

California

# Dairy Review

A publication serving the California dairy industry for over 12 years

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## CWT Herd Retirement Accepts 184 Bids

Cooperatives Working Together (CWT) announced tentatively accepting 184 bids in its second herd retirement of 2008, representing 61,078 cows and 1.2 billion pounds of milk. In addition, CWT has accepted bids for 1,548 bred heifers in this herd retirement program.

Together, CWT's two herd retirements this year account for 85,663 cows that produced 1.637 billion pounds of milk. Farmers in 40 states submitted a total of 471 herd retirement bids in late November reflecting "the continuing financial stress that many farmers are facing as milk prices plunge below the cost of production," said Jerry Kozak, President and CEO of NMPF, which administers CWT. Kozak noted that although the costs of dairy feed and diesel fuel have dropped, milk prices have fallen faster.

Starting in mid-December, CWT field auditors began visiting the 184 farms whose bids were accepted, checking their milk production records, inspecting their herds, and tagging each cow for processing. All farmers will be notified no later than January 12, 2009, as to whether their bid was among those accepted.

Once CWT field auditors inspect and accept the herds offered as part of the bidding process, farmers have 15 days in which to send their animals to a processing plant. CWT will again provide each farmer the NMPF animal handling guidelines for the proper culling and transporting of dairy cattle, Kozak said.

Jim Tillison, the Chief Operating Officer of CWT, said that further bid information, including the average price of accepted bids, won't be released until all the on-farm visits have been completed. The total number of bids initially accepted by this round includes:

Region	Milk Lbs. (Millions)	Farms	Cows
Northeast	63.6	23	3,117
Southeast	65.2	27	3,741
Midwest	63.6	47	3,224
Southwest	295.6	38	17,106
West	718.3	49	33,890
<b>Total</b>	<b>1,206.30</b>	<b>184</b>	<b>61,078</b>



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

# Production, Prices, Quota Transfers, Alfalfa

## October Milk Production

USDA estimates U.S. milk production for November 2008 in the 23 major dairy states at 14.0 billion pounds, up 1.4 percent from November 2007. Production per cow in the 23 major states averaged 1,675 pounds for November, 3 pounds above November 2007.

## Quota Transfer Summary

Quota Transfers	Oct.	Nov.	Dec.
Number of Sellers	2	7	9
Pounds of SNF Quota Transferred	727	12,592	13,314
Average Price Per Pound of SNF Quota	\$538	\$545	\$556

## Minimum Class Prices

California Hundredweight Prices

Class	November	December	January
1 No. Calif.	\$18.72	\$16.57	\$17.42
So. Calif.	\$19.00	\$16.84	\$17.69
2 No. Calif.	\$16.57	\$13.56	\$13.30
So. Calif.	\$16.80	\$13.79	\$13.53
3 No. Calif.	\$16.52	\$13.51	\$13.25
So. Calif.	\$16.53	\$13.52	\$13.25
4a	\$12.20	N/A	N/A
4b	\$15.14	N/A	N/A

## Commodity Prices Used in the Calculation of California Class 1 Milk Prices

Month	Chicago Mercantile Exchange		California Manufacturing Plants	Dairy Market News
	Grade AA Butter	Block Cheddar Cheese	Nonfat Dry Milk	Western Dry Whey
<i>Dollars per Pound</i>				
Jan.	\$1.2390	\$2.0308	\$1.7009	\$0.4275
Feb.	\$1.2223	\$1.8348	\$1.4868	\$0.2750
Mar.	\$1.2803	\$1.9605	\$1.2482	\$0.2350
Apr.	\$1.3679	\$1.8242	\$1.2498	\$0.2650
May	\$1.4425	\$1.9595	\$1.2614	\$0.2825
June	\$1.4820	\$2.1905	\$1.3421	\$0.2800
July	\$1.5418	\$1.9140	\$1.3528	\$0.2800
Aug.	\$1.5993	\$1.8553	\$1.3585	\$0.2800
Sept.	\$1.6427	\$1.7489	\$1.3301	\$0.2488
Oct.	\$1.7298	\$1.8559	\$1.1214	\$0.1850
Nov.	\$1.6791	\$1.6457	\$0.9174	\$0.1700
Dec.	\$1.2939	\$1.7853	\$0.8639	\$0.1600

## Federal Order and California Minimum Class 1 Prices

Hundredweight Prices

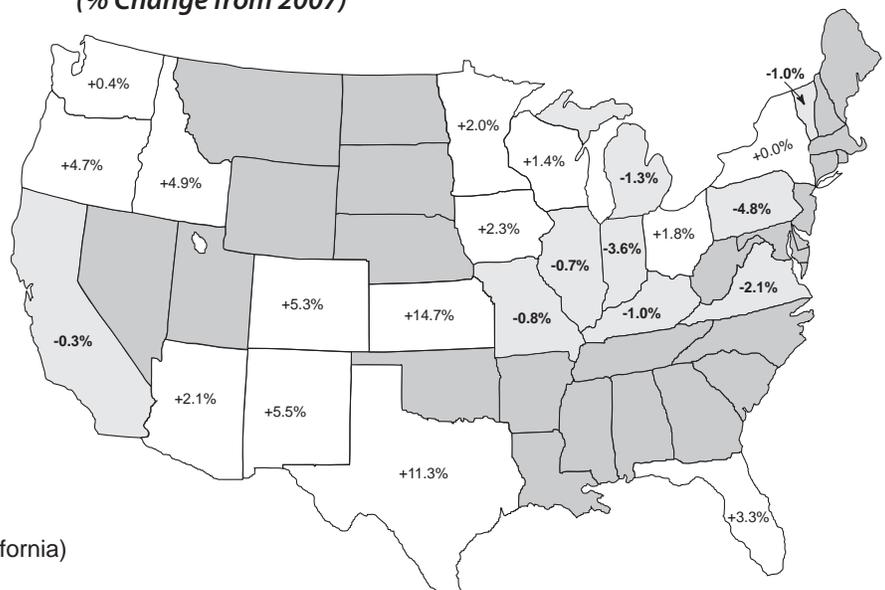
Regions	November	December	January
Phoenix, Arizona	\$19.68	\$17.78	\$18.09
Southern California	\$19.00	\$16.84	\$17.69
Portland, Oregon	\$19.23	\$17.33	\$17.64
Northern California	\$18.72	\$16.57	\$17.42
Boston (Northeast)	\$20.58	\$18.68	\$18.99

