

C A L I F O R N I A

Dairy Review

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Department Announces Milk Movement Incentive System Hearing Decision

On January 31, 2006, the Department held a public hearing to consider amendments to the Milk Pooling Plan for Market Milk (Pool Plan) and to the Northern and Southern California Stabilization and Marketing Plans for Market Milk (Stab Plans). The amendments under consideration regarded changes to the milk movement incentive system.

Having carefully weighed the contents of the hearing records, the Department has decided to make the following changes:

- Increases (+\$0.01 to +\$0.02/cwt.) in the transportation allowance rates in three Northern California receiving areas;
- Increases (+\$0.03 to +\$0.07/cwt.) in the higher mileage brackets for transportation allowance rates in the two Southern California receiving areas;
- San Bernardino County becomes eligible for transportation allowances and transportation credits;
- Decrease (-\$0.09/cwt.) in the transportation allowance rate and an adjustment in the second mileage bracket for the Southern California area;
- Decrease (\$0.08/cwt.) in the transportation credit rate for Los Angeles County;
- Increases in the transportation credit rate (+\$0.09/cwt.) for the Southern San Joaquin Valley.

The Department views the following two issues as important but in need of further review. The Department will seek input outside the formal hearing process on the following issues:

- Fuel indexing for both transportation allowance and credit rates;
- Conversion of transportation allowance and credit rates from dollars per hundredweight to dollars per pound of solids-not-fat.

The changes to the transportation allowance system will be reflected in the amendments to the Pool Plan, Order Number 105. The changes to



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

Continued on Page 6

Production, Prices, Quota Transfers, Alfalfa

January Milk Production

Milk production in California for February 2006 totaled 3.04 billion pounds, up 6.7 percent from February 2005. USDA's estimate for U.S. milk production for February 2006 in the 23 major dairy states is 13.0 billion pounds, up 5.5 percent from February 2005. Production per cow in the 23 major states averaged 1,588 pounds for February, 66 pounds more than February 2005 ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	February	March	April
1	\$14.61	\$13.33	\$12.67
2	\$12.78	\$12.78	N/A
3	\$12.62	\$12.62	N/A
4a	\$10.58	N/A	N/A
4b	\$11.14	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Feb	Mar	Apr
Phoenix, Arizona	\$15.73	\$14.84	N/A
Southern California	\$14.74	\$13.46	\$12.80
Portland, Oregon	\$15.28	\$14.39	N/A
Northern California	\$14.47	\$13.19	\$12.53
Boston (Northeast)	\$16.63	\$15.74	N/A

Quota Transfer Summary

For February 2006, two dairy producers transferred 4,634 pounds of SNF quota. February quota sales averaged \$495 per pound of SNF (without cows), average ratio of 2.51. For March 2006, three dairy producers transferred 1,824 pounds of SNF quota. March quota sales averaged \$491 per pound of SNF (without cows), average ratio of 2.40. ☀

Alfalfa Update: February

Northern California: Supreme alfalfa was not well tested and Premium alfalfa was steady in a light test and light supplies. Fair and Good alfalfa had limited test and light supplies. steady in a light test, with moderate demand and light supplies. Retail and Stable hay was steady with moderate supplies and demand. This area remained cool throughout the month with rain and snow.

Southern California: Supreme and Premium alfalfa was steady in light test with moderate demand and supplies - dairies showing resistance to current price levels. Fair and Good alfalfa was not well tested with light demand and supplies. Retail and stable hay was steady with light to moderate demand. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	2/24	3/3	3/10	3/17
Petaluma	\$205	N/A	N/A	N/A
North Valley ¹	\$203-215	\$210	\$210-225	\$195-210
South Valley ²	\$210-212	\$215	\$195-208	\$190-205
Chino Valley	N/A	\$180-190	\$175-180	\$165-180

¹North Valley is Escalon, Modesto and Turlock areas.

