculture and all of American farming.

Secretary Veneman showed genuine leadership last December when, in the midst of uncertainty due to the first BSE-infected cow in our nation's history, she conveyed the absence of risk by stepping to a podium and informing the world that she planned to serve American beef at her holiday table. That is just one example of Secretary Veneman's boundless faith in agriculture. She has worked tirelessly to ensure a safe, secure food supply; to protect agriculture from exotic pests and diseases; to encourage conservation and environmental stewardship; and to maximize prospects for farmers and ranchers through programs that include trade, rural investment and educational opportunities.

Secretary Veneman has also demonstrated leadership with her landmark understanding of how the national well-being is threatened by the crisis in nutrition, most notably childhood obesity and related diseases. We are very fortunate that Ann Veneman has served as secretary of agriculture. I thank her for her commitment and her achievements, and I wish her the very best in her future endeavors." 

October Milk Production

Milk production in California for October 2004 totaled 3.076 billion pounds, up 5.5 percent from October 2003. USDA's estimate for U.S. milk production for October 2004 in the 20 major dairy states is 12.2 billion pounds, up 1.3 percent from October 2003. Production per cow in the 20 major states averaged 1,576 pounds for October, 15 pounds above October 2003. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	Oct.	Nov.	Dec.
1	\$16.14	\$15.79	\$16.25
2	\$13.14	\$13.14	N/A
3	\$12.98	\$12.98	N/A
4a	\$12.46	N/A	N/A
4b	\$13.60	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Oct.	Nov.	Dec.
Phoenix, Arizona	\$17.13	\$16.64	\$16.78
Southern California	\$16.28	\$15.93	\$16.38
Portland, Oregon	\$16.68	\$16.19	\$16.33
Northern California	\$16.01	\$15.66	\$16.10
Boston (Northeast)	\$18.03	\$17.54	\$17.68

Quota Transfer Summary

For October 2004, nine dairy producers transferred 4,638 pounds of SNF quota. October quota sales averaged \$457 per pound of SNF (without cows), average ratio of 2.48. For November 2004, four dairy producers transferred 4,677 pounds of SNF quota. November quota sales averaged \$472 per pound of SNF (without cows), average ratio of 2.46. ☀

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

Alfalfa Update: November

Northern California: Premium and Supreme alfalfa was lightly tested with most supplies coming from out of state. Fair and Good alfalfa was lightly tested with light supplies. Retail and Stable hay was steady with most supplies coming out of barns. Rainy weather limited movement of hay. Late in the month the weather cooperated in letting producers finish up their season.

Southern California: Premium and Supreme alfalfa not well tested. Fair and Good alfalfa was steady to firm with a moderate demand and most supplies carrying some percentage of grass. Retail and Stable hay was steady with most hay coming out of barns, however the latter part of the month found producers holding off until after the first of the new year to let any more hay go out of barns. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	10/29	11/5	11/12	11/19
Petaluma	—	\$177	—	—
North Valley ¹	\$155-180	\$170-177	\$170-185	\$165-179
South Valley ²	\$180	\$168-180	\$186-200	\$170-195
Chino Valley	—	—	—	—

¹ North Valley is Escalon, Modesto and Turlock areas.

² South Valley is Tulare, Visalia and Hanford areas.

