

California

Dairy Review

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Department Announces Hearing Decision

On October 10 and 11, 2007, the Department held a public hearing to consider amendments to the Northern and Southern California Stabilization and Marketing Plans for Market Milk (Stab Plans) and the Pooling Plan for Market Milk (Pool Plan). The proposed amendments to the Class 4a and 4b pricing formulas would also have a pass-through effect on the Class 2 and 3 pricing formulas.

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

- Increase the f.o.b. California price adjuster for Grade AA butter from \$0.1680 per pound to \$0.0309 per pound,
- Increase the manufacturing cost allowance for Cheddar cheese from \$0.1780 per pound to \$0.1988 per pound,
- Increase the manufacturing cost allowance for nonfat dry milk from \$0.1600 per pound to \$0.1698 per pound, and
- Replace the dry whey factor with a fixed whey factor of \$0.25 per cwt in the Commodity Reference Price of the Class 4b formula.

The Department has additionally decided:

- not to change the f.o.b. California price adjuster for Cheddar cheese.
- not to change the manufacturing cost allowance for butter,
- not to adopt a credit for plant expansion,
- not to adopt a dry whey credit, and
- not to adopt different manufacturing cost allowances in the same class price based on milk volumes processed.

The f.o.b. price adjusters were changed consistent with prior Department decisions to base them on the two-year simple average for most recent data available.

The adjustments to the Plans will take effect for milk delivered to processing plants on or after December 1, 2007. Copies of the Hearing Determinations and a more detailed explanation of the Department's decision may be obtained from the Dairy Marketing Branch website at www.cdfa.ca.gov/dairy.



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

Production, Prices, Quota Transfers, Alfalfa

October Milk Production

Milk production in California for October 2007 totaled 3.41 billion pounds, up 5.9 percent from October 2006. USDA's estimate for U.S. milk production for October 2007 in the 23 major dairy states is 14.2 billion pounds, up 4.1 percent from October 2006. Production per cow in the 23 major states averaged 1,699 pounds for October, 47 pounds above October 2006. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	Oct.	Nov.	Dec.
1	\$23.68	\$23.30	\$23.12
2	\$22.22	\$22.22	N/A
3	\$22.06	\$22.06	N/A
4a	\$21.32	N/A	N/A
4b	\$17.65	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Oct.	Nov.	Dec.
Phoenix, Arizona	\$23.94	\$23.80	\$
Southern California	\$23.81	\$23.43	\$23.26
Portland, Oregon	\$23.49	\$23.35	\$2
Northern California	\$23.54	\$23.16	\$22.99
Boston (Northeast)	\$24.84	\$24.70	\$2

Quota Transfer Summary

For October 2007, five dairy producers transferred 6,794 pounds of SNF quota. September quota sales averaged \$497 per pound of SNF (without cows), average ratio of 2.47. For November 2007, two dairy producers transferred 345 pounds of SNF quota. November quota sales averaged \$477 per pound of SNF (without cows), average ratio of 2.53. ☀

Alfalfa Update: November

Northern California: Premium and Supreme alfalfa were steady with very light supplies, good demand. Fair and Good alfalfa was steady with good demand and light supplies. Retail and Stable hay was steady with good demand and supplies light. Most producers have finished their last cutting for the year. Buyers are still working on buy and complete their hay needs for the year.

Southern California: Supreme and Premium alfalfa was steady to firm, but supplies very light with good demand. Fair and good alfalfa was steady with good demand and light supplies. Retail and stable hay was steady with good demand and light supplies. Instances of \$10.00 and higher as hay is coming out of barns now. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	10/26	11/2	11/9	11/16
Petaluma	\$215-230	\$220	\$220	\$245
North Valley ¹	\$215-230	\$220-235	\$215-230	N/A
South Valley ²	\$220-245	\$210-243	\$225-245	\$220-248
Chino Valley	N/A	N/A	N/A	\$225

¹North Valley is Escalon, Modesto and Turlock areas.

²South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

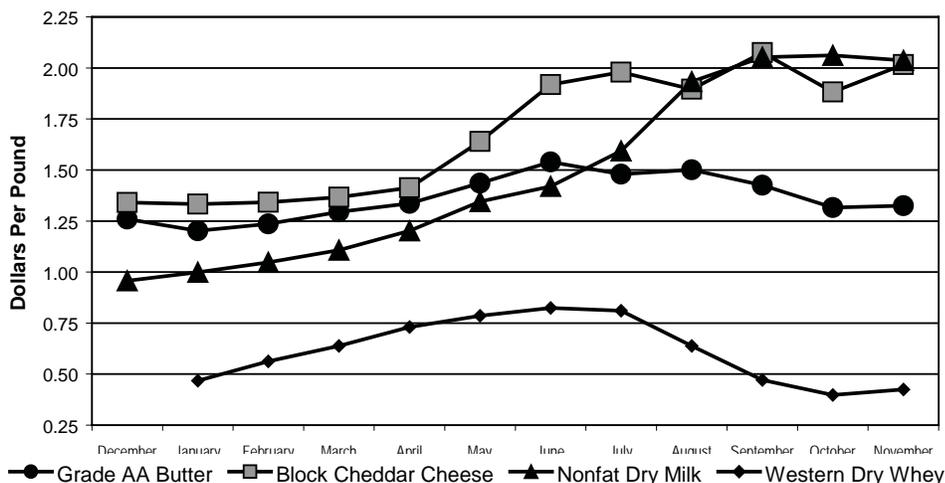
	October	November
Tons Sold ¹	134,504	110,671
Tons Delivered ²	81,430	43,760

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 Whey Mostly Prices Used in the Calculation of California Class 1 Milk Prices



Dairy Council Appointments

CDFA recently conducted nomination and preference voting procedures in order to receive industry input for filling four of the twelve producer positions and four of the twelve handler positions on the Dairy Council of California. Based on these procedures, CDFA has appointed the following individuals to serve new terms on the Dairy Council.