## November Milk Production in the Top 23 States

(% Change from 2007)

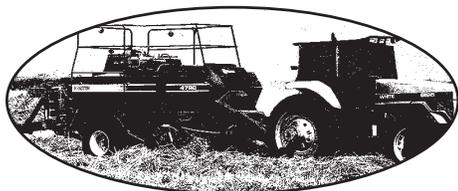
For the U.S. overall, comparing November 2008 to November 2007:

- U.S. Milk production during November was up 1.1%
- The number of cows on farms was 9.276 million head, up 80,000 head
- Production per cow averaged 1,637 pounds, 4 pounds more than November 2007
- Nine of the top twenty-three milk producing states showed a decrease in milk production



As reported by USDA and CDFA (for California)

## **Supreme Alfalfa Hay Prices / Alfalfa Sales - Reported Weekly**



### **Alfalfa Hay Update:**

Sales this month were very slow to non-existent as winter weather in the way of rain and snow halted most sales.

### **Statewide Average Prices Per Ton / Total Tons Sold or Delivered**

Area	Nov. 28	Dec. 5	Dec. 12	Dec. 19	Monthly Average/Range
Petaluma	N/A	N/A	\$252	N/A	\$252
North Valley <sup>1</sup>	\$200-255	\$258	\$215-255	\$235-257	\$227-256
South Valley <sup>2</sup>	\$225-235	\$230	N/A	N/A	\$227-232
Chino Valley	N/A	\$210	N/A	N/A	\$210
<b>Tons Sold<sup>3</sup></b>	11,080	8,285	19,805	7,315	11,621
<b>Tons Delivered<sup>4</sup></b>	6,400	5,575	7,275	2,260	5,378

<sup>1</sup> North Valley is Escalon, Modesto and Turlock areas.

<sup>2</sup> South Valley is Tulare, Visalia and Hanford areas.

<sup>3</sup> For current or future delivery.

<sup>4</sup> Contracted or current sales.

Source: USDA Market News, Moses Lake, Washington, (509) 765-3611, [www.ams.usda.gov/LSMarketNews](http://www.ams.usda.gov/LSMarketNews)

## **California Weekly Feed Commodity Spot Prices, Delivered to the Dairy**

AREA Tulare/Pixley	Almond Hulls	Canola	Distillers Dried Grains	Rolled Corn	Soybean Meal	Whole Cottonseed
Dec. 2	\$137.00	\$257.00	\$178.00	\$171.50	\$302.00	\$321.00
Dec. 9	\$135.00	\$259.00	\$172.00	\$164.50	\$303.00	\$306.00
Dec. 16	\$135.00	\$277.00	\$182.00	\$188.00	\$321.00	\$301.00
Dec. 22	\$133.00	\$279.00	\$178.00	\$185.50	\$329.00	\$298.00
<b>Monthly Average</b>	<b>\$135.00</b>	<b>\$268.00</b>	<b>\$177.50</b>	<b>\$177.38</b>	<b>\$313.75</b>	<b>\$306.50</b>

North Valley	Almond Hulls	Canola	Distillers Dried Grains	Rolled Corn	Soybean Meal	Whole Cottonseed
Dec. 2	\$127.00	\$257.00	\$178.00	\$180.50	\$302.00	\$321.00
Dec. 9	\$125.00	\$259.00	\$172.00	\$173.50	\$303.00	\$306.00
Dec. 16	\$130.00	\$277.00	\$182.00	\$197.00	\$321.00	\$301.00
Dec. 23	\$127.00	\$279.00	\$178.00	\$194.50	\$329.00	\$301.00
<b>Monthly Average</b>	<b>\$127.25</b>	<b>\$268.00</b>	<b>\$177.50</b>	<b>\$186.38</b>	<b>\$313.75</b>	<b>\$307.25</b>

Los Banos/Chowchilla	Almond Hulls	Canola	Distillers Dried Grains	Rolled Corn	Soybean Meal	Whole Cottonseed
Dec. 2	\$133.00	\$259.00	\$178.00	\$176.50	\$304.00	\$323.00
Dec. 9	\$130.00	\$261.00	\$172.00	\$169.50	\$305.00	\$308.00
Dec.16	\$133.00	\$279.00	\$182.00	\$193.00	\$323.00	\$303.00
Dec. 23	\$130.00	\$281.00	\$178.00	\$190.50	\$331.00	\$303.00
<b>Monthly Average</b>	<b>\$131.50</b>	<b>\$270.00</b>	<b>\$177.50</b>	<b>\$182.38</b>	<b>\$315.75</b>	<b>\$309.25</b>

