C A L I F O R N I A

Dairy Review

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FEATURES

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

CWT Program Renewed Through December 2006

Innovative Economic Program To Continue Through December 2006

The National Milk Producers Federation (NMPF) Board of Directors has voted in mid-March to reauthorize the industry-funded and managed price stabilization program Cooperatives Working Together (CWT) for another eighteen months of operations, beginning on July 1, 2005.

By a unanimous vote, the NMPF membership agreed Tuesday to extend the program into a third year, until December 31st, 2006. The principal reason for the 18-month extension was to align CWT's fiscal calendar (July to June), with the NMPF fiscal year (Jan.-Dec.), thus allowing for more efficient management of the program.

"With nearly two years history behind us, we can say without equivocation that CWT is having a positive impact on the lives of all dairy farmers in this country," said Jerry Kozak, President and CEO of the National Milk Producers Federation. "Our herd retirements have removed more than 80,000 cows, impacting both immediate and long-term production, and our export program has been effective in strengthening cheese and butter prices. Our members have once again enthusiastically endorsed this historic program, and we are very optimistic about what the future holds for CWT," Kozak said.

With a second successful round of herd retirements recently completed, CWT is now in the process of developing a long-term strategic plan for the future of the farmer-led and -funded organization. That plan, when it is complete later this year, will help guide CWT's future operations, and sharpen its focus on the ongoing goal of helping align milk supplies and demand.

CWT will again be funded by a five-cent per hundredweight assessment on producers, either through their membership in a participating cooperative, or through their individual participation in CWT. Kozak said that another immediate focus will be increasing the current 71% participation level in the program, and that efforts will continue this spring and summer to involve more cooperatives and individual dairy producers.

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February Milk Production

Milk production in California for February 2005 totaled 3.07 billion pounds, down 0.4 percent from February 2004 (up 3.1% when considering Leap Year). USDA's estimate for U.S milk production for February 2005 in the 23 major dairy states is 12.2 billion pounds, down 0.7 percent (up 2.8 percent when considering Leap Year) from February 2004. Production per cow in the 23 major states averaged 1,516 pounds for February, 15 pounds below February 2004.

Minimum Class Prices

Statewide average hundredweight prices

Class	Feb.	March	April
1	$15.35	$15.35	$15.88
2	$13.48	$13.48	N/A
3	$13.51	$13.32	N/A
4a	$12.46	N/A	N/A
4b	$13.93	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Feb	Mar	Apr
Phoenix, Arizona	$16.14	$17.78	N/A
Southern California	$15.49	$16.35	$16.02
Portland, Oregon	$15,69	$17.33	N/A
Northern California	$15.22	$16.08	$15.74
Boston (Northeast)	**$17.04**	**$18.68**	**N/A**

Quota Transfer Summary

For February 2005, four dairy producers transferred 3,361 pounds of SNF quota. February quota sales averaged $472 per pound of SNF (without cows), average ratio of 2.49. For March2005, four dairy producers transferred 3,325 pounds of SNF quota. February quota sales averaged $474 per pound of SNF (without cows), average ratio of 2.47.

Alfalfa Update: March

Northern California: Premium alfalfa was steady in a thin test, but Supreme was not tested. Demand has been good but supplies are very light. Fair and Good alfalfa was steady in a light test, with good demand but light supplies. Retail and Stable hay sales were limited, with few sales steady to dirm. Rain in the first half of the month limited hay sales and movement.

Southern California: Premium and Supreme alfalfa mostly steady in a light test. Most of the hay was down and producers were busy putting more down near the latter part of the month. Fair and Good alfalfa in limited test and most hay offered has grass, weeks, high moisture and/or rain damage. Retail and Stable hay was mostly steady with light supplies. Rainy weather during the month delayed hay production in many areas.

Supreme Hay Prices

Statewide average prices per ton

Area	2/25	3/4	3/11	3/18
Petaluma	$180	N/A	N/A	N/A
North Valley[1]	N/A	$180	$180-195	N/A
South Valley[2]	$185-188	$160-205	$185-205	$185
Chino Valley	N/A	$162-170	$171	$165-168

[1] North Valley is Escalon, Modesto and Turlock areas.
[2] South Valley is Tulare, Visalia and Hanford areas.