²South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

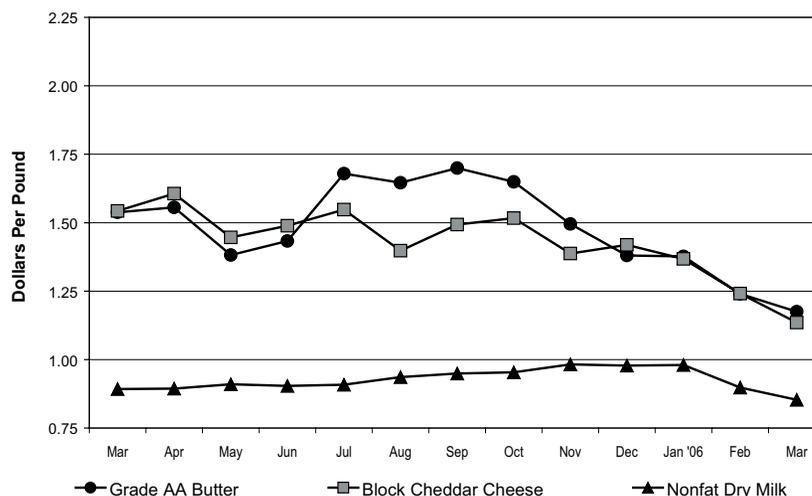
	February	March
Tons Sold ¹	42,262	62,744
Tons Delivered ²	24,555	38,368

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





CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE

Bovine Tuberculosis (TB) in California

On April 15, 2005, California (CA) regained its TB Accredited Free Status. The State was classified as Modified Accredited Advanced for two years after bovine TB was detected in three dairy herds. All three herds were quarantined, cattle destroyed, and the affected premises cleaned, disinfected, and restocked.

CA plans to maintain and demonstrate its freedom from bovine TB through movement controls and surveillance. California leads the nation in slaughterhouse surveillance, with all major adult plants meeting or exceeding target levels. All 680,000 adult cattle slaughtered in CA in 2005 were inspected for TB, and the California Animal Health & Food Safety Laboratory evaluated 1,328 suspicious samples from them; all were negative for TB.

Testing live cattle is also crucial for maintaining free status. In 2005, private veterinarians did over 85,000 caudal fold tuberculin tests in CA. Continued vigilance is necessary to ensure CA remains free of bovine TB.

National TB Report for 2005

The number of bovine TB infected herds declined; six herds were found in 2004 and four herds were diagnosed in 2005. However, herds were detected in states not known to have infection, including Minnesota and Arizona.

Private practitioners did over one million caudal fold tuberculin tests in 2005. Over 16,000 cattle positive on the initial skin test were negative on further evaluation for bovine TB.

Slaughter surveillance for TB continued to improve in 2005. Forty plants, located in 20 states, kill 94% of the adult cattle; all but two of these plants meet or exceed targeted surveillance levels. A record 9,439 suspicious samples were submitted nationally; 40 were positive for bovine TB.

TB Positive Granulomas in US in 2005

Of the 40 TB positive lesions from slaughter plants, five were from adult cattle and 35 were from fed/fat cattle.

Investigations of the five adult cases revealed:

- Two traced to infected herds, one in Minnesota and one in Arizona.
- Two traced to herds in Texas and Nebraska, but extensive tracing and testing did not identify an infected herd.
- One case from South Dakota could not be traced to a herd of origin due to lack of identification.

Investigation of 35 fed cases revealed:

- 22 traced to Mexico by official Mexican eartags.
- Five traced to Mexico through epidemiology.
- Five traced to feeder-cattle from Texas, infected in the feedlot from a Mexican steer.
- Three cases are still under investigation.

TB Infected Herds in the US - Update

Arizona: One infected dairy identified through slaughter surveillance has been depopulated.

Michigan: No new herds detected in 2005. Two dairy herds detected in 2004 are under a test-and-removal plan. Infected wild deer continue to be found, although the prevalence has decreased.

