

California

Dairy Review

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Dairy Producers: Securing A Market for Milk Production

The Department has received information that a number of producers have been advised by their milk processor or dairy cooperative that some plants will no longer be able to receive and process unlimited and ever expanding milk supplies. In a growing number of instances, the milk buyer or the dairy cooperative has advised its producers that the amount of milk it will receive per dairy farm will be limited to a specific historic level. In addition, the membership in most major California dairy cooperatives is closed and there is limited availability among proprietary processors to accept new producers.

California's expanding milk production; processing plant closures; plant acquisitions and consolidations; and financial difficulties of small cheese plants, have all adversely impacted the growth of processing capacity. Fortunately, dairy industry leaders have begun to meet to help address processor's ability to handle/process the state's growing milk supply.

The following questions/answers were designed to provide information that assists producers with their dairy marketing decisions:

Q. *Who is responsible for finding a processor (home) to receive and handle a dairy farm's milk production?*

A. This is the sole discretion and responsibility of the individual dairy producer. Just as any other agricultural commodity or agricultural crop, the farmer/producer is solely responsible for marketing their product. The Department does not have any legislative authority to ensure that a dairy farm's production has a market (buyer) for their production.

Q. *What is the Department of Food and Agriculture's role in the sale of farm milk to a processor/cooperative?*

A. The California statutes have provided the authority and mandate for the Department of Food and Agriculture (Department) to:



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

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Production, Prices, Quota Transfers, Alfalfa

December Milk Production

Milk production in California for December 2007 totaled 3.48 billion pounds, up 4.9 percent from December 2006. USDA's estimate for U.S. milk production for December 2007 in the 23 major dairy states is 14.4 billion pounds, up 3.1 percent from December 2006. Production per cow in the 23 major states averaged 1,719 pounds for December, 29 pounds above December 2006. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	Dec.	Jan.	Feb.
1	\$23.12	\$23.10	\$21.84
2	\$21.80	\$21.80	N/A
3	\$21.64	\$21.64	N/A
4a	\$19.14	N/A	N/A
4b	\$18.58	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Dec.	Jan.	Feb.
Phoenix, Arizona	\$22.39	\$23.32	N/A
Southern California	\$23.26	\$23.23	\$21.98
Portland, Oregon	\$21.94	\$22.87	N/A
Northern California	\$22.99	\$22.96	\$21.71
Boston (Northeast)	\$23.29	\$24.22	N/A

Quota Transfer Summary

For December 2007, four dairy producers transferred 5,889 pounds of SNF quota. December quota sales averaged \$508 per pound of SNF (without cows), average ratio of 2.38. For January 2008, three dairy producers transferred 7,554 pounds of SNF quota. January quota sales averaged \$502 per pound of SNF (without cows), average ratio of 2.48. ☀

Alfalfa Update: January

Northern California: Premium and Supreme alfalfa were steady with light test and very light supplies. Fair and Good alfalfa was steady in a light test with good demand and light supplies. Retail and Stable hay was steady with good demand and supplies light to moderate. January has brought much needed rain and snow to the mountain areas.

Southern California: Supreme and Premium alfalfa was steady in a very light test with good demand but very light supplies. Fair and good alfalfa was steady in light test with light supplies. Retail and stable hay was steady with good demand and light supplies. Majority of hay coming out of barns now. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	12/28	1/4	1/11	1/18
Petaluma	N/A	N/A	\$242	N/A
North Valley ¹	N/A	\$230-250	\$240-250	N/A
South Valley ²	N/A	\$240-250	\$250	\$245-255
Chino Valley	N/A	N/A	N/A	N/A

¹North Valley is Escalon, Modesto and Turlock areas.