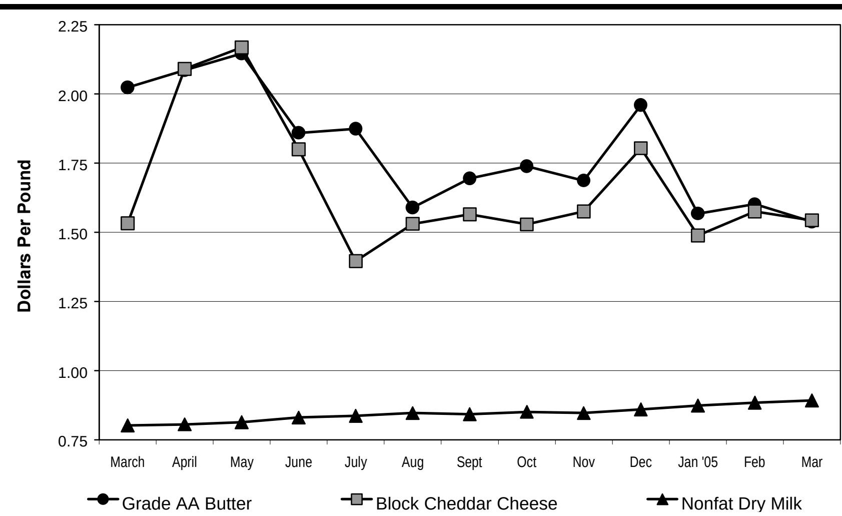
Alfalfa Hay Sales/Delivery

	Feb	March
Tons Sold[1]	38,390	29,162
Tons Delivered[2]	20,345	17,480

[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



Tight Supplies, Good Demand Drive Higher Hay Market

by Seth Hoyt, California Agricultural Statistics Service

Hay stocks on December 1, 2004 in California were down 17% from the previous year. December 1 hay stocks in three of the major states that truck alfalfa hay into California were also down; Nevada down 14%, Utah down 7% and Arizona declined 11%.

Hay stocks in the seven western states on December 1, 2004 were down 6%, while stocks in the entire U.S. were up 3% from the previous year. On March 1, 2005, high quality alfalfa hay supplies were short in the West while middle-to-lower quality hay inventories were mixed. The limited unsold supplies of all qualities of hay in California were verified by alfalfa hay in-shipments from other states.

Record High

Total alfalfa hay shipments into California in January were a record 76,544 tons, up 44% from a year ago and up 11% from the previous high in January 2002.

About 30% of the total shipments were delivered to Tulare County. The increased shipments of dry cow quality alfalfa hay from Utah to California in December and January was very unusual. Historically, a large percentage of alfalfa hay shipped from Utah to California has been higher quality milk cow hay. Short supplies of Fair quality alfalfa hay pushed delivered prices to Tulare-Visalia-Hanford dairies to an average of $142.64 per ton in January, according to Market News. Similar quality hay in Utah ranged from $50.00 to $70.00 per ton, fob. It is not surprising that January alfalfa hay shipments into California from Utah were up 68% from a year ago and that 60% of the hay went to Tulare County.

Holding Steady

Record high prices on high quality alfalfa hay delivered to Tulare-Visalia-Hanford last fall haven't abated. In November, Supreme alfalfa traded from $170.00 to $200.00 per ton delivered to dairies, compared to $165.00 to $205.00 per ton delivered the first week of March 2005, according to Market News.

The market in Tulare-Visalia-Hanford around March 1 of last year ranged from $162.00 to $168.00 per ton delivered. Supreme quality alfalfa hay, mainly clippings, in the Imperial Valley in February 2005 averaged $141.85 per ton, fob. Near record rainfall in the southern desert made it a challenge for growers to produce high quality alfalfa hay clippings in January and February. Harvest of first cutting alfalfa hay began in the desert the first week of March with strong interest from central California dairy hay buyers.

