

California Dairy Review

A publication serving the California dairy industry for over 10 years

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California Alfalfa Hay Update

*by Seth Hoyt, Senior Economist
NASS California Field Office*

July marked the first survey by the National Agricultural Statistics Service to estimate alfalfa yields in California for the 2006 season. The result was 6.7 tons per acre, which is the lowest yield since the El Nino year of 1998. The next glimpse at alfalfa hay yields will occur in early October. However, feedback from the field is that yields have been disappointing.

A Year to Forget

The combination of record hot weather in July, combined with worm problems in the central and northern valley and scattered rain and high winds in the southern desert, have made it a year that alfalfa hay growers would like to forget. Adding to hay grower challenges for this year have been the lower quality alfalfa hay in the spring due to rain in central and northern California and the financial struggles of dairy producers. With higher costs to produce alfalfa hay compared to a few years ago, it is no wonder that growers are being swayed to other crops that have more profit potential.



While alfalfa hay acres in California were estimated to be 6 percent higher than a year ago, the jury is still out on alfalfa hay production for 2006. On August 1, production was estimated to be 3 percent higher than a year ago but that might not hold.

Continued on page 3



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

Production, Prices, Quota Transfers, Alfalfa

August Milk Production

Milk production in California for August 2006 totaled 3.29 billion pounds, up 4.4 percent from August 2005. USDA's estimate for U.S. milk production for August 2006 in the 23 major dairy states is 13.9 billion pounds, up 1.6 percent from August 2005. Production per cow in the 23 major states averaged 1,680 pounds for August, nine pounds more than August 2005. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	August	Sept	Oct
1	\$12.17	\$12.76	\$13.71
2	\$10.69	\$10.69	N/A
3	\$10.53	\$10.53	N/A
4a	\$10.50	N/A	N/A
4b	\$10.80	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	August	Sept	Oct
Phoenix, Arizona	\$13.32	\$13.20	N/A
Southern California	\$12.30	\$12.89	\$13.85
Portland, Oregon	\$12.87	\$12.75	N/A
Northern California	\$12.03	\$12.62	\$13.57
Boston (Northeast)	\$14.22	\$14.10	N/A

Quota Transfer Summary

For August 2006, five dairy producers transferred 9,501 pounds of SNF quota. August quota sales averaged \$503 per pound of SNF (without cows), average ratio of 2.46. For September 2006, one dairy producer transferred 456 pounds of SNF quota. September quota sales averaged \$515 per pound of SNF (without cows), average ratio of 2.30.

Alfalfa Update: September

Northern California: Premium and Supreme alfalfa were steady in a light test with light supplies. Fair and Good alfalfa was steady with moderate demand and moderate supplies. Retail and Stable hay was steady with moderate demand and light to moderate supplies. Early September brought frost in the northern areas. It looks like the 5th cutting tonnage will be reduced.

Southern California: Supreme and Premium alfalfa was not well tested with good demand and very light supplies. Fair and Good alfalfa was steady with moderate demand and light to moderate supplies. Retail and stable hay was steady with moderate demand and supplies. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	8/25	9/1	9/8	9/15
Petaluma	N/A	N/A	\$175	N/A
North Valley ¹	\$165-185	\$180-185	\$170-190	\$175-185
South Valley ²	\$180-195	\$175-195	\$175	\$185-190
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

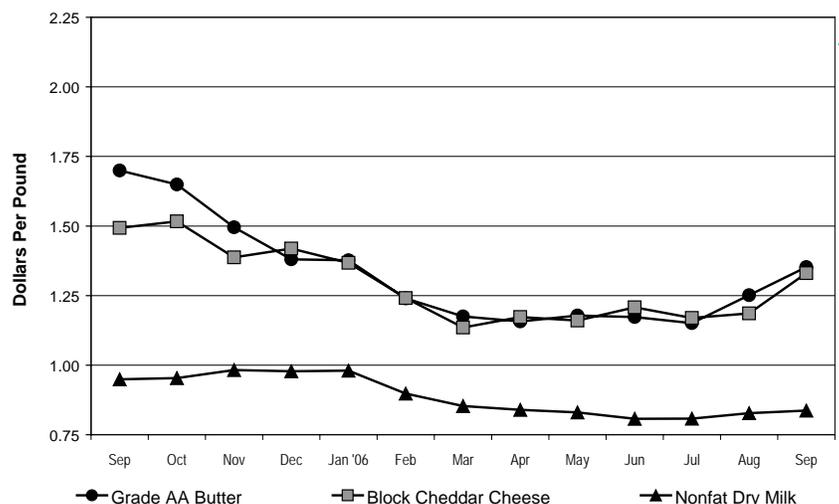
	August	September
Tons Sold ¹	274,470	207,837
Tons Delivered ²	103,418	69,735