²South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

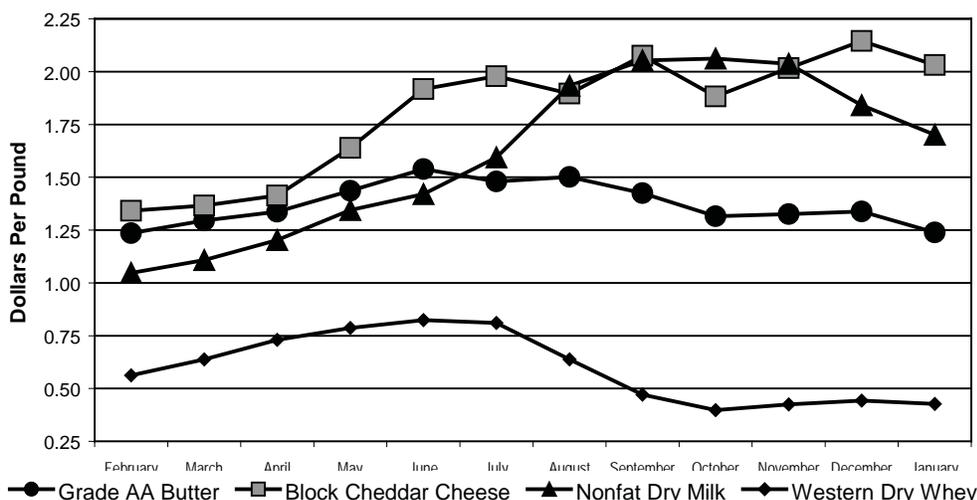
	December	January
Tons Sold ¹	52,618	69,870
Tons Delivered ²	19,500	32,650

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, Nonfat Dry Milk, and Western Dry Milk, and Western Dry Whey Mostly Prices Used in the Calculation of California Class 1 Milk Prices



October 10, 11 Hearing Results:

The Whey Value

This is the second of a series of articles on the outcome of the October hearing on the class 4a and 4b formulas. As a result of this hearing, three components of the formulas have been modified: f.o.b. California price adjusters, manufacturing cost allowances and the whey value. Each month, this series of articles will feature one of these components of the formulas and will discuss their purpose in the price formulas and the reasons for the changes. This month will address the whey factor.

Why does the milk formula contain a whey value and the value of other commodities?

There are many ways that can be used to price milk. In California and in the Federal Milk Marketing Orders, end product pricing is the system that is used to determine milk prices. This means that the price of the commodities made from raw milk is used to determine milk prices. Therefore, the milk pricing formulas include the value of commodities of dairy products that are manufactured from raw milk. The value of commodities plays an important role in establishing the value of the raw milk, which is the main ingredient in the production of dairy products. The current Class 4a and 4b pricing formulas include values for Cheddar cheese, butter, nonfat dry milk, and whey. Therefore, the Class 4b pricing formula contains a whey factor that incorporates the value of whey products into the price of raw milk used in this class.

How does the value or price of commodities appear in the pricing formulas?

A commodity is chosen to represent the most basic form of a dairy product. Although there are many different kinds of cheeses, butter products, dry milk powders, and whey products, a decision is made to choose the type of cheese, butter, dry milk powder, and whey product that represents the most recognized, basic form of the product. The value of the commodity chosen then appears as one component in the pricing formula. Prior to the October hearing, dry whey was the commodity chosen to represent the most basic, common form of whey.

Besides the value of the commodity, there are other components included in the pricing formulas that are based upon the commodities. For example, the pricing formulas contain manufacturing cost allowances, which are based upon the actual cost to manufacture the commodity from raw milk.

Also, the pricing formulas contain a yield factor that is based upon how many pounds of the commodity are produced from a hundredweight of raw milk. The Department completes annual manufacturing cost studies where the actual costs and yields of the commodities from California manufacturing plants are calculated.

Why was the whey factor changed in the pricing formula and what was the change?