Minnesota: Three infected beef herds were identified in 2005, and two in early 2006. All five herds have been depopulated. An infected wild deer has also been found.

New Mexico: No new herds were detected in 2005. One infected herd identified in 2003 was depopulated in 2005; the other is under a test-and-removal plan.

Texas: No new herds were found in 2005. The last infected herd was depopulated in September 2004.

CDFA Animal Health Branch Offices	
Sacramento (HQ)	916-654-1447
Modesto	209-491-9350
Ontario	909-947-4462
Redding	530-225-2140
Tulare	559-685-3500
USDA/APHIS/VS	916-854-3900 or 877-741-3690

For more information, visit Web sites at: http://www.cdfa.ca.gov/ahfss/ah/tb_info.htm or <http://www.aphis.usda.gov/vs/nahts/tb/>

CWT Accepts More Export Bids for Butter, Cheese

Cooperatives Working Together (CWT) announced that it has accepted a total of five more bids to help export cheese and butter products. They include two bids from WestFarm Foods of Seattle, WA: to export 44 metric tons (96,800 pounds) of Cheddar cheese to Denmark, and an additional 98 metric tons (215,600 pounds) of Cheddar to Egypt. Another two bids were accepted from Land O'Lakes, Inc., of Arden Hills, MN: 80 metric tons (176,000 pounds) of Cheddar to South Korea, and 80 metric tons (176,000 pounds) of Monterey Jack, also to South Korea. Finally, CWT accepted a bid from California Dairies Inc. of Artesia, CA, for 96 metric tons (211,200 pounds) of European-style butter (82% butterfat) to Egypt. CWT will pay export bonuses to the three bidding companies, once completion of the shipments is verified.

These accepted bids increase CWT's total cheese exports in 2006 to 931 metric tons (2.05 million pounds) of cheese. CWT has also helped export a total of 571 metric tons of butter (1.26 million pounds) so far this year. Previous shipments facilitated by CWT's export assistance program have gone to Algeria, Barbados, Egypt, Honduras, India, Indonesia, Israel, Japan, Jordan, Morocco, the Netherlands, Panama, Saudi Arabia, South Korea, Taiwan, Trinidad and Tunisia. 

Positive BSE Test Results

USDA has confirmed that tests performed on a non-ambulatory animal on a farm in Alabama were positive for BSE. A local private veterinarian euthanized and sampled the animal and sent the samples for further testing. APHIS is currently conducting an epidemiological investigation into the animal's origin in order to attempt to trace the animal to its place of birth. It had been on the Alabama farm less than a year. The animal was buried on the farm and it did not enter the animal or human food chains. USDA will be working to locate animals from this cow's birth cohort (animals born in the same herd within one year of the affected animal) and any offspring. They will also work with Food and Drug Administration officials to determine any feed history that may be relevant to the investigation. Experience worldwide has shown that it is highly unusual to find BSE in more than one animal in a herd or in an affected animal's offspring. 

CWT to Increase Resources Through 10¢ Assessment

The members of CWT voted to double the program's current five-cent per hundredweight assessment, in order to accumulate the additional financial resources necessary to address the surge in U.S. milk production that is beginning to depress farm-level prices. The higher assessment will begin on July 1st, 2006, and run through 2007.

"We've demonstrated in the past three years that CWT can help dairy farmers address a supply and demand imbalance, but we need more leverage as we look ahead into 2006 and 2007," said Jerry Kozak, President and CEO of the National Milk Producers Federation, which manages CWT. Milk production was up 3.5% last year, he noted, and continues to grow rapidly in 2006. Kozak said that the farmer-funded self-help program "risks being irrelevant in the marketplace if we don't have sufficient resources to do what farmers expect of us."

CWT's current budget does not contain sufficient revenue to fund additional herd retirement rounds. The higher assessment, to be collected starting in July, will bring in the additional money needed over 18 months to continue both the herd retirement program, and the ongoing export assistance program. "We've seen increased growth in milk output recently, with both overall cow numbers, and milk production per cow, reaching significant levels," Kozak said.