After a return to month-to-month dairy cow growth of around 4,000 head in California through the first nine months of 2004, growth stalled in the last quarter due to the CWT buyout program and muddy conditions at dairies. Dairy cow slaughter in California, down 13% in the January through October 2004 period, reversed late in the year and was running 10% higher in November and December.

Dairy cow slaughter in January 2005 was up 15% from the previous year. Demand was good for light supplies of springer dairy heifers. In early March, good Holstein springer heifers in central California traded from $1800 to $2200 per head, with occasional sales at auctions up to $2500.

While dairy replacement heifer shipments into California were up 28% in 2004, the largest increase was in the first half of the year.

Outlook for 2005

The big question many are asking is what will alfalfa hay acres and production do in 2005? We will have a glimpse of all hay acres in the Planting Intention report released on March 31. Seed company representatives believe acreage will be unchanged to slightly higher than 2004 with a couple projecting 10% more acres in their areas.

Alfalfa seed sales were up but some growers weren't able to plant last fall due to rain. There may be some spring planted alfalfa if the warm, clear weather holds

(Continued on next page)

Tight Supplies - *Continued from Page 3*

the second week of March. One thing the seed people agreed on is that there would probably not be a big upsurge in acres that occurred in 2002.

Alfalfa hay acreage in the southern desert in February, 2005 was down 14,000 from the same period last year (9,500 fewer acres in Palo Verde Valley and 4,500 less acres in Imperial Valley). This will offset some increases in acreage in other areas. The 4,500 fewer alfalfa hay acres currently in the Imperial Valley compares to the year-to-year decline of 16,000 to 20,000 acres through the first ten months of 2004, according to the Imperial Irrigation District.

When looking at alfalfa hay production in 2005, it will depend on acreage and weather. Prospects for ample surface water for irrigation are much brighter in 2005, particularly in the central valley where there were shortages in 2004. The exception is in the northern mountains where they have had below normal snow and rain this winter.

Possible Delay

The new crop season may start later than 2004 in many areas, depending on March weather. Growers will do all they can to maximize yields with strong alfalfa prices projected for at least the first half of the 2005 season and possibly longer.

Tight supplies of higher quality alfalfa hay in the West will bode well for California hay growers. Prices on Supreme quality alfalfa hay in California could be bullish for much, if not all of 2005. After a profitable year for dairy producers in 2004, milk prices are projected to remain at profitable levels in 2005. High quality alfalfa hay is a key ingredient for dairies to maintain milk production. Concentrate (grain) fed to milk cows could go up a little in California in 2005 if grain prices continue at lower levels and if higher quality alfalfa hay prices remain strong.

Prices on Good to Fair quality alfalfa hay could be bullish the first half of the season in California until the pipe line is filled. Dry cow quality alfalfa could find some resistance in mid-season because of plentiful supplies of some by-product feeds, combined with silage and possibly higher grain hay production due to above normal rainfall. Much will depend on weather. Good quality alfalfa for horses should be more plentiful in late spring and summer but look for light supplies until then.

Idaho Factor

Those who purchase hay in Nevada and Utah should keep an eye on what is currently going on in Idaho. You could see more competition from Idaho dairy hay buyers unless the situation changes dramatically. The Northwest has missed many of the storms we've had in California.

Snow pack in Idaho is 60% of normal. Irrigation water supplies in Idaho may be tight again this year and some growers, particularly Junior Water Rights holders may have to idle acres. There has been strong growth in the Idaho dairy industry the past ten years. If alfalfa hay production is below what dairy producers need, they will go to surrounding states to find alfalfa hay, particularly high quality hay.

CWT Renewed - *Continued from Page 1*

Since 2003, the program has reduced milk supplies by nearly 1.7 billion pounds, through the combination of two herd retirement programs, a reduced production marketings program, and enhanced cheese exports. Farm-level milk prices have been consistently above-average since CWT's operations began two summers ago, and government expenditures on dairy safety net programs have been minimal.

Cooperatives Working Together is being funded by dairy cooperatives and individual dairy farmers, who are contributing 5 cents per hundredweight assessment on their milk production through December 2006. The money raised by CWT's investment is being apportioned among several supply reduction programs to improve the national all milk price. For more on CWT's activities, visit www.cwt.coop.