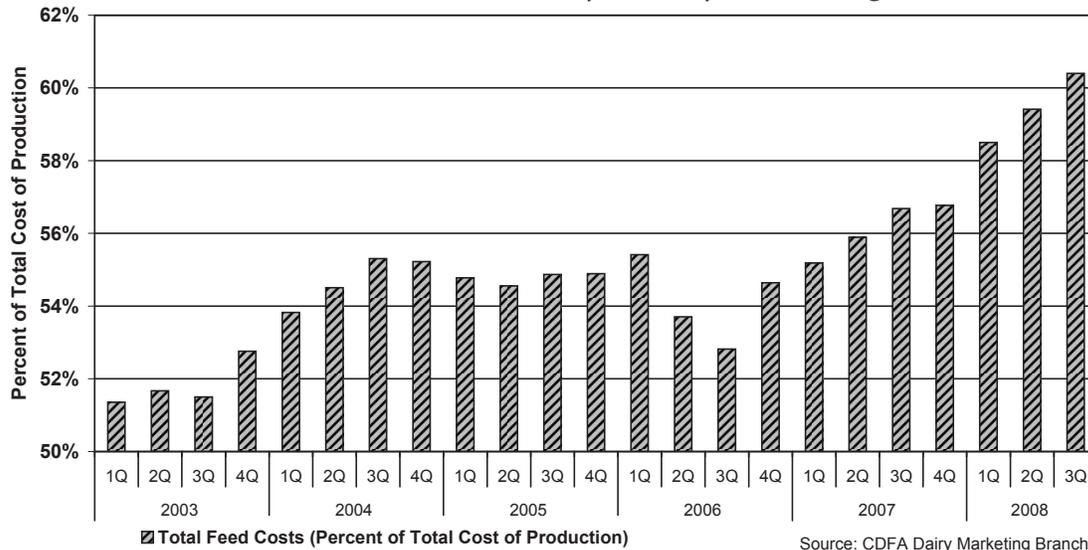
# Milk Production Cost Comparison Summary for California \*

## By Quarter, 2007-2008

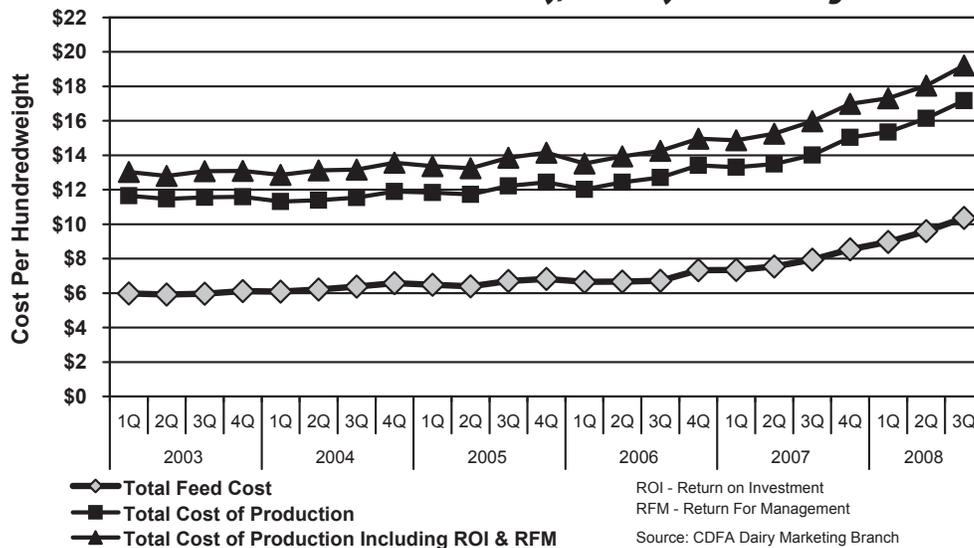
Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
	<i>Dollars per Hundredweight</i>									
<b>1st Quarter</b>										
Total Costs	17.52	19.74	13.33	15.14	13.16	15.31	13.17	15.44	13.31	15.34
Total Costs & Allowances*	19.27	21.97	14.86	16.98	14.76	17.17	14.55	17.07	14.87	17.31
<b>2nd Quarter</b>										
Total Costs	16.23	18.49	13.41	15.86	13.51	16.26	13.00	16.06	13.49	16.14
Total Costs & Allowances*	18.15	20.62	15.13	17.76	15.29	18.16	14.53	17.69	15.25	18.04
<b>3rd Quarter</b>										
Total Costs	17.12	20.52	13.62	16.68	14.20	17.38	13.76	17.13	14.01	17.17
Total Costs & Allowances*	19.24	22.74	15.51	18.67	16.24	19.46	15.52	18.93	15.98	19.21
<b>4th Quarter</b>										
Total Costs	19.01		14.93		15.04		14.46		15.03	
Total Costs & Allowances*	21.21		16.84		17.05		16.23		14.97	

\* Includes an allowance for management and a return on investment

## Total Feed Costs (Percent of Total Cost of Production) Based on California Production Cost Survey, January 2003 through June 2008