Kozak also said that once the new assessment begins, he expects that the level of overall participation in CWT will remain at the 74% level of the nation's milk supply. "Every one of CWT's 49 member cooperatives, along with the hundreds of individual farmers paying into the program, recognizes that the stakes have gotten higher as the extent of the supply/demand imbalance has grown. The more money we are able to collect, the more effective we can be in meeting the goals of our members," he said.

In addition to voting for a higher assessment, CWT's members also modified several other aspects of the program: 1) the regional safeguard levels in the Northeast, Southeast and Midwest were raised to $\frac{3}{4}$ of one percent of each region's annual milk production, up from $\frac{1}{2}$ of one percent; 2) whole milk powder was added to the list of dairy products eligible for export using CWT bonuses. (Additionally, Mexico, a major market for WMP, was added to the list of eligible destinations for that specific product); 3) the target price for cheese under the export assistance program was moved from \$1.40 per pound, to \$1.30. The target butter price remains at \$1.30 per pound. 

Update:

Milk Income Loss Contract Extension (MILCX) Program

The Milk Income Loss Contract Extension Program (MILCX) begins October 1, 2005 and ends September 30, 2007. The re-authorization of the MILCX Program allows the continuation of financial assistance on a monthly basis to dairy operations in connection with production sold in the commercial market when domestic prices fall below a specified level. There are very few changes to the rules of the original program and producers should contact their Farm Services Agency office for details. The following information pertains to the program payments, payment month options, and resource contacts.

Sign-Up Period

The initial sign-up period for the MILCX program began **March 13, 2006 and ends on May 17, 2006.**

- During the initial sign-up period the producer must select the start month for their dairy operation for any month beginning December 2005 through May 2006 in which there was a payment in effect. (This is the "must sign-up" time for any producer who wants to choose a retroactive start date.)
- Signing up after May 17, 2006, producers will not have the option to select a retroactive month for payment for which the payment rate has already been announced.

Extended Phase Sign-Up

Extended sign-ups begin on May 17, 2006 through September 30, 2007. Producers must make their payment start-month selection on or before the 14th of the month before the month for which payment is sought. Producers cannot choose a month that has already begun, has already passed, or when no milk production was produced.

MILCX payments are made on a monthly basis when the Boston Class I milk price falls below \$16.94 per hundredweight (cwt). The payment rate will be 34 percent of the difference between \$13.69 and the federal Class I base price. Payments are issued up to a maximum of 2.4 million pounds of milk produced and marketed by the operation per fiscal year.

More information on the MILCX program is available from local FSA offices or on FSA's Web site at:

<http://www.fsa.usda.gov/pas/publications/facts/html/milc06>



FSA County Offices

Alpine, Inyo, Mono	(702) 782-3661
Butte	(530) 534-0112
Colusa	(530) 458-5131
Contra Costa, Alameda	(925) 672-4949
Fresno	(559) 276-7494
Glenn	(530) 934-4669
Humboldt, Del Norte	(707) 442-6058
Imperial	(760) 352-3531
Kern	(661) 861-4125
Kings	(559) 582-1071
Lassen, Plumas, Sierra	(530) 257-4127
Los Angeles, Orange, San Bernardino	(661) 942-9549
Madera	(559) 674-4628
Mendocino, Lake	(707) 468-9225
Merced, Mariposa	(209) 722-4119
Modoc	(530) 233-4391
Monterey, San Mateo, Santa Cruz	(831) 424-7377
Placer, Nevada, El Dorado	(530) 885-6505
Riverside, San Diego	(760) 347-3675
Sacramento, Amador	(916) 714-1104
San Benito, Santa Clara	(831) 637-4360
San Joaquin, Calaveras	(209) 946-6241
San Luis Obispo	(805) 434-0398
Santa Barbara, Ventura	(805) 928-9269
Shasta, Trinity	530) 246-5253
Siskiyou	(530) 842-6123
Solano, Napa	(707) 678-1931
Sonoma, Marin	(707) 664-8593
Stanislaus, Tuolumne	(209) 491-9320
Sutter, Yuba	(530) 671-0850
Tehama	(530) 527-3013
Tulare	(559) 734-8732
Yolo	(530) 662-3986