Department Recruiting for Dairy Program Auditors

The California Department of Food and Agriculture is recruiting candidates for the Dairy Program Auditor position. All auditor positions are located in the Sacramento office and depending on the position, travel throughout the state may be required. The positions available include: Cost of Production Auditor; Manufacturing Cost Auditor; Producer Payment Auditor; and Milk Pooling Auditor.

The auditor exam and state application are available online at www.spb.ca.gov. For additional information, position requirements, and instructions on how to access the auditor exam and application online, please contact Cheryl Gilbertson at (916) 341-5988 or email her at cgilbertson@cdfa.ca.gov.

Department Issues Hearing Decision

On February 1 and 2, 2005, the Department held a public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk (Plans). The amendments under consideration regarded changes to the Class 4a and 4b pricing formulas that would also have a pass-through effect on the Class 2 and 3 pricing formulas.

Having carefully weighed the contents of the hearing record, the Department has decided to:

- Change the manufacturing cost allowance for Grade AA butter and whey butter from $0.1320 per pound to $0.1560 per pound.
- Change the manufacturing cost allowance for nonfat dry milk from $0.1500 per pound to $0.1520 per pound.
- Change the manufacturing cost allowance for Cheddar cheese from $0.1750 per pound to $0.1710 per pound.
- Change the dry skim whey manufacturing cost allowance in the Class 4b pricing formula from $0.17 per pound to $0.20 per pound.
- Remove in the Class 4a and 4b pricing formulas the federal support purchase prices for butter, nonfat dry milk and block Cheddar cheese as floors to their respective commercial commodity prices.
- Change the f.o.b. California price adjuster for Grade AA butter from -$0.0332 to -$0.0285.
- Change the f.o.b. California price adjuster for Cheddar cheese from -$0.0321 to -$0.0290.
- Leave unchanged the current Cheddar cheese yield and test values (10.2 @ 3.72% fat, 8.80% SNF) in the Class 4b formula.

The adjustments to the Plans will take effect for milk delivered to processing plants on or after April 1, 2005.

Copies of the Hearing Determinations and a more detailed explanation of the Department's decision may be obtained by contacting the Dairy Marketing Branch at (916) 341-5988 or downloading from the Branch website at www.cdfa.ca.gov/dairy.

Should you have any questions or desire further information, please contact Dave Ikari at (916) 341-5988.

Call of Class 1 Hearing Revised

On February 9, 2005, the Department received a petition from Dairy Institute of California (Dairy Institute), requesting a public hearing to consider amending the Commodity Reference Price (CRP) adjuster employed in the Class 1 (milk used in fluid products including lowfat, reduced-fat, and nonfat milks) milk pricing formulas.

The Department has revised the original Hearing Notice of February 18, 2005 addressing this petition to now include two public hearings: the first to consider amendments to the Stabilization and Marketing Plan for Market Milk for the Northern California Marketing Areas, and the second to consider amendments to the Stabilization and Marketing Plan for Market Milk for the Southern California Marketing Areas (collectively, Plans).

The Northern California hearing will be held on May 3, 2005. The hearing will begin at 8:30 am at the Red Lion Hotel, 2001 Point West Way, Sacramento.
The Southern California hearing will be held on May 6, 2005. The hearing will begin at 8:30 am at the Ontario Airport Marriott, 2200 E Holt Boulevard, Ontario.

The first hearing will consider Dairy Institute's proposed consolidated changes to specific components of the current Class 1 pricing formulas. The hearings will also consider any other aspect of the Class 1 formulas that are raised by alternative proposals received in the time and format required. Additionally, because any change in the relative Class 1 prices between Northern and Southern California affects the ability of processors to move milk plant-to-plant, the hearings will consider adjustments to the Transportation Credits, but only to the extent that there are changes to the relative Class 1 prices.