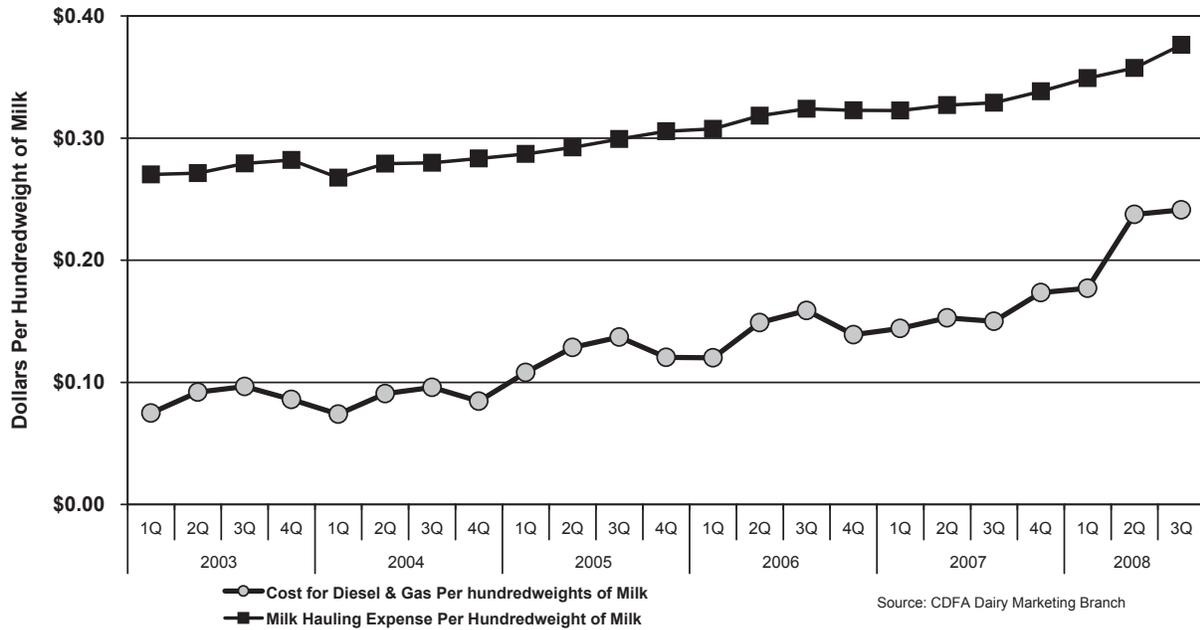


## California Cost of Production, Total Feed Cost, by Quarter Based on California Production Cost Survey, January 2003 through June 2008





## Diesel, Gas, and Milk Hauling Costs, Per Hundredweight of Milk Based on California Production Cost Survey, January 2003 through June 2008



### USDA Milk-Feed Ratio Higher

The milk-feed price ratio inched higher in November to 2.13 — a 0.13-point gain from the revised October ratio of 2.0. The ratio is still 0.92 point less than a year ago when it was 3.05.

The USDA used a corn price of \$3.94 per bushel to calculate the November ratio; 43 cents less than the October price, and 50 cents higher than a year ago. The price of soybeans fell to \$9.20 per bushel, a 74-cent loss and 22 cents less than a year ago when it was \$9.42. Meanwhile, baled alfalfa hay declined \$9 to \$163 per ton, compared to a year ago when it was \$136 per ton.

The all-milk price used to calculate the November ratio fell 30 cents to \$17.40, compared to a year ago when it was \$21.90.

A ratio of 2.13 means that a dairy producer can buy 2.13 pounds of feed for every pound of milk sold. Whenever the ratio meets or exceeds 3.0, it is considered profitable to buy feed and produce milk.

### Cottonseed Supplies to Stay Tight

Tom Wedegaertner, director of cottonseed research and marketing at Cotton Incorporated, estimates that after this year's crush, there will be two million tons of cottonseed available for feeding — down considerably from recent years. "The supply is half what we had two years ago, and it's not going to get any bigger next year," he adds.

A recent "World Agricultural Supply and Demand Estimate" from USDA forecasts upland cotton production to reach 13.1 million bales, or 29 percent below 2007. Growers in Texas, the top cotton-producing state, cited inclement weather, including July's Category 2 Hurricane Dolly, for lower production and yields.

"We are now looking at a situation where dairy producers need to decide if and how much to continue feeding cottonseed," Wedegaertner says. "Right now, cottonseed is quite reasonably priced. Producers who are logistically situated to take advantage of cottonseed should seriously consider taking delivery if they can."

Cottonseed prices in eastern Wisconsin declined from \$460 a ton (delivered) in mid-July to \$290 a ton in mid-November. During that same time, cottonseed prices in southern Idaho fell from \$485 a ton to \$350 a ton.

## **Northwest Iowa Secures Large Cheese Plant**

Hull, Iowa is now home to the newest and one of the larger cheese production facilities in the country. This cheese facility, "Green Meadows," plans to produce 80 million pounds of cheese a year. Along with cheese, the plant will also produce whey, a protein supplement found in protein bars, shakes, and some chocolate.

A study done by Iowa State University estimates this plant will bring \$437 million to the region. The owners of the plant who also operate a 7,000 cow dairy are expecting to get the milk for the plant from Iowa, South Dakota, Nebraska, and Minnesota, and they need more dairy farmers. The owners stated, "We'll need 40-thousand more cows in this region, anybody that would like to grow their dairy farm or build a new one, we'd love to talk to them."

Along with dairy farmers, making this 340-thousand square foot facility operable requires at least 85 workers. And even though the economy isn't doing well, the folks at Green Meadows say it hasn't had any impact on the world of cheese since the average American consumes 31 pounds of cheese a year.

Green Meadows officials say they will double production by 2010, creating more jobs, the need for more dairy cow farmers, and increasing the amount of money the plant will bring to the region.

## **Possible Rendering Plant Changes Coming**

A Food and Drug Administration rule, set to take effect in April 2009, will prohibit the use of brains and spinal cords of older cattle as ingredients in livestock feed and pet food.

New regulations designed to protect the food supply from bovine spongiform encephalopathy-infected cattle may stop some renderers from picking up dead cattle. "Some of the rendering plants that grind up carcasses for use in feed have announced they will stop accepting dead cattle from farms because it would be too costly to remove the banned organs. Other renderers may raise the prices they currently charge farmers.

## **Natural Gas Pipeline In the Works . . .**

BioEnergy Solutions (based in Bakersfield) plans to start construction early next year on a distribution network that will collect methane gas from a cluster of Shafter dairies to be sold to Pacific Gas and Electric for power generation.

The new technology captures gas from covered manure lagoons, pipes it to a nearby facility for processing to utility standards, and then injects it into PG&E's fuel lines. While converting waste to fuel, the technology will also help reduce methane and smog-forming emissions released from manure lagoons.