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 up 5.5% in February, led by New Mexico's 17.2% growth in milk production (on 22,000 more cows and 140 more pounds per cow). California's estimated production was up 6.6% (on 30,000 more cows and 70 more pounds per cow). Among the western states, Arizona was up 6.0%; New Mexico up 17.2%; and Washington was down -1.4. One of the top 10 states reported a production decrease.

Quarterly: For the fourth quarter of 2005 compared to the third quarter of 2005, U.S. milk cow numbers stayed the same at 9.060 million, production per cow was down 1.0%; the net effect was a 1.1% decrease in milk production to 43.4 billion pounds. USDA projects that for the first quarter of 2006 compared to the fourth quarter of 2005, U.S. milk cow numbers will increase 15,000 cows to 9.075 million cows, production per cow will up 175 pounds per cow; the net effect would be an increase in milk production to 45.1 billion pounds.

Milk Prices

Comparing the fourth quarter of 2005 to the third quarter of 2005, U.S. average milk prices were up \$0.15/cwt. to \$15.13/cwt. USDA projects that for the first quarter of 2006, U.S. average all-milk prices will be \$14.05-14.25/cwt.; Class 4b prices will be \$12.12-12.32/cwt.; and Class 4a prices will be \$11.14-11.44/cwt.

Utility Cow Prices

Comparing the fourth quarter of 2005 to the third quarter of 2005, average U.S. utility cow prices were down \$4.50/cwt. to a national average of \$49.75/cwt. USDA projects that utility cow prices will average \$51-52 in the first quarter of 2006.

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

Hearing - (Continued from Page 1)

the transportation credit system will be reflected in the amendments to the Stab Plans, Order Numbers 47 and 62, respectively, for the Northern California Marketing Area and the Southern California Marketing Area. All changes will be effective April 1, 2006.

The Hearing Determinations, Panel Report, Pool Plan, Stab Plans and more detailed explanation of the Department's decision can be obtained on the CDFA dairy home page at www.cdfa.ca.gov/dairy. From this page, click on [Hearings] and then on [Dairy Hearing Matrix]. To access the Pool Plan and Stab Plans, click on [Dairy Regulations], located in the left hand column of the dairy home page. If you wish to receive a hard copy of the hearing results please contact the Milk Pooling Branch at 916-341-5901 or the Dairy Marketing Branch at 916-341-5988. Should you have any questions or desire further information, please contact Tom Gossard with the Dairy Marketing Branch or Don Shippelhoue with the Milk Pooling Branch at the numbers above. 