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



Wide Price Spread

Market News is reporting a firm undertone on low-to-middle quality alfalfa hay prices as supplies this fall could be below earlier predictions. The price spread between the top and bottom of the market is still wide. In the Tulare, Hanford, Visalia, and Bakersfield delivered markets, Supreme quality alfalfa hay on September 1 was selling for \$175.00 to \$195.00 per ton delivered to dairies. Fair quality dry cow alfalfa hay was delivering to dairies in the same areas at \$105.00 to \$122.00 per ton.

New Price Leader

An interesting side note: California has always led the nation in alfalfa hay prices but not this year. Drought and tight supplies of milk cow quality alfalfa hay have pushed the markets in New Mexico and Texas above California. In the Texas Panhandle on September 1, Premium and Supreme alfalfa hay was trading from \$185.00 to \$235.00 per ton delivered, according to Market News. In Southeastern New Mexico, Premium quality small bales of alfalfa hay in late August traded from \$170.00 to \$185.00 per ton, f.o.b. stack.



Milk Production Recovers

The July heat wave in California heavily impacted the dairy industry. While hay consumption and milk production were down significantly for a two week period, they bounced back in August.

In fact, sources say that milk production was very strong in August. After record high heat in July, temperatures in August were below normal (no days of 100 degrees or more in the Sacramento area). After making a strong upward move in August, cheese and butter prices began to fall in early September.

Price Hikes Questionable

While predictions are that overbase milk prices in August could be higher, they may still be below the cost of production. The hope of further upward movement in milk prices in the coming fall months may be questionable due to the possibility of strong milk production and uncertainty in the cheese and butter markets. There is talk in the industry of a CWT dairy herd retirement program the first half of next year, however, nothing has been announced to date.



Market, News, Weather (DTN) On Dairy Marketing Website

DTN Dairy is a source of comprehensive dairy-specific market, weather, and news information. This site provides a complete package of market analysis and commentary, real-time quotes, milk production information, highly localized weather and industry news 24 hours a day. DTN also includes exclusive updates from the Chicago Mercantile Exchange dairy traders daily. It also provides easy access to local and regional pricing information for distillers grain, soybean meal and cottonseed, as well as a complete database of current bid prices in relation to the producer's operation. The site also provides advice and analysis on current and historic fuel and fertilizer data.

The Dairy Marketing Branch website at www.cdfa.ca.gov/dairy has a link featuring "Markets, Weather, and News" where you can access the DTN information site. Simply go to the left side of the branch website home page and click on "Markets, Weather, and News (DTN)."



Canada Confirms Eighth Case of BSE

Latest Case

Canadian officials announced the eighth case of bovine spongiform encephalopathy was found in a mature beef cow from Alberta. Preliminary information indicates the cow is between eight to 10 years of age. Canadian Food Inspection Agency (CFIA) officials emphasize that no part of the animal entered the human-food or animal-food chain and that the infection likely occurred either before the feed ban's introduction or during its early implementation.

Contaminated Feed Cause of Last BSE Cow

CFIA officials concluded their investigation of a 50-month-old dairy cow found to have BSE last month. CFIA investigators say the most likely route of transmission was from pelleted heifer feed purchased from a feed mill. Despite having protocols in place to comply with the 1997 feed ban, the feed mill apparently did not clean equipment properly after making pelleted feed for non-ruminant animals that contained prohibited material. The CFIA has launched an enforcement investigation of that feed mill.