"I think this is the future for all dairies," said Ben Goedhart, owner of the Vermeer and Goedhart Dairy in Shafter, one of the dairies participating in the project. "The waste is energy, and if it can be captured and economically used, it's the way to go. "And it will keep the air so much cleaner, too."

Three Shafter dairies, with a combined 6,500 milk cows, have contracted to supply their gas so far. BioEnergy Solutions President David Albers says the company is talking with additional dairies in the area that could tie in to the same system. If they do, the nine-farm network would include 26,700 milk cows, or almost 20 percent of the county's dairy herd.

At full buildout, the underground pipeline transporting methane from the farms to a central processing facility on Goedhart's farm could run 10 miles. "The business model is to achieve economy of scale," Albers said. "It costs a fortune to move manure but if we lay pipe, we only have to do it once."

The company covers the cost of installing the equipment at each dairy and obtaining permits for the project. It also shares a portion of the profits with dairy owners. Albers said he expects BioEnergy Solutions to install systems at about 100 more dairies over the next few years.

## **CWT Accepts Five Export Bids**

Cooperatives Working Together (CWT) announced that it accepted five export assistance bids in early December for the sale of cheese, butter, anhydrous milkfat and whole milk powder. The total of these bids, combined with those from the previous 11 months, now equals the milk equivalent of two billion pounds of exports facilitated by CWT in 2008.

Two of the bids accepted were from Dairy Farmers of America of Kansas City, MO.: one was for 300 metric tons (661,387 pounds) of anhydrous milkfat to South Korea; the second bid was for 20 metric tons (44,092 lbs.) of whole milk powder to Honduras.

Two bids were accepted from Land O'Lakes of Arden Hills, MN: one bid was for the export of 216 metric tons (476,199 lbs.) of Cheddar and Monterey Jack cheese to South Korea; the second bid was for 36 metric tons (79,366 lbs.) of butter to China.

The latest bid was accepted from Upstate Niagara Cooperative of Buffalo, NY, for the export of 19 metric tons (41,888 lbs.) of butter to Syria. This is the first bid CWT has accepted from Upstate Niagara.

CWT will pay an export bonus to the bidders, only when delivery of the product is verified by the submission of the required documentation. With these accepted bids, CWT's total 2008 export obligations are: butter, 25,554 metric tons (56 million lbs.); cheese, 1,501 metric tons (3.3 million lbs.); whole milk powder, 748 metric tons (1.6 million lbs.); and anhydrous milkfat, 10,993 metric tons (24 million lbs.). The milk equivalent total of these products is 2 billion pounds.

The CWT Export Assistance program, on a competitive bid basis, assists CWT members in selling U.S. dairy products in world markets. CWT's export assistance program has helped sell cheese, butter, anhydrous milkfat and whole milk powder to more than 50 countries on four continents.

Cooperatives Working Together is funded by dairy cooperatives and individual dairy farmers, who are contributing 10 cents per hundredweight assessment on their milk production through December 2008. The money raised by CWT's investment is being apportioned between two supply management programs that strengthen and stabilize the national all milk price. For more on CWT's activities, visit [www.cwt.coop](http://www.cwt.coop).

## **NMPF Seeks Court Injunction to Prevent USDA from Selling Milk Powder at Auction**

The National Milk Producers Federation (NMPF) sought an injunction to prevent the U.S. Department of Agriculture (USDA) from undermining the dairy price support program by selling nonfat dry milk powder at levels that will reduce farmers' milk checks.

NMPF was seeking a Temporary Restraining Order to stop the USDA from using a private, third-party company to resell milk powder at levels below what the law specifies.

At issue is an arrangement the USDA has with a firm called The Seam, under which Seam, will auction off surplus milk powder given to it by the government. Under the arrangement, the Seam is not required to sell the milk powder to commercial clients at the minimum resale price of 88 cents per pound, as specified in the Farm Bill. Because of this, the auction will result in lower nonfat dry milk prices, and because farmers' prices reflect commercial dairy product prices, it will reduce dairy producer income.

"We strongly believe that USDA's action will circumvent the newly-adopted 2008 Farm Bill, which says that under the Dairy Price Support Program, the USDA cannot sell nonfat dry milk stocks at less than 110% of the price at which it purchased the product," said Jerry Kozak, President and CEO of NMPF. Kozak noted that the DPSP directs the USDA to buy powder at 80 cents/pound, and specifies that the USDA cannot sell it back to the market at less than 88 cents/lb., in order to keep prices from being further driven down.

"The purpose of the price support program is to have the government provide a basic safety net when prices are low, as they are now," Kozak said. Up to 20 million pounds of nonfat milk powder were scheduled to be auctioned, and if those sales are at levels of between 80 and 85 cents/lb., which is the current market price, it could reduce farm-level income by \$57 million over the next year, Kozak said.

Kozak said that NMPF asked USDA executives last week to postpone the milk powder auction, but USDA did not respond to that request. As a result, NMPF has filed suit in Chicago today to suspend the auction.

*Continuing story on Page 8...*

*Continued from Page 7*

## **USDA Milk-Powder Auction Postponed**

The National Milk Producers Federation (NMPF) successfully prevented the USDA from allowing, through private auction, the sale of nonfat dry milk powder at prices below the level specified in the Farm Bill. USDA, facing legal action brought by NMPF, agreed not to submit any of the product for auction.

The USDA and Seam entered into a court-ordered agreement not to hold any milk-powder auctions until NMPF's full complaint and motion can be heard on Jan. 22, 2009. This decision has the same effect as the Temporary Restraining Order originally sought by NMPF.