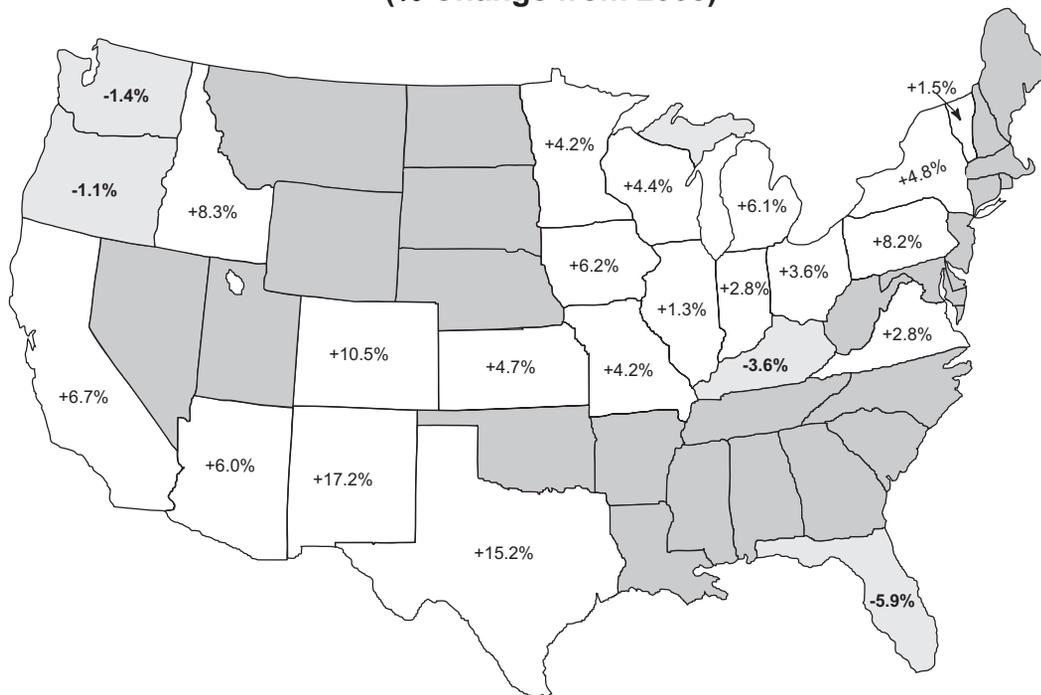
Upcoming June 2006 Hearing

Reminder: CDFA has called a public hearing to be held June 1, 2006, at the California Department of Food and Agriculture Auditorium, 1220 N Street, Sacramento, beginning at 9:00 a.m. The hearing will consider the following issues as proposed by Dairy Institute (DI): changes to the manufacturing cost allowances and f.o.b. California price adjuster in the Class 4a and 4b pricing formulas; changes to the cheese yield employed in the Class 4b formula; and changes to the dry whey manufacturing cost allowances in the Class 4b formula, with eventual removal of the dry whey factor from the 4b formula. The hearing will consider DI's proposed changes to specific components of the current Class 4a and 4b pricing formulas and will also consider any other aspect of the Class 4a and 4b pricing formulas that are raised by alternative proposals. Additionally, because the Class 4a price forms the base of the Class 2 and 3 prices, the hearing will consider adjustments to the Class 2 and 3 pricing formulas.

Alternative Proposals must be received by the Dairy Marketing Branch no later than 4:00 p.m. on April 27, 2006. The Dairy Marketing Branch's office location is the Downtown Plaza, 560 J Street, Suite 150, Sacramento. Alternative proposals may be sent electronically via email to dairy@cdfa.ca.gov, faxed to (916) 341-6697, or mailed to Hearing Officer, c/o CDFA Dairy Marketing Branch, 1220 N Street, Sacramento, CA 95814.

Public Workshop - To be held on May 18, 2006 at the California Department of Food and Agriculture, Auditorium, Sacramento, beginning at 9:00 a.m. If any interested party has questions regarding the call of this hearing or needs assistance in developing language for a proposal, please contact Tom Gossard at (916) 341-5988. 

February Milk Production in the Top 23 States (% Change from 2005)



For the U.S. overall, comparing February 2006 to February 2005:

- U.S. Milk production during February was up 5.5%
- The number of cows on farms was 9.088 million head, up 90,000 head
- Production per cow averaged 1,571 pounds, 70 pounds more than February 2005
- Nineteen of the top twenty-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
<i>Dollars per Hundredweight</i>										
January	15.45	15.33	13.82	13.37	12.19	13.14	12.82	13.82	12.98	13.36
February	15.81	15.55	13.61	13.72	12.47	13.50	12.96	13.93	13.06	13.69
March	14.37	14.86	13.16	12.99	12.24	12.70	13.08	13.16	12.77	12.92
April	13.77	14.68	13.27	13.16	12.50	13.03	13.07	12.95	12.91	13.12
May	13.44	13.96	13.23	13.02	12.76	12.99	13.35	12.93	13.04	13.02
June	13.70	14.04	13.45	13.41	13.09	13.02	13.63	13.21	13.32	13.22
July	13.66	14.03	13.03	13.73	12.83	13.40	13.41	13.30	13.01	13.53
August	14.16	14.51	13.00	13.69	12.82	13.46	13.48	13.39	13.03	13.57
September	14.33	15.94	13.44	14.03	13.11	13.73	13.56	13.78	13.34	13.91
October	14.22	16.40	13.43	14.13	13.08	13.69	13.38	14.00	13.29	13.96
November	15.25	16.39	13.91	14.34	13.43	13.84	14.17	13.89	13.77	14.10
December	15.17	16.69	13.71	13.98	13.26	13.66	13.96	13.52	13.59	13.85