Last month, the U.S. suspended plans to increase imports of beef and cattle from Canada over concerns about that 50-month-old dairy cow found to have BSE last month. At issue is a ban on using cattle remains in cattle feed, the primary firewall against the spread of mad cow disease. The only known way for cattle to get the disease is by eating feed containing diseased cattle tissue, a practice largely outlawed in Canada and the United States in 1997. 

A Shortened-Day, Shortened-Dry Period May Work Well Together

A study was presented earlier this month at the annual meeting of the American Dairy Science Association.

The research study showed that cows exposed to less light during a traditional 60-day dry period gave more milk during their next lactation. Now, that same benefit extends to cows given a shorter dry period. New research shows that cows exposed to only eight hours of light per day during a 42-day dry period gave about 7 pounds more milk per cow per day through the first 120 days in milk, than cows exposed to 16 hours of light per day during a 42-day dry period. 

Organic Pastures Raw Milk Recall Announced by CDFA

Consumers urged to dispose of product due to suspected bacterial contamination

Raw milk produced by Organic Pastures of Fresno County is the subject of a statewide recall and quarantine order announced by California State Veterinarian Dr. Richard Breitmeyer. Under the recall, all Organic Pastures whole and skim raw milk is to be pulled immediately from retail shelves and consumers are strongly urged to dispose of any product remaining in their refrigerators. Until further notice, Organic Pastures may not produce raw milk for the retail market. The order also affects Organic Pastures raw cream, colostrum, butter, buttermilk, and whey.

The quarantine order came following a report that raw milk caused bacterial illness in a 10-year old girl in San Bernardino County. An investigation by the California Department of Health Services detected two additional bacterial illnesses in children consuming raw milk, one a 7-year old Riverside County boy, and the other an 8-year old San Diego County girl.

Doctors treating the children have identified the bacteria as E. coli 0157:H7. While laboratory samples of Organic Pastures raw milk have not detected E. coli 0157:H7 contamination, epidemiologic data collected by the Department of Health Services points to a link with Organic Pastures raw milk. Additional laboratory samples of Organic Pastures raw milk are pending. It is not believed there is any connection with the recent E. coli 0157:H7 contamination in fresh spinach. Typing of lab samples from one of the children shows a different strain than the one found in the spinach outbreak. Of the three afflicted children, one has been hospitalized and released. The other two remain hospitalized.

The great majority of milk consumed in California is pasteurized. Raw milk is not. Pasteurization eliminates the risk of bacterial illness.

E. coli infection often causes abdominal cramps and bloody diarrhea. There is usually little or no fever, and the illness typically resolves itself in five to ten days. A small percentage of infected individuals also develop hemolytic uremic syndrome, a condition in which red blood cells are destroyed and kidney failure may occur. Those most at risk for serious complications of this food-borne illness include young children, the elderly and those with compromised immune systems. Consumers should seek immediate medical care if they develop these symptoms. 

Blue Ribbon Cheese Company Plans State-of-the-Art Cheese Plant In Central Valley

Blue Ribbon Cheese Company is working with county and state agencies to receive appropriate approvals/permitting for construction of a new state-of-the-art cheese manufacturing plant, planned for the San Joaquin Valley within 60 miles of Fresno. The company anticipates breaking ground in early 2007 and producing cheese by early 2009.

Once built, the facility will take in 6.8 millions pounds of milk daily to produce 680,000 pounds of cheese per day, making it the one of the largest cheese plants in California. It is anticipated that Blue Ribbon Cheese Company will have a significant positive impact on the community and is expected to provide nearly 250 jobs. The initial investment to build the plant is projected at more than \$225 million.

At this point it is planned that one-half of Blue Ribbon Cheese Company's production will be devoted to mozzarella cheese while the other half will be from the Cheddar family—mild to extra sharp. Additionally, the manufacturing plant will focus on producing American Style, Italian Style, chunks and cuts, shreds/blends and proteins all under one roof.

Blue Ribbon Cheese Company is owned by American Dairy Parks, LLC. American Dairy Parks was created to develop sustainable, vertically integrated farming operations that employ bio-energy solutions and cutting-edge environmental practices. The company maintains a commitment to family farms and the highest quality products. 