Of the 61 cheese plants in California, only 5 of them produce dry whey and only 14 of the 61 make any form of whey product. The whey products produced in these 14 cheese plants vary greatly in terms of their composition and uses. The cost and yield information from dry whey production that the Department calculates annually do not represent the production process of the vast majority of California cheese plants. As a result, the manufacturing cost allowance and yield factor of the previous whey factor were not an accurate representation of the production process of California cheese plants.

Recognizing that there is value to whey obtained during the cheese-making process, the Department did not remove the whey value from the Class 4b formula as petitioned, but introduced a fixed whey factor in the Class 4b formula that adds a constant \$0.25 per hundredweight to the Class 4b milk price monthly.

How does the change affect the price producers receive?

The whey factor in the previous formula would add a variable value to the Class 4b price, where as, the modified whey factor adds a constant value to the Class 4b price, so the difference in the Class 4b price and the pool price between the previous formula and the current formula varies. However, based on the month of December 2007, the fixed whey factor in the pricing formula would have decreased the pool price by \$0.51 compared to the old formula. However, whey prices in late January declined to a level (31.5¢ per pound) where the fixed whey factor contributes a value to producer revenue that is nearly equal to the whey value contributed by the previous formula.

Whey Review Committee

As announced in the January 2008 edition of this California Dairy Review, the Secretary has convened a special committee of producer and processors that will review all possible approaches to developing a whey pricing system that reflects the world markets while not creating severe negative impacts to cheese processors. It is in the long-term best interests of all California dairy producers and processors to consider

(Continued next page)

Whey Factor - Continued from Page 3

how a whey factor can be based on current world market prices but still foster financially healthy California dairy producer and processor sectors. This committee met for the first time at the end of December 2007 and will continue to work on this important pricing issue. 

2007 Corn Crop Breaks Records

The 2007 U.S. corn crop, at 13.1 billion bushels, breaks the previous high of 11.8 billion bushels set in 2004, according to the USDA's Crop Production 2007 Summary. This is a 24% jump from 2006 levels.

With favorable prices, growing ethanol demand and strong export sales, nearly all states had increased corn acreage in 2007. Planted area, at 93.6 million acres, was up 19 percent from 2006 to the highest level since 1944, when farmers planted 95.5 million acres. The 86.5 million acres harvested for grain was the most since 1933, and up 22 percent from 2006. Those acres yielded an average of 151.1 bushels of corn, the second highest yield on record after 2004's 160.4 bushels per acre, and up 2 bushels from last year.

However, The shift to corn led U.S. farmers to plant and harvest 16 percent fewer soybean acres in 2007 than in 2006. A total of 63.6 million acres were planted, and 62.8 million were harvested. Soybean production, at 2.6 billion bushels, was down 19 percent from the record high of 3.2 billion bushels in 2006, while the average yield per acre was at 41.2 bushels, 1.5 bushels below last year.

For 2007, all cotton yield reached a record-high 871 pounds per acre, up 57 pounds from last year and surpassing the previous record of 855 pounds set in 2004. Total production came in at 19 million 480-pound bales, down 12 percent from last year's 21.6 million bales. Still, this is the fourth-highest production on record, following 2005, 2004 and 2006, respectively. Harvested area, at 10.5 million acres, was down 18 percent from 2006. 

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2006, USDA estimates that overall milk production across the U.S. was up 2.7% in December, led by Colorado's 8.3% growth in milk production (on 6,000 more cows and 55 more pounds per cow). USDA reports that California's milk production was up 4.5% on 45,000 more cows and 50 more pounds per cow compared to December 2006. Among the western states, Arizona was up 6.3%; New Mexico up 2.6%; and Washington was up 5.6%. None of the top 10 states reported a production decrease.

Quarterly: For the fourth quarter of 2007 compared to the third quarter of 2007, U.S. milk cow numbers increased to 9.175 million, production per cow decreased 17 pounds per cow; the net effect was decreased milk production to 46.1 billion pounds. USDA projects that for the first quarter of 2008 compared to the fourth quarter of 2007, U.S. milk cow numbers will increase to 9.200 million cows, production per cow will be up 180 pounds per cow; the net effect would be decreased milk production to 47.8 billion pounds.