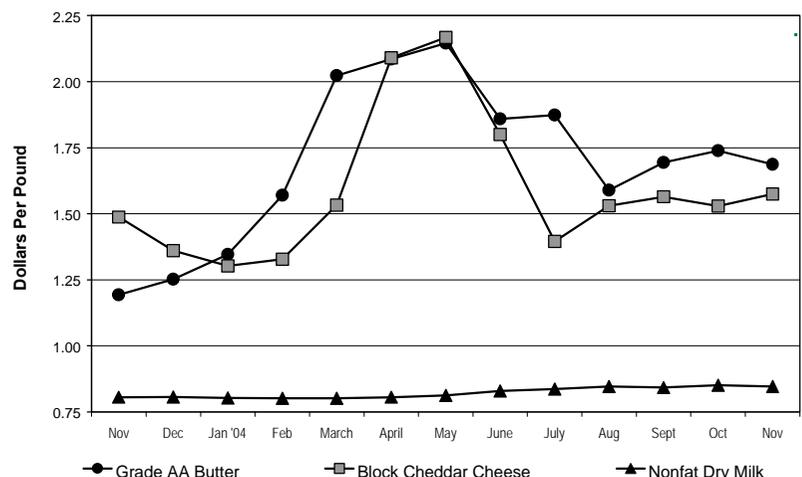
Alfalfa Hay Sales/Delivery

	Oct.	Nov.
Tons Sold ¹	133,946	78,734
Tons Delivered ²	58,275	27,550

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>



THE FACTS ABOUT NATIONAL ANIMAL ID

WHAT YOU NEED TO KNOW

Q Which animals will be included in the National Animal Identification System?

A The system is being developed for all animals that will benefit from rapid tracing in the event of a disease outbreak. The NAIS currently includes plans for the following:

- Cattle & Bison
- Swine
- Sheep
- Goats
- Horses
- Poultry
- Deer & Elk
- Llamas & Alpacas

Certain animals—swine and poultry for example—typically move through the production chain in lots. They'll be identified as groups instead of individually.

The facts about the National Animal Identification System (NAIS) are simple.

Q What is the NAIS? Who is developing it? And why?

A The National Animal Identification System (NAIS) is a national program intended to identify the animals listed on the left and record their movements over their lifespans.

It is being developed by the U.S. Department of Agriculture (USDA) and State agencies—in cooperation with industry—to enable 48-hour traceback of the movements of any diseased or exposed animal. This will help to ensure rapid disease containment and maximum protection of America's animals.

Q What's the first step in rolling out the NAIS? What do I need to do?

A Animal identification and tracking are not new concepts in the United States. USDA and its partners are building upon existing systems where they can and working toward a national system over time.

The first step in developing the comprehensive national system will be to assign a unique number—a Premises ID Number—to every location where the animals are born, managed, marketed, or exhibited. Your State will be able to tell you where it stands in that process.

Find out whom to contact in your State: Go to www.usda.gov/nais or call your State Department of Agriculture.

Q How will the NAIS help me? Why act now?

A The bottom line is protecting producers' livelihoods by ensuring animal health and maintaining market access. As soon as we can record animal movements from producers' farms and ranches, livestock markets, ports of entry, processing plants, and all other ship-to and ship-from locations, our ability to respond to disease outbreak will be stronger than ever before.

**Our animals. Our livelihood. Our future.
Let's work together to make National Animal ID work for all of us.**

 **United States Department of Agriculture**
Animal and Plant Health Inspection Service

WWW.USDA.GOV/NAIS

USDA is an equal opportunity provider and employer.