Cornell Plans New Diagnostic Lab

A new \$80 million animal diagnostic center at Cornell University's College of Veterinary Medicine will be a biosafety level-3 lab that can conduct testing and research on infectious diseases. The state of New York kicked in \$50 million for the project; Cornell will supply \$24 million, but still needs to raise \$6 million. Construction is expected to begin in early 2008. 

New Zealand Herald Reports . . . They Call Me Bruce, the Dairy Robot

A rather mundane-looking robot nicknamed Bruce is at the center of attempts to spark something of a value-added revolution in the dairy sector. Bruce is an on-farm fractionation device designed to separate out high-value proteins and fats from raw whole milk for use in the nutraceutical industry, which makes foods that can act as medicines. His developers believe robots have the long-term potential to add tens of millions of dollars a year to dairy sector export earnings.

Bruce - created by dairy research organisation Dexcel and technology company Sensortec, with help from Waikato University - is based at Dexcel's Greenfields project in Hamilton. The prototype device - which can mine the output of 14 cows a day as part of the milking process - is believed to be a world first for use at farm level. Developers say it could be adapted to handle production from a herd of 1000 cows or more. While current global demand for such extracts is currently met by factory-based systems, it is thought on-farm operations would get product of a higher quality and value.

Also, taking extracts on-farm means getting more per litre of the useful proteins and fats which can degrade over time and during factory processing, said Dexcel scientist Jenny Jago.

Bruce is currently proven for extracting lactoferrin and lactoperoxidase, two ingredients which are believed to have anti-carcinogenic properties. Lactoperoxidase is also thought to be anti-bacterial. Sensortec chief executive Rod Claycomb said the amount of lactoferrin extracted from one milking was currently worth about 10 per cent more than the actual milk. Other extracts could also fetch more, while the milk is still able to be used for other dairy products.

The developers acknowledge on-farm systems could depress wholesale extract prices but feel on-farm produce would get a premium. Patents for the on-farm technology have been filed. Claycomb estimated equipment for a 600-plus cow herd could cost in the range of \$100,000-\$200,000. "We think the return on investment at a farm level would be within the first two or three years."

But Claycomb said developers still wanted to prove the machine could extract other substances before manufacturing it commercially, so it could be 5-10 years before on-farm robots were marketed widely to farmers. 

CWT Accepts Export Assistance Bids

Cooperatives Working Together (CWT) announced that it accepted export assistance bids for the sale of cheese and anhydrous milkfat.

The cheese bids are from Dairy Farmers of America of Kansas City, MO: 95 metric tons (209,000 pounds) of Cheddar to the Netherlands; 54 metric tons (118,800 lbs.) of White Cheddar and Monterey Jack to Japan; 37 metric tons (81,400 lbs.) of Cheddar to Japan; two metric tons (4,400 lbs.) of Mozzarella to Japan; and 169.5 metric tons (371,900 lbs.) of Cheddar cheese to South Korea. Another cheese bid was from Select Milk Producers of Artesia, NM, for the export of 20 metric tons (44,000 lbs.) of Mozzarella to Japan. In addition, a bid was accepted from Dairy Farmers of America, for 17 metric tons (37,400 lbs.) of anhydrous milkfat to Mexico.

CWT will pay an export bonus to the bidders, once completion of the cheese and milkfat shipments is verified. These accepted bids increase CWT's year to date cheese exports to 4,851 metric tons (10.7 million lbs.), and its YTD anhydrous milkfat exports are 1,888 metric tons (4.2 million lbs). In addition, CWT's YTD butter exports are 5,884 metric tons (13 million lbs.), and its YTD whole milk powder exports are 1,924 metric tons (4.23 million lbs.). The milk equivalent volume of CWT's exports is 510 million pounds in 2006. CWT has exported 600 million pounds, milk equivalent, since the program started in 2003.

Previous shipments facilitated by CWT's export assistance program have gone to Algeria, Barbados, Denmark, the Dominican Republic, Egypt, El Salvador, Germany, Guatemala, Honduras, Hong Kong, India, Indonesia, Israel, Japan, Jordan, Kuwait, Lebanon, Mexico, Morocco, the Netherlands, Nicaragua, Oman, Qatar, Panama, Romania, Russia, Saudi Arabia, Singapore, South Korea, Taiwan, Trinidad, Tunisia, Turkey, the United Arab Emirates, and Vietnam. 