Milk Prices

Comparing the fourth quarter of 2007 to the third quarter of 2007, U.S. average milk prices were up to \$21.67/cwt. USDA projects that for the first quarter of 2008, U.S. average all-milk prices will be \$20.00-20.40/cwt.; Class 4b prices will be \$18.71-19.11/cwt; and Class 4a prices will be \$17.22-17.72/cwt.

Utility Cow Prices

Comparing the fourth quarter of 2007 to the third quarter of 2007, average U.S. utility cow prices were down \$4.60/cwt. to a national average of \$49.40/cwt. USDA projects that utility cow prices will average \$49-51 in the first quarter of 2008.

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

No New Quota to be Allocated

Annually, the Department must determine if there has been an increase in the Class 1 and 2 solids-not-fat usage during the most recent September through August time period. This is required by the Milk Pooling Plan and California Food and Agricultural Code. In making this determination, the current time period is compared to the previous highest year since 1988-1989. Any increase in such usage is allocated to producers as pool quota. New quota allocations are issued in January of the following year.

A comparison of Class 1 and 2 daily sales for the period of September 2006 through August 2007, with comparable sales for September 1990 through August 1991 (the highest previous year) reveals that there was a decrease in Class 1 and 2 usage by 84,565 SNF daily pounds.

The Department, therefore, is announcing there will be no new quota allocated on January 1, 2008. 

Milk-Feed Ratio Decline Continues

In December, USDA announced that the milk-feed ratio fell 0.24 points to 2.82, while one year ago the ratio was 2.43. The USDA used an all-milk price of \$21.70 to calculate the December ratio. That is 20 cents less than November, but \$7.50 higher than a year ago.

The corn price used to calculate the ratio increased to \$3.88 per bushel. That is 45 cents more than November. One year ago it was \$3.01.

The hay price used to calculate the December ratio is \$136 per ton, which is \$1 more than the November price. That also is \$25 per ton higher than a year ago.

Soybeans broke the \$10 mark — increasing nearly \$1 per bushel to \$10.40. That is \$4.22 more than the December 2006 price of \$6.18.

The milk-feed ratio represents the pounds of 16-percent mixed dairy feed equal in value to 1 pound of whole milk. The price of commercial prepared dairy feed is based on current U.S. prices received for corn, soybeans and alfalfa. The model used to determine the ratio uses 51 percent corn, 8 percent soybeans and 41 percent alfalfa.

Whenever the ratio meets or exceeds 3.0, it is considered profitable to buy feed and produce milk. 

Raw Milk Producers File Suit

California's two raw milk producers, Claravale Farms Inc. and Organic Pasturs filed suit to keep the state from imposing a strict new standard for raw milk.

The new law limits coliform bacteria in bottled raw milk to 10 per milliliter, the same standard that pasteurized milk must meet. The lawsuit contends that "it's not technically possible nor economically feasible" for raw milk to meet such a low limit.

Mr. Jay Van Rein, a CDFA spokesperson, however, said California Agriculture Secretary A.G. Kawamura has checked with his counterparts in Washington and Pennsylvania, which also have adopted a 10-coliform limit, "to make sure their dairies have been able to comply."

Raw Milk Bill Would Cut New Restrictions

In mid-January, the California state Assembly Committee on Agriculture voted unanimously for a bill that would do away with new restrictions on bacteria counts in raw milk that took effect January 2008. The state's two producers of raw milk products, Claravale Farms Inc. and Organic Pastures Dairy have said they would be put out of business if they had to comply with the new laws.

Assembly Bill 1604, which was sponsored by Nicole Parra, D-Hanford, would stop enforcement of limits of 10 coliform bacteria or less per milliliter for raw milk until June 30. Effective July 1, it would fix the limit at 50 coliform bacteria or less per milliliter.