**MASTER LIST OF HANDLERS INELIGIBLE FOR COVERAGE
UNDER THE MILK PRODUCERS SECURITY TRUST FUND
AS OF NOVEMBER 5, 2004**

HANDLERS INELIGIBLE FOR FAILURE TO PAY PRODUCERS OR FAILURE TO PAY POOL SETTLEMENT OBLIGATIONS				
FIRM	STREET ADDRESS	CITY, ST. & ZIP CODE	HANDLER NO.	
Valley Gold, LLC	240 North Avenue	Gustine, CA 95322	041007	
Organic Pastures Dairy Company, LLC	7221 S. Jameson Ave	Fresno, CA 93706	036079	
Suprema Specialties West, Inc.	14253 S. Airport Way	Manteca, CA 95336	---	
Bravo Farms	34292 Road 124	Visalia, CA 93291	032075	
HANDLERS THAT ARE NOT BONDED AND EITHER USE THEIR OWN PRODUCTION OR BUY MILK FROM OTHER HANDLERS				
FIRM	STREET ADDRESS	CITY, ST. & ZIP CODE	HANDLER NO.	
Balian Ice Cream	2916 E. Olympic Boulevard	Los Angeles, CA 90023	---	
Broguiere's Farm Fresh Dairy	505 South Maple Avenue	Montebello, CA 90640	142097	
Cal Poly State University Dairy	Foundation Administration Bldg # 15	San Luis Obispo, CA 93407	143175	
California State University Agricultural Foundation	2385 East Barslow Avenue W/S AG 85	Fresno, CA 93740-8004	032119	
Claravale Farm Company	345 Kliever Lane	Watsonville, CA 95076	012396	
Cool-A-Coo Ice Cream Company	12025 Hadley Street	Whittier, CA 90601	---	
Dejong's Dairy - DBA Udderly, Inc.	31910 Corydon Street	Wildomar, CA 92595	142152	
Fagundes Agribusiness	8700 Fargo Avenue	Hanford, CA 93250	072027	
Fleur De Lait West	17525 East Valley Boulevard	City of Industry, CA 91744	144210	
Formaggi Di Ferrante, Inc.	4690 East Second Street, Suite 7	Bentona, CA 94510	018182	
Initiative Foods, Inc.	1117 K Street	Sanger, CA 93657	---	
The Ice Creamery - DBA Bayche Companies, Inc.	1221 Burt Place	Fullerton, CA 92831	---	
Joe Matos Cheese Factory	3669 Llano Road	Santa Rosa, CA 95407	097052	
Martin French Cheese Company	7500 Red Hill Road	Petaluma, CA 94952	098020	
Morningstar Foods, Inc. *	18275 Aventh Avenue	City of Industry, CA 91748	148477	
Norwalk Dairy - DBA John Vanderham	13101 East Rosecrans Avenue	Santa Fe Springs, CA 90670	141680	
Pedrozo Dairy & Cheese Company	7713 County Road 24	Orland, CA 95963	075129	
Prison Industries Authority - CA Institution for Men	PO BOX 1031	Chino, CA 71710	143032	
Prison Industries Authority - Corcoran State Prison	PO BOX 8800	Corcoran, CA 93212-8800	038125	
Prison Industries Authority - Correctional Training Facility	PO BOX 700	Soledad, CA 93960-0700	012100	
Prison Industries Authority - Deuel Vocational Institution	PO BOX 400	Tracy, CA 95378	078143	
Sun Dairy Company - DBA Pac Fill, Inc.	5471 San Fernando Road West	Los Angeles, Ca 90039	040414	
Wonder Ice Cream Company	1717 Lafayette Street	Santa Clara, CA 95050	---	

* Morningstar's City of Industry plant is not required to have a bond. Statements of milk to the other Morningstar plants currently are eligible for trust fund coverage.



McDonald's and Wendy's Successful with New Milk Promotions

With the support of America's dairy producers through their dairy checkoff, McDonald's and Wendy's are now offering new milk products with their meals in restaurants nationwide. Milk sales at these two major fast-food chains have increased dramatically since the restaurants began offering milk in plastic, resealable containers. McDonald's had been selling 600,000 cardboard containers of milk each week, now it serves 4.2 million plastic bottles each week. Wendy's, meanwhile, has increased sales from 65,000 cardboard cartons per week to 1.8 million plastic bottles per week. The new Milk Jug contains lowfat (1 percent) white or chocolate milk in attractive 8-ounce, plastic, single-serve, re-sealable containers. The McDonald's restaurants alone could boost milk sales by more than 100 million pounds annually.

The dairy checkoff's partnership with the nation's largest fast food retailer comes after a successful pilot test in which the dairy checkoff provided McDonald's with background research and marketing counsel in the pilot test phase. The dairy checkoff's goal is to reintroduce milk into all major, national, kid-friendly restaurant chains. Checkoff-funded research shows

that if the nation's major fast-food chains were to adopt new milk products nationally, milk sales could increase by more than 200 million pounds annually.

McDonald's will support the launch through national TV and print advertising, in-store merchandising, staff training to prompt customers to choose milk with their order, and public relations support that communicates milk as a healthy beverage of choice. This is part of the dairy checkoff's long-term strategy to turn kids into life-long milk drinkers. The combined effort of getting new milk into fast-food restaurants, as well as schools, could move an additional 1 billion pounds of milk annually.

In addition, by the end of the year, plastic, single-serve, resealable milk available in a choice of flavors will be offered in nearly 3,000 schools across the nation, compared to only 300 last year. ☀

Healthy Weight with Dairy

NESTLE® NESQUIK® Takes Big Steps for Better School Nutrition

As an enthusiastic supporter of 3-A-Day of Dairy and childhood nutrition, NESTLE NESQUIK has launched the first lowfat 1% milk developed specifically for school vending nationwide, providing a great-tasting alternative to other nutrient-void beverages. It's a win-win!