All interested parties are entitled to submit proposals detailing alternative adjustments in the Class 1 price formulas, and any compensating changes in the Transportation Credits. **Alternative proposals must be received by the Department's Dairy Marketing Branch no later than 4:00pm on Wednesday, April 6, 2005.**

A public workshop will be held on Monday, April 18th, 2005 at the Holiday Inn Capitol Plaza, 300 J Street Sacramento in the California Room beginning at 9:00 a.m. The Department will supply background and analysis of the petitions and only those alternative proposals submitted by the April 6th deadline. Discussion during the workshop will not be part of the official hearing record and shall not be considered in rendering a decision.

If any interested party has questions regarding the call of this hearing please contact Dave Ikari at (916) 341-5988.

List of Handers Available On CDFA Website

This is notice to our readers that a list of California milk handlers is available on the Department's website. This list contains plant and mailing addresses for all active milk handlers licensed within the state. In addition, the list notes any new handlers who have been assigned a handler number but whose milk handler's license is pending. For these new handlers, issuance of a license is pending receipt by the Department of necessary documents or information. Please note that these handlers are not eligible for coverage under the Milk Producers Security Trust Fund until a milk handler's license is issued.

To view or download the list, go to www.cdfa.ca.gov/dairy and click on the link, "Alphabetic List of Handlers", shown on the right side of the page.

$5 Million Dairy Grant Program

A **$5 Million Dairy Grant Program** is being developed by the State Water Resources Control Board (SWRCB) for dairy water quality improvements. Dairy producers, local agencies and non-profits will be eligible to apply. The grant can be used to fund improvements at individual dairies to reduce water quality impacts or for a project of regional benefit. The SWRCB has developed draft guidelines (e.g. eligibility requirements, minimum and maximum grant amounts, etc.) for the administration of the grant program and is soliciting comments. The draft guidelines can be found at http://www.swrcb.ca.gov/funding/dairy.html. Written comments are due to the SWRCB by April 15, 2005. Two workshops to discuss the draft guidelines are scheduled as follows:

April 8, 2005
CalEPA
1001 I Street, Sacramento
Coastal Hearing Rm, 2nd Floor
10:00 am to 1:00 pm

April 11, 2005
California Towers Building
3737 Main Street, Suite 200
Riverside
1:00 to 4:00 pm

The SWRCB will revise the guidelines after the comment period. A grant solicitation is expected sometime in mid summer. Funds are expected to be available early in 2006.

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2004, USDA estimates that overall milk production across the U.S. was down 1.1% (adjusting for leap year, production was up 2.8%) in February, led by Idaho's 6.0% growth in milk production (on 25,000 more cows and no change in milk per cow). California's estimated production was down 0.3% (on 38,000 more cows and 40 less pounds per cow). Among the western states, Arizona was down 0.7%; New Mexico down 7.8%; and Washington down 0.5%. Two of the top 10 states reported an increase: Idaho 6.0%, Michigan 1.2%.

Quarterly: For the fourth quarter of 2004 compared to the third quarter of 2004, U.S. milk cow numbers were down 0.14% at 9.018 million, production per cow was down 0.5%; the net effect was a 0.5% decrease in milk production to 42.0 billion pounds. USDA projects that for the first quarter of 2005 compared to the fourth quarter of 2004, U.S. milk cow numbers will decrease 40,000 cows to 8.980 million cows, production per cow will be up 6.8%; the net effect would be a 3.1% increase in milk production to 43.3 billion pounds.

Milk Prices

Comparing the fourth quarter of 2004 to the third quarter of 2004, U.S. average milk prices were up $0.50/cwt. to $16.00/cwt. USDA projects that for the first quarter of 2005, U.S. average milk prices will be down $0.20-$0.50/cwt. compared to the fourth quarter; including a $0.30-$1.20 decrease/cwt. Class 4b price change and a $1.55-1.80 decrease/cwt. Class 4a price change.