Class 1 Hearing Date Reminders

Hearing Date: December 5, 2006

Hearing Place: Secretary of State Auditorium,
1500 11th Street, Sacramento, 9:00 a.m.

Alternative Proposals: due no later than 4:00 p.m.
on Tuesday, November 14, 2006

Workshop: Tuesday, November 28, 2006 at the
California Department of Food and Agriculture
Auditorium, 1220 N Street, Sacramento 9:00 a.m.

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2005, USDA estimates that overall milk production across the U.S. was up 1.5% in August, led by Colorado's 7.7% growth in milk production (on 7,000 more cows and 20 more pounds per cow). California's estimated production was up 4.1% (on 9,000 more cows and 65 more pounds per cow). Among the western states, Arizona was up 0.4%; New Mexico up 6.6%; and Washington was down -4.1%. Four of the top 10 states reported a production decrease.

Quarterly: For the second quarter of 2006 compared to the first quarter of 2006, U.S. milk cow numbers increased to 9.135 million, production per cow was up 2.5%; the net effect was a 2.9% increase in milk production to 46.9 billion pounds. USDA projects that for the third quarter of 2006 compared to the second quarter of 2006, U.S. milk cow numbers will decrease 5,000 cows to 9.130 million cows, production per cow will be down 230 pounds per cow; the net effect would be a decrease in milk production to 44.7 billion pounds.

Milk Prices

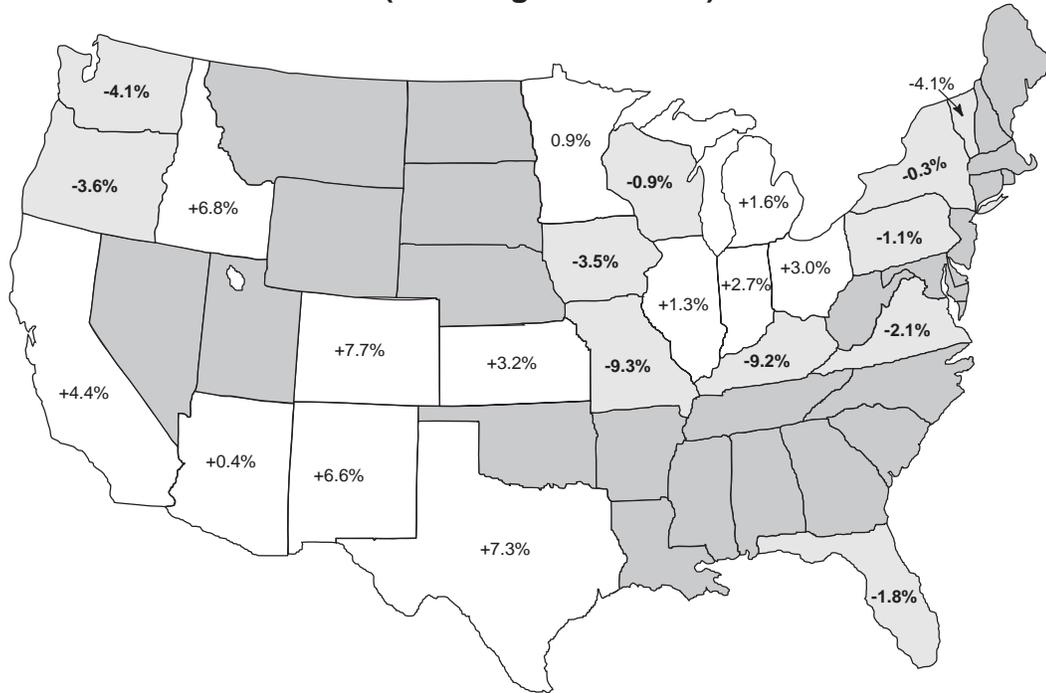
Comparing the second quarter of 2006 to the first quarter of 2006, U.S. average milk prices were down to \$12.00/cwt. USDA projects that for the third quarter of 2006, U.S. average all-milk prices will be \$11.95-12.15/cwt.; Class 4b prices will be \$11.32-11.52/cwt; and Class 4a prices will be \$10.52-10.82/cwt.