With every serving, kids get nine essential nutrients they need - including 40 percent of their daily value of calcium - in popular milk flavors like chocolate, vanilla and strawberry that keep them coming back for more. The milk is served chilled in convenient plastic grab-and-go 14-oz. bottles.

Would you like to see Nesquik vending in your kids' schools? Encourage your schools' nutrition committees, parent groups and administrators to call 1-866-QUIK-VEND or go to vend.nesquik.com to learn more about getting healthy lowfat milk vending students will love. ☀



U.S. - Japan Beef Trade Agreement

Agriculture Secretary Ann M. Veneman announced that U.S. trade officials concluded an agreement with Japanese officials that paves the way for a resumption of beef trade. Beef sales to Japan exceeded \$1.7 billion last year before trade was halted due to the discovery of a case of BSE in the U.S. The agreement reached with Japan will enable our beef trade to resume under a special marketing program. We then will review that program after six months of operation, with a view toward returning trade to more normal patterns. The following are questions and answers concerning the U.S.-Japan Beef Trade Agreement:



1. When will actual shipments likely begin?

Before U.S. shipments begin, the Japanese authorities must complete their regulatory process for revising their domestic regulations (i.e., dropping 100% BSE testing to instead requiring testing only for animals 21 months and older). Regulations to permit importation of beef from animals 20 months and younger also must be promulgated. The special study of the correlation between chronological and physiological age, defined in the Agreement, must be completed within 45 days. This study will be conducted by USDA/AMS in close collaboration with Japanese experts to determine the details of the grading criteria to be used. Thus, all things taken together suggest that several weeks will be required for the resumption of sales.

2. What proportion of previous sales will this Agreement permit?

This Agreement permits sales of beef and products from animals 20 months old or younger. The U.S. beef production system is geared to producing younger animals. Estimates suggest that about 70% of the 35 million cattle slaughtered each year are steers and heifers 20 months or younger. Thus, the Agreement will permit a significant portion of previous sales to be recovered in the interim period.

3. How will cattle age be determined? What methods will be used in such a determination?

Two methods will be used to determine that animals are 20 months of age or younger and thus meet the requirements for the Japanese market: 1) Production records that indicate birth dates will be used. These include records for individual animals; records from insemination; group age verification plans; and records from already existing USDA-certified special programs; and 2) The USDA physiological grading system also will be used. A special study is being

conducted to examine the correlation between chronological age and physiological characteristics. This information then will be used to define the parameters of the USDA grading criteria that will be used in determining animal eligibility for export.

4. How long will this Agreement be in place? What is the longer-term outlook for U.S.-Japan beef trade?

The operation of this approach - a special marketing program with specific requirements - will be reviewed jointly by the two Governments in July of 2005. A group of international experts, including from the World Organization for Animal Health (OIE) and the World Health Organization (WHO), will be asked to review the BSE situation in both countries and to make recommendations as to how the program might be modified and consumers still be assured of safe beef supplies. Thus, this Agreement marks a start in the resumption of trade. July 2005 marks an important review. And, the longer-term view would be a return to normalcy in our trading relationship.

5. The Agreement includes resumption of Japan's beef sales to the United States market. What does this entail?

Japan produces a very expensive, high quality specialty beef that it formerly exported to the United States. The export sales of Wagyu or Kobe beef were very limited, about a quarter million dollars in 2001. Japan has requested to resume its sales to our market. And, without prejudging the results of any evaluation, we have indicated that we will commence our rulemaking process. This will entail a risk assessment by APHIS and FSIS inspection of Japanese processing facilities, among other considerations. ☀



Department Receives Petition To Amend Class 1 Pricing Formula

On November 3, 2004, Dairy Institute of California petitioned the Department to call a hearing pursuant to Food and Agricultural Code (FAC) Sections 61891 through 62079, indicating there is an economic disincentive for California's fluid processing plants (Class 1 plants), to purchase milk supplied by California producers due to the current pricing formulas employed by the Stabilization and Marketing plans for Market Milk.

CDFA will soon have the information available for the current calendar year to perform the analysis required by Section 62062.1 regarding the minimum Class 1 price of milk compared to Class I (1) prices in contiguous states. Although the Department must wait for the December data to complete the analysis, it appears that California Class 1 prices for 2004 will be below surrounding state prices.