Corn prices could exceed \$4

Purdue University agriculture economist Chris Hurt reports that corn prices could be in the \$4.75-per-bushel range in 2008. A six percent drop in corn acreage is not unlikely, Hurt notes, as a short supply of crops globally (particularly wheat and soybeans) will have some out-bidding corn for acreage.

New ethanol plant openings in the first half of 2008 will push production from the current 7.3 billion gallons up to 11.8 billion gallons. Mr. noted that the corn necessary to feed that capacity will grow from about 2.5 billion bushels today to 4 billion bushels by July. That capacity will grow by another 500,000 bushels in the second half of the year. 

Securing A Market - Continued from Page 1

- 1) Establish minimum farm milk prices that processors must pay producers designed to promote, foster, and encourage the intelligent production and orderly marketing of market milk by implementing appropriate minimum price policy.
- 2) Ensure that only qualified handlers, which have filed the required surety bonds with the Department, are granted a milk handlers license to purchase milk from dairy farmers.
- 3) Pool the monthly revenues of farm milk sales from the various milk usages of the state's dairy processors and distribute the pool revenues to producers according to the monthly quota and overbase pool prices.
- 4) Enforce the payment of minimum prices by all processors and ensure that producers are paid in accordance with payment provisions mandated by statute.

Q. *If a dairy producer owns quota, does that guarantee a processing "home" for the producer's milk production?*

A. **No. The ownership of quota by a dairy producer only ensures that the producer receives the highest pool price (quota price, which by law is \$1.70 per hundredweight higher than the overbase price) on milk that is eligible for quota coverage.**

Q. *How much volume of milk can a dairy producer's shipments be limited to by its processing plant?*

A. **Prior to purchasing milk from dairy producers, all proprietary processors must enter into a contract with the each producer. The contract must specify the volume of milk to be purchased in a given time period. This establishes the legal minimum that the processor may buy. By voluntary agreement of both parties, the amount specified in the contract may be exceeded, but the processor can refuse to take more than the amount specified.**

Dairy cooperative associations specify in its membership agreements similar terms and conditions regarding minimum quantities of milk shipments from each of its members. The cooperative membership agreements generally provide for additional flexibility subject to the approval of its Board of Directors.

The Milk Pooling Branch serves as custodian of producer contracts. Producers are reminded to forward a copy of their marketing contracts to the

Milk Pooling Branch any time they are amended or replaced. If you have any questions regarding the marketing of milk production with respect to quota or Trust Fund coverage, please call John Lee, Chief of the Milk Pooling Branch at 916-341-5901. 

Secretary Appoints Members to Producer Review Board

Secretary Kawamura has appointed Jack Hamm of Lodi, and reappointed Tom Barcellos of Porterville and Geoffrey Vanden Heuvel of Chino to four-year terms each on the Producer Review Board. The Board is comprised of Producers and advises the Secretary in the administration of the Pooling Plan for Market Milk. 