Utility Cow Prices

Comparing the second quarter of 2006 to the first quarter of 2006, average U.S. utility cow prices were down \$1.10/cwt. to a national average of \$47.79/cwt. USDA projects that utility cow prices will average \$48-49 in the third quarter of 2006.

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

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



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

- U.S. Milk production during August was up 1.5%
- The number of cows on farms was 9.125 million head, up 65,000 head
- Production per cow averaged 1,658 pounds, 15 pounds more than August 2005
- Nine of the top twenty-three milk producing states showed an 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		12.32		11.72		11.76		12.01	
Total Costs & Allowances*	16.93		13.82		13.24		13.07		13.52	
2nd Quarter										
Total Costs	14.22		12.36		12.47		11.99		12.43	
Total Costs & Allowances*	15.76		13.88		14.00		13.31		13.94	
3rd Quarter										
Total Costs										
Total Costs & Allowances*										
4th Quarter										
Total Costs										
Total Costs & Allowances*										

* Includes an allowance for management and a return on investment

Hundredweight Pool Prices

Month	Quota	Overbase
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
March	\$12.19	\$10.49
April	\$11.90	\$10.20
May	\$11.90	\$10.20
June	\$11.90	\$10.20
July	\$11.71	\$10.01
August	\$12.13	\$10.43

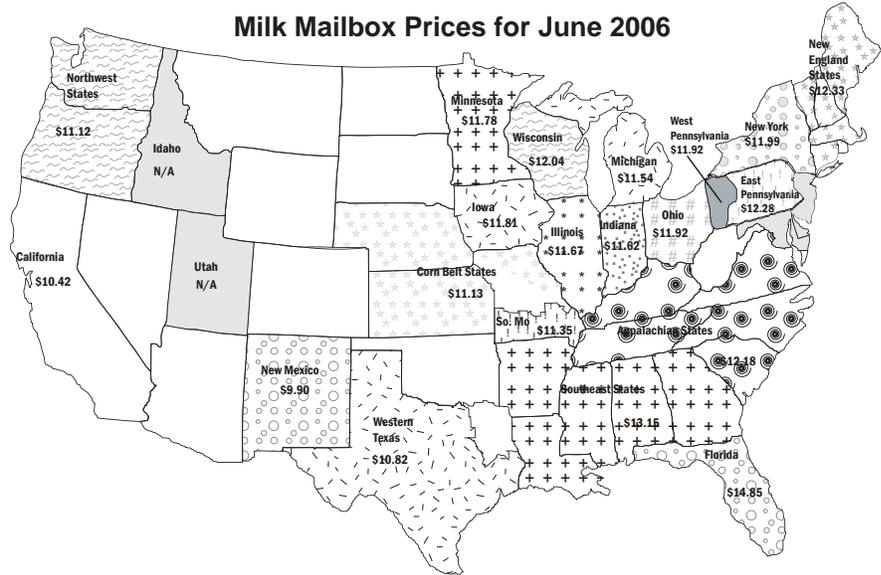
Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

	December	January	February	March	April	May	June
California ¹	\$13.49	\$12.87	\$11.52	\$11.05	\$10.64	\$10.45	\$10.42
USDA ²	\$15.09	\$14.73	\$14.43	\$13.57	\$12.64	\$11.92	\$11.74

¹ California mailbox price calculated by CDFA.

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



In June 2006, mailbox prices for selected reporting areas in Federal milk orders averaged \$11.74 per cwt., \$0.06 less than the figure for the previous month. The component tests of producer milk in June 2006 were: butterfat, 3.58%; protein, 2.97%; and other solids 5.71%. On an individual reporting area basis, mailbox prices decreased in all reporting areas except six, and ranged from \$14.85 in Florida to \$9.90 in New Mexico. In June 2005, the Federal milk order all-area average mailbox price was \$14.13, \$2.39 higher.

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