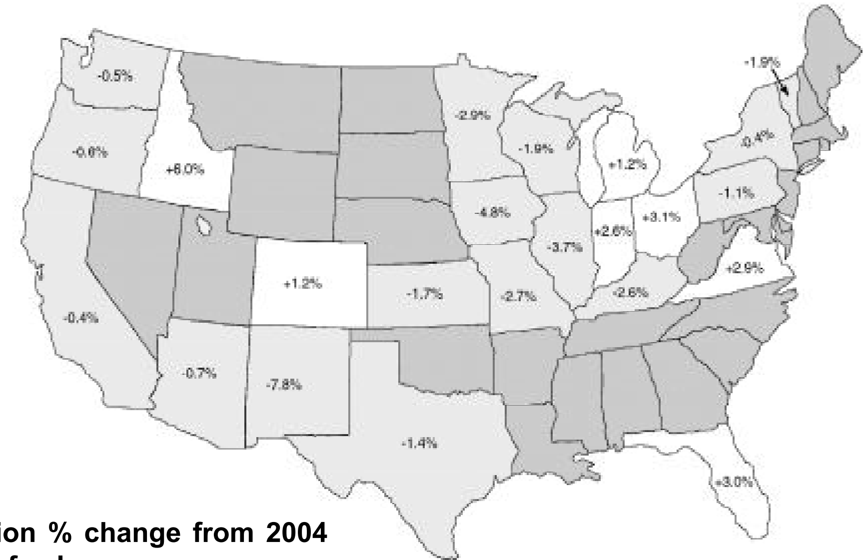
Utility Cow Prices

Comparing the fourth quarter of 2004 to the third quarter of 2004, average U.S. utility cow prices were down $5.50/cwt. to a national average of $50.78/cwt. USDA projects that utility cow prices will average $53-54 in the first quarter of 2005.

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

February Milk Production in the Top 23 States

(% Change from 2004)



Note: Milk Production % change from 2004 does NOT account for leap year

__For the U.S. overall, comparing February 2005 to February 2004 (not adjusting for leap year):__

- Milk production during February was down 0.7%
- The number of cows on farms was 8.980 million head, down 13,000 head
- Production per cow averaged 1,498 pounds, 14 pounds less than February 2004
- Seven of the top twent-three milk producing states showed an increase in milk production

As reported by USDA
and CDFA (for California)

Milk Production Cost Comparison Summary for California [1/]

By Month, January 2004-December 2005

Month	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
	Dollars per Hundredweight									
January	15.45		13.82		12.19		12.82		12.98	
February	15.81		13.61		12.47		12.96		13.06	
March	14.37		13.16		12.24		13.08		12.77	
April	13.77		13.27		12.50		13.07		12.91	
May	13.44		13.23		12.76		13.35		13.04	
June	13.70		13.45		13.09		13.63		13.32	
July	13.66		13.03		12.83		13.41		13.01	
August	14.16		13.00		12.82		13.48		13.03	
September	14.33		13.44		13.11		13.56		13.34	
October	14.22		13.43		13.08		13.38		13.29	
November	15.25		13.91		13.43		14.17		13.77	
December	15.17		13.71		13.26		13.96		13.59	

1/ Cost Comparison Summary data includes an allowance for management and a return on investment.

Hundredweight Pool Prices

Month	Quota	Overbase
August '03	$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
November	$15.74	$14.04
December	$15.74	$14.04
January '05	$15.50	$13.80
February	$14.96	$13.26

Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

••	June•	July•	August	September•	October	November	December
California•[1]	$16.38•	$13.91•	$13.73•	$14.37•	$14.12•	$15.23•	$15.18
USDA[2] •	$18.25•	$16.32•	$14.75•	$15.37•	$15.58•	$16.12•	$16.38•

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

In December 2004, mailbox prices for selected reporting areas in Federal milk orders averaged $16.38 per cwt., $0.26 more than the figure for the previous month. The component tests of producer milk in December 2004 were: butterfat, 3.76%; protein, 3.11%; and other solids 5.68%. On an individual reporting area basis, mailbox prices increased in all but two reporting areas, and ranged from $18.10 in Florida to $14.42 in New Mexico. In December 2003, the Federal milk order all area average mailbox price was $13.90, $2.48 lower.

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

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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Within California 1-800-503-3490
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Website: www.cdfa.ca.gov/dairy
Email: dairy@cdfa.ca.gov

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