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

Hundredweight Pool Prices

Milk Mailbox Prices

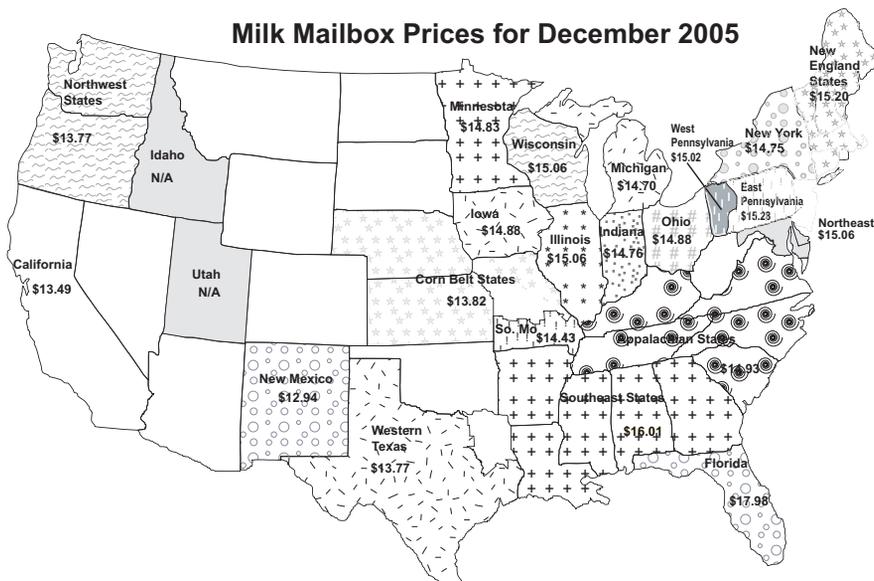
Milk Mailbox Prices in Dollars per Hundredweight

Month	Quota	Overbase
August '04	\$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
March	\$14.98	\$13.28
April	\$15.06	\$13.36
May	\$14.60	\$12.90
June	\$14.56	\$12.86
July	\$14.99	\$13.29
August	\$14.65	\$12.95
September	\$15.26	\$13.56
October	\$15.07	\$13.37
November	\$14.35	\$12.65
December	\$14.41	\$12.71
January '06	\$13.91	\$12.21
February	\$12.75	\$11.05

	June	July	August	September	October	November	December
California ¹	\$13.43	\$13.53	\$13.23	\$14.09	\$14.10	\$13.42	\$13.49
USDA ²	\$14.13	\$14.62	\$14.65	\$15.16	\$15.38	\$15.09	\$14.73

¹ California mailbox price calculated by CDFA.

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



In December 2005, mailbox prices for selected reporting areas in Federal milk orders averaged \$14.73 per cwt., \$0.36 less than the figure for the previous month. The component tests of producer milk in December 2005 were: butterfat, 3.84%; protein, 3.14%; and other solids 5.69%. On an individual reporting area basis, mailbox prices decreased in all reporting areas, ranging from \$17.98 in Florida to \$12.94 in New Mexico. In December 2004, the Federal milk order all-area average mailbox price was \$16.38, \$1.65 higher.

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

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

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California Department of Food and Agriculture