At this time, it would be premature to call a hearing to consider adjustments to the current Class 1 pricing formulas. Therefore, CDFA denied the petition submitted by Dairy Institute of California. 

It's Renewal Time

Bureau of Livestock Identification is reminding all dairies that the Dairy Exemption Numbers that have – **XX LS00 XXXX** - indicated in their numbers are up for renewal. Those Exemption Numbers expire on 12/31/2004. Renewal Notices will be mailed, please update any information that has changed. Just a reminder to include the \$50 renewal fee when returning renewal notices.

PLEASE NOTE THAT RENEWALS ARE STILL YOUR RESPONSIBILITY.

All inquires can be directed to the office in Sacramento at (916) 654-0889. 

Herd Retirement Program

Cooperatives Working Together (CWT), has accepted 378 bids from farmers seeking to retire their milking herds, representing approximately 51,700 cows. Those retirements will remove 931 million pounds of milk, or 0.55% of the nation's supply, helping to stabilize farm-level prices that have been declining in recent months.

A total of 732 bids were submitted as part of the second Herd Retirement program, meaning CWT will accept 52% of the bids submitted.

Jerry Kozak, President and CEO of the National Milk Producers Federation, which is operating CWT, said that just like last year's program, the 2004 Herd Retirement effort will surpass CWT's initial goals for this year. "We set out with the intent of reducing milk supplies by 870 million pounds, and in fact, we will exceed that target by 7% without adding to the budget for the program. We also exceeded our target for cow removals by nearly 2,700. What's more, we will again honor our regional safeguard limits, meaning that no region of the country will suffer a disproportionate loss of milk supplies," Kozak said.

Under CWT's guidelines, safeguard thresholds have been established for five separate regions of the country, limiting the total milk withdrawals possible in each. The limits are strictest in the Northeast, Southeast and Midwest, and looser in the Southwest and West.

In order to ensure the integrity of the herd retirement process, those farms whose bids have been tentatively accepted will soon be contacted by CWT field auditors, shortly before those auditors visit each of the farms. That process will continue until all the farms have been audited, and the herds have been tagged for removal. Farmers must send their animals to slaughter shortly after that auditing and tagging process is complete.

The totals for each region in 2004 include:

Region	Pounds of milk	Farms accepted	% of total milk reduction	Number of cows
1 (Northeast)	73 million	57	8%	4,107
2 (Southeast)	65 million	40	7%	4,327
3 (Midwest)	149 million	157	16%	8,878
4 (Southwest)	291 million	76	31%	16,551
5 (West)	353 million	48	38%	17,894
TOTALS	931 million	378	100%	51,757



CDFA Manufacturing Cost Studies Completed

In late November, the Department released the latest nonfat powder, bulk butter, and Cheddar cheese processing cost studies for the period of January through December 2003. This information is available on our website at www.cdfa.ca.gov/dairy or by calling Edward Hunter at 916-341-5988. 

FDA Approves Rumensin® For Dairy Cows

The U.S. Food and Drug Administration has approved Rumensin® (monensin sodium) for increased milk production efficiency in dairy cows. Rumensin®, a product of Elanco Animal Health, a division of Eli Lilly and Company, Greenfield, Indiana, is already approved in feed for therapeutic and production uses in feedlot cattle, pasture cattle (beef and dairy heifers, and slaughter, stocker feeder cattle), beef cows, and calves excluding veal calves.

The FDA reports reviewing extensive data to ensure the product met all necessary efficacy, animal health, human food safety, and environmental standards. The FDA has concluded that the meat and milk derived from dairy animals fed monensin sodium are safe when the animals are fed according to the approved labeling. Previous caution statements on the label will remain including the caution not to feed to horses or other equines as ingestion of monensin sodium by horses has been fatal.

FDA's approval of Rumensin® for use in feed for lactating dairy cattle constitutes a safe use of monensin sodium when used according to the approved label. As a feed additive, extra-label or off label use of monensin sodium is illegal and is not permitted under the Animal Medicinal Drug Use Clarification Act. 