## **Agreement Reached on California TB Case**

Maddox Dairy and RuAnn Dairy became involved in California's latest outbreak of bovine tuberculosis (TB) during the investigation of another herd that tested positive for bovine TB in 2007. That herd had bought four replacement heifers from Maddox Dairy. Because cattle move between Maddox Dairy and RuAnn Dairy, all animals in both herds had to be tested. Prior to 2002, the RuAnn herd maintained a TB-free certification.

Every animal was tested three times. There were 664 cows that were caudal-fold suspect/reactors at RuAnn and Maddox Dairies. These reactors were depopulated. One out of the 664 was found to have a very small lesion in a lymph gland, yet state and federal veterinarians were unable to find the infection in her lungs. Maddox Dairy never had any positive reactors. No additional infected animals have been found since April.

An agreement was reached between the State of California and RuAnn Dairy and Maddox Dairy of Riverdale, Calif., to not depopulate the herds. Maddox reported that depopulating the herds would have cost \$40 million in indemnity payments and 50 years of top genetics.

## **Change in Fluid Milk Testing Program Assessment Rates**

To cover the costs of the Fluid Milk Testing Program the Department is authorized to assess producers and handlers a fee on market milk delivered in accordance with state stabilization and marketing plans. The assessment rate deducted from producer payments and the rate paid by milk handlers are currently set at \$0.0008 and \$0.0004 per hundredweight, respectively. These rates have not been adjusted since 1986 when the program was first established and are insufficient to cover current program costs.

Effective January 1, 2009, the Department is increasing assessments for the statewide Fluid Milk Testing Program to the rates of \$0.001 per hundredweight of market milk for producers and \$0.0005 per hundredweight of market milk for handlers.

The assessments will continue to be included on monthly invoices to milk handlers issued by the Department's Milk Pooling Branch. Questions may be directed to the Milk and Dairy Food Safety Branch at (916) 654-0773.

## **2009 Assessment Rates Established For CMAB and the CMMAB**

The Department recently approved the 2009 assessment rates applicable to the California Milk Advisory Board (CMAB) and the California Manufacturing Milk Advisory Board (CMMAB). These two producer-funded programs conduct dairy promotion and research activities on behalf of California's dairy farmers.

The 2009 CMAB assessment rate for market milk and the 2009 CMMAB assessment rate for manufacturing milk have both been set at ten cents (\$0.10) per hundredweight. These rates are unchanged from the 2008 rates.

As in the past, these assessments will be collected from the first handlers who purchase or otherwise acquire possession of milk from producers. Each handler shall in turn deduct such assessments from payment owed to their producers.

These assessments are authorized separate and apart from the fifteen-cent (\$0.15) assessment of the National Dairy Promotion and Research Board (NDPRB), but qualify California milk producers for a credit toward the NDPRB assessment.



## Milk Income Loss Contract Program

USDA's Milk Income Loss Contract Program (MILC), carried out by the Farm Service Agency's (FSA), compensates dairy producers when domestic milk prices fall below a specified level. The 2008 Farm Bill authorized MILC through Sept. 30, 2012. The program has no set funding level.

### Eligible Dairy Producers

Eligible dairy producers are those who, beginning Oct. 1, 2007, through Sept. 30, 2012:

- Commercially produce and market cow milk in the United States; or
- Produce milk in the United States and commercially market the milk outside the United States.

Dairy producers must be in compliance with Highly Erodible Land and Wetland conservation provisions. Dairy producers are subject to the Adjusted Gross Income (AGI) limitation. If non-farm income exceeds \$500,000 the dairy operation and the dairy producer are not eligible for MILC benefits.

### Sign-up

Sign-up for the program begins on Dec. 22, 2008, and extends through the conclusion of the program on Sept. 30, 2012.

Eligible dairy producers can apply for program benefits anytime during sign-up.

### Payments

FSA makes MILC payments on a monthly basis when the Boston Class I milk price falls below \$16.94 per hundredweight (cwt) as adjusted by the dairy feed ration adjustment. The monthly Boston price is posted online.

When the Boston milk price exceeds \$16.94 as adjusted by the dairy feed ration adjustment

- FSA will make no MILC payments to the dairy operation; and
- Production for that month will not count towards the operation's maximum eligible production.

### Payment Rate Calculation

FSA determines the per hundredweight payment rate for the applicable month by subtracting the Boston Class I price for that month from the \$16.94 baseline price, and multiplying the difference by:

- 45 percent during the period Oct. 1, 2008, through Aug. 31, 2012; or

- 34 percent during the period Oct. 1, 2007, through Sept. 30, 2008, and during Sept. 2012.

### Feed-Cost-Adjusted Payment Rate Adjustment

The baseline price of \$16.94/cwt is adjusted upward when the National Average Dairy Feed Ration Adjustment (NADFR) is greater than the following established levels:

- Jan. 1, 2008- Aug. 31, 2012 \$7.35
- Sept. 1, 2012 - Sept. 30, 2012 \$9.50

The NADFR is calculated each month from the price of feed ingredients used to create a 16 percent protein dairy feed. The feed ingredient prices used to calculate the NADFR are posted monthly by NASS and can be obtained at the following website: <http://usda.mannlib.cornell.edu/usda/current/AgriPric/> If the triggering feed ration amount is exceeded, the benchmark \$16.94 figure for the MILC payment calculation will be increased by the percentage amount, which is 45 percent (or 34 percent for certain periods as indicated above) of the percentage amount by which the feed ration cost exceeded its own benchmark for the period Oct. 1, 2008 through Aug. 31, 2012.