Follow-Up Dairy Inspection Fees

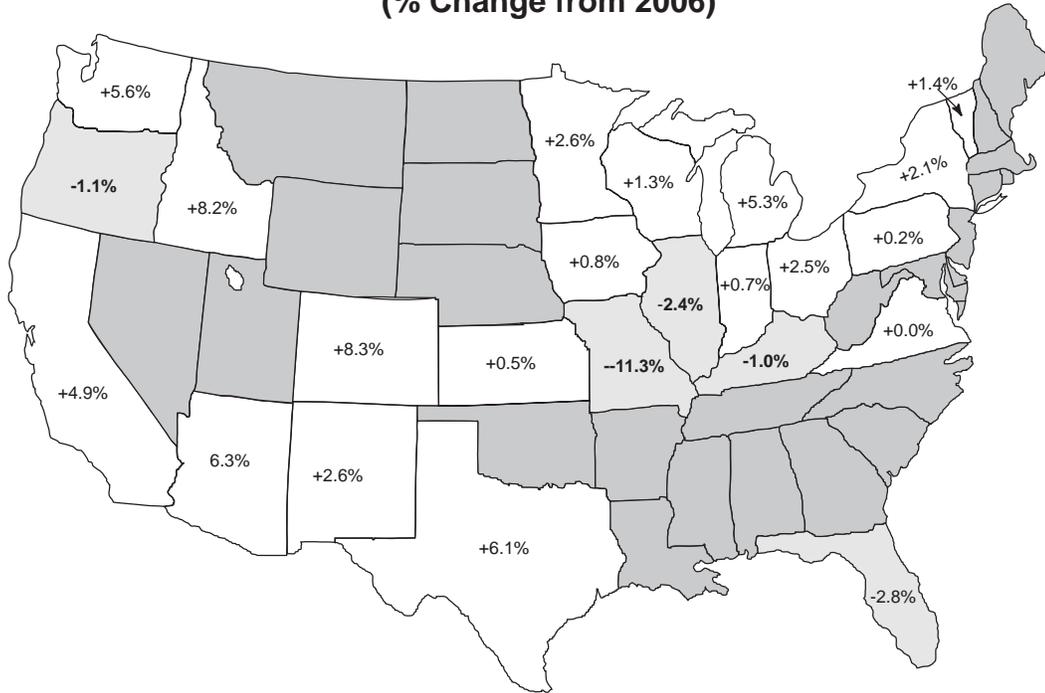
New CDFA fees for follow-up dairy inspections on California dairies have changed as of January 1, according to the CDFA Milk and Dairy Food Safety Branch. CDFA is authorized to charge additional fees for followup inspections of dairy farms that are in noncompliance with sanitary standards or that have distributed milk in violation of drug residue provisions. The fees implemented by the regulation reflect a current program cost of \$100 per hour as reviewed by the Department of Finance. As with regular quarterly inspection assessments and monthly billings for drug residue penalties, invoices for a producer's fees will be sent to, and payment received through, the producer's milk handler.

For more information and the updated fee schedule, call the Milk and Dairy Food Safety Branch at 916-653-6681. 

Assessment Notice Correction

On December 5, 2007, CDFA sent an assessment notice to reestablish the assessment fees effective January 1, 2008. It was recently discovered that there was an error on that notice. The Fee for manufacturing milk (Grade B) was stated as six-tenths of one cent (\$0.006) per hundredweight but should have been one and eight-tenths cents (\$0.018) per hundredweight. 

December Milk Production in the Top 23 States (% Change from 2006)



For the U.S. overall, comparing December 2007 to December 2006:

- U.S. Milk production during December was up 2.7%
- The number of cows on farms was 9.211 million head, up 85,000 head
- Production per cow averaged 1,698 pounds, 28 pounds more than December 2006
- Five of the top twenty-three milk producing states showed a decrease in milk production

As reported by USDA
and CDFA (for California)

Milk Production Cost Comparison Summary for California ^{1/} By Quarter, 2006-2007

Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
<i>Dollars per Hundredweight</i>										
1st Quarter										
Total Costs	15.35	17.52	12.32	13.33	11.72	13.16	11.76	13.17	12.01	13.31
Total Costs & Allowances*	16.93	19.27	13.82	14.86	13.24	14.76	13.07	14.55	13.52	14.87
2nd Quarter										
Total Costs	14.22	16.23	12.36	13.41	12.47	13.51	11.99	13.00	12.43	13.49
Total Costs & Allowances*	15.76	18.15	13.88	15.13	14.00	15.29	13.31	14.53	13.94	15.25
3rd Quarter										
Total Costs	14.62	17.12	12.58	13.62	12.73	14.20	12.56	13.76	12.71	14.01
Total Costs & Allowances*	16.14	19.24	14.10	15.51	14.33	16.24	13.90	15.52	14.26	15.98
4th Quarter										
Total Costs	16.99		13.47		13.25		13.23		13.41	
Total Costs & Allowances*	18.62		15.01		14.84		14.59		14.97	