California Dairy Review Available on Website

A reminder to readers that this publication is available on the Dairy Marketing Branch website 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/ mailing costs, please email Karen Dapper at kdapper@cdfa.ca.gov stating your request.

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 1.2% in October, led by Arizona's 10.0% growth in milk production (on 12,000 more cows and 45 more pounds per cow). California's estimated production was up 5.4% (on 40,000 more cows and 50 more pounds per cow). Among the western states, Arizona was up 10.0%; New Mexico down 1.1%; and Washington down 4.1%. Five of the top 10 states reported an increase: Idaho 3.9%, Texas 4.4%, Pennsylvania 0.9%, Minnesota 0.6%, and California 5.4%.

Quarterly: For the third quarter of 2004 compared to the second quarter of 2004, U.S. milk cow numbers were up 0.4% at 9.033 million, production per cow was down 3.8%; the net effect was a 3.4% decrease in milk production to 42.2 billion pounds. USDA projects that for the fourth quarter of 2004 compared to the third quarter of 2004, U.S. milk cow numbers will decrease 13,000 cows to 9.020 million cows, production per cow will be up 0.5%; the net effect would be a 0.2% increase in milk production to 42.3 billion pounds.

Milk Prices

Comparing the third quarter of 2004 to the second quarter of 2004, U.S. average milk prices were down \$3.20/cwt. to \$15.47/cwt. USDA projects that for the fourth quarter of 2004, U.S. average milk prices will be up \$0.25-\$0.50/cwt. compared to the third quarter; including a \$0.20-\$0.50 decrease/cwt. Class 4b price change and a \$0.00-0.20 increase/cwt. Class 4a price change.

Utility Cow Prices

Comparing the third quarter of 2004 to the second quarter of 2004, average U.S. utility cow prices were up \$1.50/cwt. to a national average of \$56.25/cwt. USDA projects that utility cow prices will average \$54-56 in the fourth quarter of 2004.

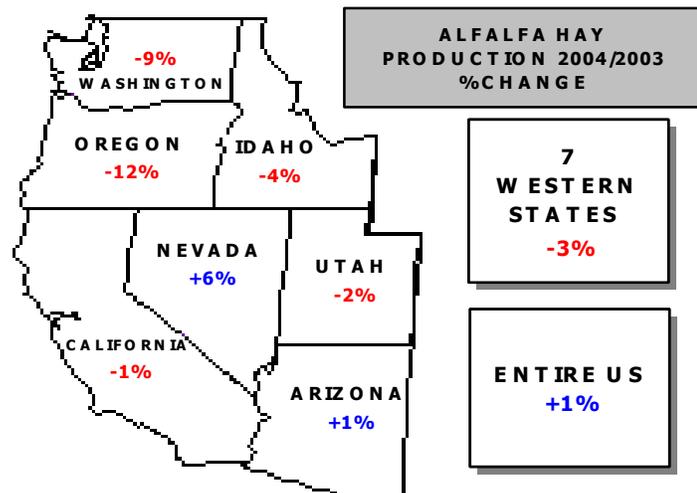
Information from the USDA-NASS publication "Milk Production" and the USDA-ERS publication: "Livestock, Dairy, and Poultry Outlook." 

The Western States: The 2004 Alfalfa Hay Season Recap

by Seth Hoyt, USDA Agricultural Statistics Service

The 2004 alfalfa hay market in the Western States followed the historical pattern of stronger prices after one-to-two years of declining markets. Tight supplies of Supreme quality milk cow hay the second half of the year pushed prices to record highs in some areas. Due to bearish alfalfa hay prices in 2003 and irrigation water uncertainties, alfalfa hay acres and production in the seven western States declined three percent in 2004. This, combined with lower milk production the second half of 2003 and early 2004, improved consumer demand for dairy products, and a return to strong expansion in cow numbers in California and Idaho made for the “perfect storm” of factors that were bullish to milk and alfalfa hay prices in 2004.