### Example:

When the NADFR exceeds these established levels the trigger price is calculated as illustrated in the following example. This hypothetical example assumes the NADFR is \$10.05/cwt for a month falling from Oct. 1, 2008 through Aug. 31, 2012.

$$\$10.05 \text{ (NADFR)} - \$7.35 = \$2.70$$

$$\$2.70 / \$7.35 = .3673$$

$$.3673 \times 45\% = .1653$$

$$.1653 \times \$16.94 = \$2.80$$

$$\$16.94 + \$2.80 = \$19.74$$

If the Boston Class I price is \$18.00/cwt, the payment rate will be calculated as follows:

$$\$19.74 - \$18.00 = \$1.74/\text{cwt}$$

$$\$1.74/\text{cwt} \times 45\% = \$.7830/\text{cwt}$$

FSA issues payments not later than 60 calendar days after FSA receives production evidence for the applicable month or the entire month's NADFR is posted for the applicable month, whichever is later.

## Eligible Pounds of Production

FSA issues payments up to the maximum eligible pounds of milk produced and marketed by each operation per fiscal year. The annual maximum eligible pound limit per dairy operation per fiscal year is as follows:

Oct 1, 2007- Sept. 30, 2008 ? 2,400,000 lbs

Oct 1, 2008- Aug. 31, 2012 ? 2,985,000 lbs

(Except that for fiscal year 2012, the fiscal year cap to qualify Sept. 2012 production only will be released will be reduced to 2.4 million pounds).

## Production Start-month Selection

MILC participants must select a month of commercially marketed production for which FSA will begin issuing the operation's payments for each fiscal year. Starting with the dairy operation's selected month, FSA will issue MILC payments based on the month's production and each consecutive month's production thereafter at the payment rate applicable to each month with a rate in effect, until the earlier of the following:

- The operation reaches the maximum payment quantity
- The applicable fiscal year ends.

## Production Start-month Selection Rules

The dairy operation's selected production start-month must be designated on Form CCC-580, "Milk Income Loss Contract Program (MILC)," and submitted to the FSA county office:

- On or before the 14th of the month before the selected MILC production start-month, except as otherwise provided during the applicable sign-up phase; and
- Before the selected month's Boston Class I fluid price is announced to the public.

A dairy operation cannot select a MILC production start-month for any month that:

- Has already begun, except as otherwise provided;
- Has already ended; or
- Milk was not produced by the dairy operation.

Exception: If the contract is submitted within 30 days of the time at which CCC begins accepting contracts, the dairy operation can select any month preceding the month the contract is submitted or any month thereafter, as the 2009 production start month, including the month the contract is submitted.

## Selecting and Changing Production Start-months

Dairy operations can change the start-month an unlimited number of times as long as the change is made:

- On or before day 14 of the month prior to the MILC production start-month (unless that day falls on a weekend, then the date falls to the previous business day);
- Before payment is sought; and
- Before the original selected MILC production start-month has passed.

If the dairy operation never changes the selected start-

month, the start-month will remain the same throughout the MILC contract's duration.

## How to Apply

To apply for MILC, dairy operations must submit Form CCC-580, "Milk Income Loss Contract Program (MILC)," to the FSA county office where the operation is located. The form is available at FSA county offices and online at: <http://forms.sc.egov.usda.gov/eforms/mainservlet>

The production start-month for each fiscal year must be designated on the Form CCC-580. As milk is marketed, the operation must report the total pounds of all milk produced and marketed during each month for all persons receiving a share of the marketed milk. Monthly milk production cannot be apportioned to circumvent the maximum payment quantity. All persons sharing in the risk of a dairy operation's total production must certify the information on the CCC-580. FSA will accept only one Form CCC-580 per dairy operation.

When applying for MILC benefits, operators must also have on file:

- Form AD-1026, "Highly Erodible Land Conservation and Wetland Conservation Certification," used to certify understanding of USDA conservation compliance requirements;
- Form SF-1199A, "Direct Deposit Sign Up Form," used to sign up for the direct deposit of payments into the payee's account;
- Form CCC-526 or CCC-926, Adjusted Gross Income (AGI) Statement; and
- Form CCC-901, "Members Information," or Forms CCC-902E/CCC-902P, "Farm Operating Plan," or Form CCC-580S, "MILC Supplemental," used to determine payment eligibility.

Dairy operations can obtain these forms at FSA county offices and online at: <http://forms.sc.egov.usda.gov/eforms/mainservlet>

## Production Evidence

Before FSA can issue MILC payments, all persons involved in a single dairy operation must provide verifiable production evidence, which can include:

- Milk marketing payment stubs;
- Tank records;
- Milk handler records;
- Daily milk marketings; or
- Copies of any payments received as compensation from other sources.

## For More Information

Dairy operations can obtain more information on MILC at FSA county offices and online at: <http://www.fsa.usda.gov>; click on Price Support.

## **National Dairy Situation and Outlook – USDA Estimates**

### **Milk Production and Cow Numbers**

Monthly: Compared to 2007, USDA estimates that overall milk production across the U.S. was up 1.1% in November, led by Kansas' 14.7% growth in milk production (on 10,000 more cows and 80 more pounds per cow). USDA reports that California milk production was down 0.3% on 10,000 more cows, and 15 less pounds per cow, compared to November 2007. Among the western states, Arizona was up 2.1%; New Mexico up 5.5%; and Washington was up 0.4%. Three of the top 10 states reported a production decrease.

Quarterly: For the third quarter of 2008 compared to the second quarter of 2008, U.S. milk cow numbers increased to 9.277 million, production per cow decreased 201 pounds; the net effect was decreased milk production to 46.8 billion pounds. USDA projects that for the fourth quarter of 2008 compared to the third quarter of 2008, U.S. milk cow numbers will decrease to 9.265 million cows, production per cow will decrease slightly to 5,030 pounds; the net effect would be slightly decreased milk production to 46.6 billion pounds.