* Includes an allowance for management and a return on investment

Pool Prices

Month	Quota	Overbase
May '06	\$11.90	\$10.20
June	\$11.90	\$10.20
July	\$11.71	\$10.01
August	\$12.13	\$10.43
September	\$12.80	\$11.10
October	\$12.87	\$11.17
November	\$13.31	\$11.61
December	\$13.50	\$11.80
January '07	\$13.70	\$12.00
February	\$14.45	\$12.75
March	\$15.28	\$13.58
April	\$16.33	\$14.63
May	\$18.29	\$16.59
June	\$20.70	\$19.00
July	\$21.60	\$19.90
August	\$21.74	\$20.04
September	\$21.69	\$19.99
October	\$21.16	\$19.46
November	\$21.93	\$20.23
December	\$20.79	\$19.09

Milk Mailbox Prices

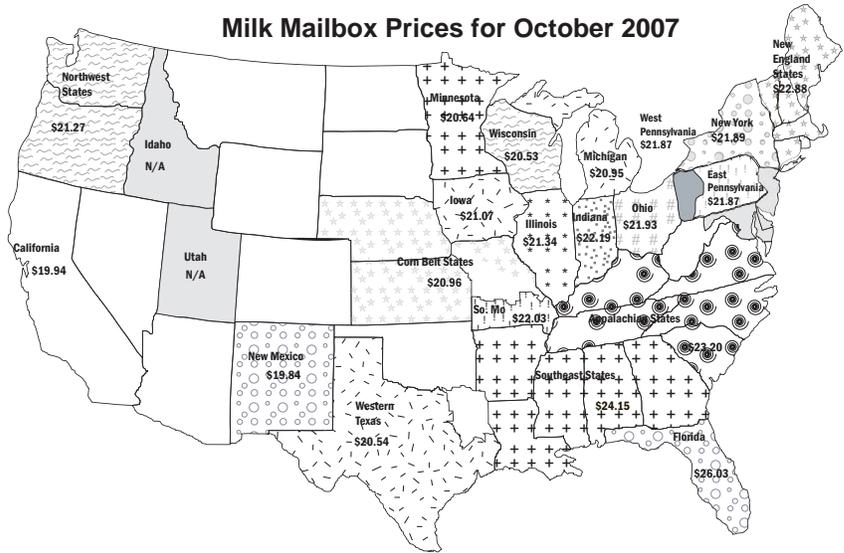
Milk Mailbox Prices in Dollars per Hundredweight

	April	May	June	July	August	September	October
California ¹	\$14.83	\$16.77	\$19.12	\$19.98	\$20.06	\$20.19	\$19.94
USDA ²	\$16.45	\$17.78	\$19.80	\$21.49	\$21.47	\$21.78	\$21.39

¹ California mailbox price calculated by CDFA.

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

Milk Mailbox Prices for October 2007



In October 2007, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$21.39 per cwt., down \$.39 from the September record setting month. The component tests of producer milk in October 2007 were: butterfat: 3.71%; protein, 3.10%; and other solids, 5.70%. On an individual reporting area basis, mailbox prices decreased in all Federal milk order reporting areas, and ranged from \$26.03 in Florida to \$19.84 in New Mexico. In October 2006, the Federal milk order all-area average mailbox price was \$13.65, \$7.74 lower.

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 A.G. Kawamura, Secretary
 Dairy Marketing Branch
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Milk Pricing Information:
 Within California 1-800-503-3490
 Outside California 1-916-442-MILK

Dairy Marketing Branch:
 Phone (916) 341-5988; Fax (916) 341-6697
 Website: www.cdfa.ca.gov/dairy
 Email: dairy@cdfa.ca.gov