Unlike 2003, California alfalfa hay growers had very few disruptions from rain and, for the most part, had



excellent harvest weather until late in the season. Unfortunately, their counterparts in many other Western States were not so fortunate. Hay growers in Nevada, Utah, Idaho, Washington, and Oregon had challenges with rain early in the season and for some states, rain disruptions continued throughout the season. Surface irrigation water shortages were reported in some areas due to the lingering drought in the West. In Idaho, sources reported that tight surface water supplies resulted in some growers receiving a reduced amount of irrigation water and in some cases no water at all this year. Sources report that in Nevada, wells were being drilled in some areas at a hefty expense in order to have sufficient water to irrigate alfalfa. Some growers in California’s central valley were forced to reduce irrigations of alfalfa the second half of the season.

The strong alfalfa hay market in California in 2004 helped to draw a larger amount of hay from the other Western States. According to border station reports, in the January through September 2004 period, 527,596 tons of alfalfa hay shipped into California by truck, up 24 percent from the same period in 2003. Not only did this reverse a two-year decline in shipments but it halted a drop in shipments that reached a ten-year low in 2003. While volume was up from 2003 in the five main States that ship hay into California, none was comparable to the year-to-year increase from Utah. For January through September 2004, Utah shipped 130,914 tons of alfalfa hay into California, up 77 percent from the same period in 2003. Hay stocks in Utah on May 1, 2004 were up 59 percent from the previous year and this along with the high hay prices in California were the major factors in the increased shipments. It was interesting that approximately 60 percent of the alfalfa hay from Utah was going to Tulare County, unlike heavier shipments to San Bernardino and Riverside counties in past years.

All baled hay exports from the west coast to Japan the first half of 2004 were down from 2003 and the Pacific Northwest (PNW) continued to be the main area for alfalfa hay exports to the Pacific Rim. Unlike Washington State, where alfalfa hay exports represent approximately 20 percent of the State’s production, California’s alfalfa hay exports in 2003 were approximately 1 to 1 ½ percent of the total alfalfa hay production. In the northern mountains of California, the demand was very good from PNW export hay buyers looking for high quality, non-rain damaged alfalfa hay. Lower acres and production pushed the Sudan hay market in California up sharply with the best demand for top quality offerings to ship to Japan. Exports of all hay from California in 2003 accounted for approximately 12-to-13 percent of the State’s total hay production; sudangrass, bermudagrass, kleingrass, and oat were the main other hays exported.

The Western States: Alfalfa Hay Outlook for 2005

Sources indicate that even though hay stocks on hand May 1, 2004, in the seven Western States were up 11 percent, the robust demand and market in 2004 combined with reduced hay production could mean a lower alfalfa hay carryover in the West going into 2005. In California, sources report that the excess hay supplies on hand in the southern desert and northern mountains on May 1, 2004 have dissipated. Some California dairies were not able to fill their winter needs for hay due to tight supplies.

Due to the devastating effects of a multi-year drought, Idaho agriculture is facing some major issues on irrigation water. The huge aquifer in Idaho that supplies ground water to agriculture and cities is critically low. Around one million of Idaho’s two million irrigated acres of farm land

(Continued next page)

Alfalfa Hay - Continued

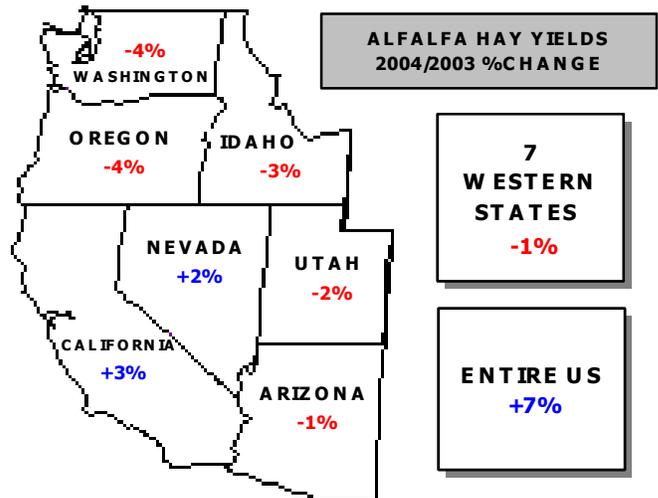
are watered with ground water, according to sources. The Idaho Water Policy Group, representing growers and dairy producers, is proposing several water conservation measures, including a proposal to enroll 100,000 acres of farm land in the Federal Conservation Reserve Program. While this is a significant amount of land to take out of production, sources believe it could avert the forced fallowing of much more farm land. Surface water supplies were very tight in Idaho this year and it will take a very wet winter with heavy snow to alleviate another year of shortages.