### **Milk Prices**

Comparing the third quarter of 2008 to the second quarter of 2008, U.S. average milk prices were up to \$18.67/cwt. USDA projects that for the fourth quarter of 2008, U.S. average all-milk prices will be \$16.90-17.10/cwt.; Class 4b prices will be \$15.86-16.06/cwt.; and Class 4a prices will be \$11.95-12.25/cwt.

### **Utility Cow Prices**

Comparing the third quarter of 2008 to the second quarter of 2008, average U.S. utility cow prices were up \$4.48/cwt. to a national average of \$61.78/cwt. USDA projects that utility cow prices will average \$46-50 in the fourth quarter of 2008.

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

## **Department Announces Hearing Decision**

On October 30 and 31, 2008, the Department held a public hearing to consider amendments to the Northern and Southern California Stabilization and Marketing Plans for Market Milk (Stab Plans). The amendments under consideration regarded changes to the Class 1, 2, and 3 pricing formulas.

Having carefully weighed the contents of the hearing records, the Department has decided to implement the following amendments:

Decrease the Class 1 price approximately \$0.35/cwt. by changing:

- the Butter Adjuster from \$0.1180 to \$0.1315 and changing the CRP Adjuster from \$0.147 to -\$0.203.

Decrease the Class 2 and 3 prices approximately \$0.26/cwt. by changing:

- the Southern California Class 2 and 3 fat differentials from \$0.0393 to \$0.00,
- the Northern California Class 2 and 3 fat differentials from \$0.0370 to \$0.00,
- the Southern California Class 2 SNF differential from \$0.0901 to \$0.0757,
- the Northern California Class 2 SNF differential from \$0.0643 to \$0.0490, and
- the Southern and Northern California Class 3 SNF differentials from \$0.0586 to \$0.0433.

The changes to the Class 1, 2, and 3 price formulas will be reflected in the amendments to the Stab Plans, Order Numbers 53 and 68, respectively, for the Northern California Marketing Area and the Southern California Marketing Area.

The adjustments to the Stab Plans will take effect for milk delivered to processing plants on or after January 1, 2009.

The Hearing Determinations, Panel Report, Stab Plans and more detailed explanation of the Department's decision can be obtained on the Department dairy home page at [www.cdffa.ca.gov/dairy](http://www.cdffa.ca.gov/dairy) by clicking on [Hearing Matrix]. To access the Stab Plans, click on [Dairy Marketing], located in the middle of the dairy home page and then on [Stabilization Plans].

Should you have any questions or desire further information, please contact Annie Pelletier or Hyrum Eastman at (916) 341-5988.

# Pool Prices

Month	Quota	Overbase
June '07	\$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
January '08	\$19.14	\$17.44
February	\$18.42	\$16.72
March	\$17.71	\$16.01
April	\$17.56	\$15.86
May	\$18.47	\$16.77
June	\$19.12	\$17.42
July	\$19.05	\$17.35
August	\$18.01	\$16.31
September	\$17.92	\$16.22
October	\$17.14	\$15.44
November	\$15.97	\$14.27

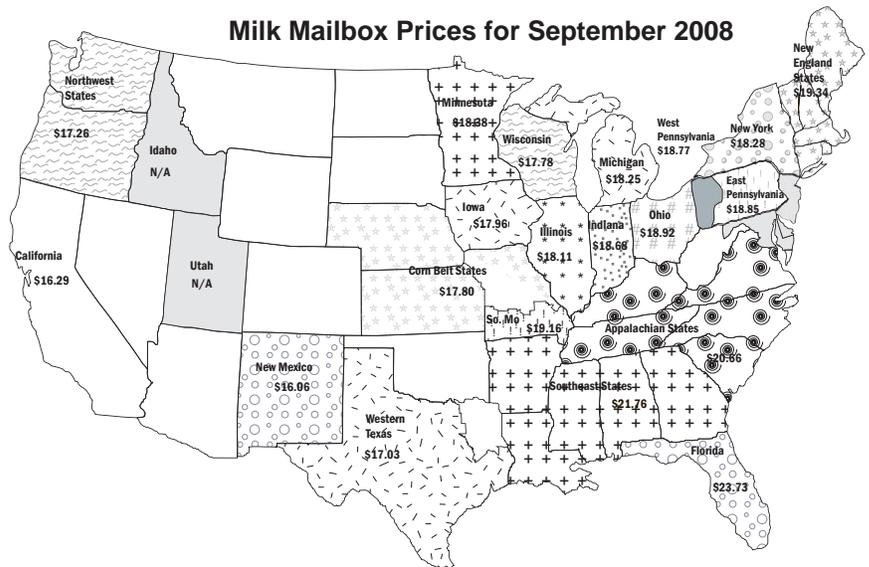
# Milk Mailbox Prices

## Milk Mailbox Prices in Dollars per Hundredweight

	March	April	May	June	July	August	September
California <sup>1</sup>	\$16.04	\$15.88	\$16.79	\$17.35	\$17.19	\$16.25	\$16.29
USDA <sup>2</sup>	\$18.01	\$18.19	\$18.09	\$19.11	\$19.43	\$18.58	\$18.25

<sup>1</sup> California mailbox price calculated by CDFA.

<sup>2</sup> All federal milk market order weighted average, as calculated by USDA.



In September 2008, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$18.25 per cwt., down \$0.33 from the previous month average, and down \$3.53 from September 2007. The component tests of producer milk in September 2008 were: butterfat, 3.65%; protein, 3.04%; and other solids, 5.71%. On an individual reporting area basis, mailbox prices decreased in all Federal milk order reporting areas, and ranged from \$23.73 in Florida to \$16.06 in New Mexico.



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

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A.G. Kawamura, Secretary

California Department of Food and Agriculture



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