While irrigation water supplies will be a big factor in the amount of new alfalfa hay acres planted in California in 2005, it seems to be having the biggest impact in central and southern California. Central California, particularly the central and southern San Joaquin Valley has become the biggest area for alfalfa hay production in California, surpassing the southern desert. Some growers in this area have indicated they will not expand alfalfa acres until the outlook for irrigation water improves.

Some seed company representatives in California predict alfalfa acres won't change much in their areas in 2005. It appears that if alfalfa acres are higher in California in 2005, it will be due to above normal spring planting and higher fall planting in a few areas where the water outlook is more favorable. In some Western States, hay acreage may not change much from 2004 due to water uncertainty. However, in areas where the irrigation water outlook is more positive, growers may follow the normal tendency to plant more alfalfa hay acres after a profitable year.

In California, sources indicated that alfalfa hay acres will be up in the Stockton Delta area in 2005 due to losses with processed tomatoes this year. Alfalfa hay acres in the Sacramento Valley could also be up slightly in 2005. With uncertainty of irrigation water supplies along with the three-year commitment with alfalfa hay, many cotton growers in California may stay with cotton and use the Government Loan program if the market, particularly the upland market, remains depressed.

One thing to watch in the next few years is the amount of the U.S. feed corn crop that is purchased by the ethanol industry. Currently, about 10 percent of the U.S. corn crop goes to ethanol production and this adds about 20 to 40 cents per bushel (\$7.00 to \$14.00 per ton) on corn prices. There are currently 81 ethanol plants in the Midwest (73 that process corn) with 12



plants under construction and 60 plants that are planned to be built in the next 3 to 5 years.

Volume of alfalfa hay exports could return to normal in the PNW in 2005, but it appears that alfalfa hay exports from California may be lower. This is due to export companies that have either scaled back or have gone out of business the past few years. Sources indicate there are fewer export companies handling alfalfa hay in California. With stiff competition from Australia and Canada, California exporters will continue to fight for market share. Additionally, it doesn't appear that there will be many changes in demand in the retail/horse hay market in the West. Market prices will depend on total supplies of hay, particularly middle quality alfalfa hay and grass-alfalfa mixes and grass hay in California.

CONCLUSION

Tight carryover supplies of high quality alfalfa hay combined with the possibility of limited increases in production, expanding dairy cow numbers, and a return to more normal alfalfa hay exports in the PNW could be positive for Premium and Supreme alfalfa hay prices in the Western States in 2005. In California, prices on Fair and Good quality alfalfa hay could be strong through mid-summer and possibly all year, depending on weather and production the second half of the season. Even if spring alfalfa hay planting is above normal, it is questionable if the added production will be sufficient to fill the void in depleted hay inventories. Usage of carryover supplies of lower quality feeder hay will be key as to what Fair quality alfalfa hay prices do in 2005 in the other Western States. Unlike higher quality alfalfa hay, lower quality hay does not normally ship as far from the production point, so local demand may be a big factor. Water for irrigation and profitability in the dairy industry will be two of the leading factors affecting the alfalfa hay market in the West in 2005. ☀

Hundredweight Pool Prices

Month	Quota	Overbase
April 03	\$ 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
August	\$ 14.74	\$ 13.04
September	\$ 15.21	\$ 13.51
October	\$ 14.81	\$ 13.11

Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

	February	March	April	May	June	July	August
California ¹	\$12.69	\$14.65	\$17.21	\$17.57	\$16.38	\$13.91	\$13.73
USDA ²	\$13.54	\$15.28	\$17.40	\$19.01	\$18.25	\$16.32	\$14.75

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



In August 2004, mailbox prices for selected reporting areas in Federal milk orders averaged \$14.75 per cwt., \$1.57 less than the figure for the previous month. The component tests of producer milk in August 2004 were: butterfat, 3.59%; protein, 2.99%; and other solids 5.70%. On an individual reporting area basis, mailbox prices decreased in all reporting areas, and ranged from \$17.18 in Florida to \$13.04 in New Mexico. In August 2003, the Federal milk order all-area average mailbox price was \$12.95, \$1.80 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.

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