Producer Members

Name	Location / District	Status	Term Ends
Brad Scott	San Jacinto – <i>Southern California</i>	Reappointed	10-31-10
Jim Quist	Fresno – <i>Southern San Joaquin</i>	Reappointed	10-31-10
Andy Rynsburger	Strathmore – <i>Southern San Joaquin</i>	Reappointed	10-31-10
Chris Sawyer	Waterford – <i>Northern San Joaquin</i>	Reappointed	10-31-10

Handler Members

Name	Business	Status	Term Ends
Richard Clauss	Hilmar Cheese Company	Reappointed	10-31-10
Jeff Foster	Foster Farms Dairy	Reappointed	10-31-10
Ken Mercer	Chase Brothers Dairy	Reappointed	10-31-10
Mike Newell	HP Hood LLC	Reappointed	10-31-10

CDFA appreciates all those who participated in the nomination/preference voting process. If you have questions about the Dairy Council of California, please call Peggy Biltz, CEO of the Dairy Council, at (916) 263-3560 or Dennis Manderfield of the CDFA Marketing Branch at (916) 341-6005.

Chipotle Mexican Grill is Nation's First Chain to Go Entirely rBGH-Free

Before the end 2007, Chipotle Mexican Grill will no longer serve any cheese made with milk from cows treated with the synthetic hormone rBGH (recombinant bovine growth hormone). That will make Chipotle the first national restaurant chain to eliminate rBGH entirely from items on its menu.

Chipotle began serving 100% rBGH-free sour cream last year, and has begun shifting to rBGH-free cheese over the last several months, a move it will complete by year-end, making 100% of its cheese rBGH-free. It also serves rBGH-free, organic milk at some of its locations.

rBGH, also called recombinant bovine somatotropin or rBST, is a synthetic hormone that stimulates milk production in dairy cattle. Use of rBGH has been banned in a number of countries, including 25 European nations, Canada, Australia, New Zealand, and Japan. Since its approval by the U.S. Food and Drug Administration in 1993, the use of the hormone

in this country has been controversial for many reasons, including potential health concerns for humans and the animals treated with the hormone.

"We want to change the way the world thinks about and eats fast food," said Chipotle Founder, Chairman and CEO, Steve Ells. "Serving our customers cheese and sour cream without rBGH is the responsible thing to do. It's better for our customers, better for the animals, and better for the food system."

According to the results of a recent survey conducted by Opinion Research Corporation, 81 percent of respondents would prefer to buy dairy products derived from cows that do not receive synthetic hormones, assuming little or no pricing difference. 

New Coliform Bacteria Standard for California Raw Milk Producers

The recent passing of AB 1735 establishes a new state standard for coliform bacteria in milk that is sold raw to consumers. Effective January 1, 2008, California's two raw milk bottlers may have a count of no more than 10 coliform bacteria per milliliter in their final product, the same limit as pasteurized milk.

Most coliforms originate from the intestines of warm-blooded animals-including people-and are normally shed in the feces of healthy livestock, including dairy cattle. Some types of coliforms can cause serious illness in people: especially young children, the elderly, and those with weakened immune systems. The detection of coliforms in milk does not necessarily mean that a disease-causing, or pathogenic, form of the bacteria is present. However, elevated coliform counts in milk and dairy products suggest unsanitary conditions exist during production, processing or packaging. Since most food-borne pathogens originate from fecal contamination, it is essential that strict sanitary practices be followed to minimize the risk to people consuming raw milk products.

While CDFA does not currently conduct regulatory tests for coliform counts in packaged raw milk-and won't until January 1, 2008-routine farm inspection samples of bulk milk collected during the last year show the two dairies would have met the new coliform standards 75 percent of the time. CDFA inspectors routinely help facilities with identifying problem areas of sanitation and cleanliness that might affect their ability to meet standards, and will be available to assist both raw milk bottlers in the state.

Some of the methods raw milk dairies may employ to reduce bacteria counts include the following:

- Properly managing manure, bedding, housing and pastures to prevent cows from arriving overly dirty at the milking parlor.
- Keeping cow udders and teats clean and dry
- Ensuring the hands of milkers are clean and dry
- Using industry best practices for cleanliness and sanitation to maintain equipment
- Providing sufficient refrigeration to ensure milk is properly stored and cooled at 45 degrees or below

All of these procedures are well-recognized and proven means to help control the bacterial quality of milk, including coliforms. Without the added protective step of pasteurization, cleanliness and sanitation are of increased importance to producing raw milk of safe and suitable quality for the consumer.

For more information on this issue, please click on: http://www.cdfa.ca.gov/AHFSS/Milk_and_Dairy_Food_Safety/pdfs/ColiformStandardMilkConsumedRaw.pdf



375 Pounds of Illegal "Bathtub" Cheese Seized - Results In Felony Charges

A Southern California couple is facing criminal charges after allegedly being caught with 375 pounds of illegal soft cheese (often referred to as "bathtub" cheese) at an open-air market in San Bernardino County. These products are known to cause serious illness such as listeria, salmonella or E. coli. Floribel Hernandez Cuenca, 29, and Manuel Martin Sanchez Garrido, 44, of Montclair, were arrested for selling a variety of unlicensed cheeses to the public. Ms. Cuenca was also arrested on felony cheese manufacturing charges.

CDFA dairy foods investigators joined a team consisting of the Chino and Ontario Police Departments, the San Bernardino County Sheriff's Department and the Chino Code Enforcement Department. The arrests occurred on Saturday, October 20th, in a parking lot at a custom meat facility in Chino where an open-air market was being held. The investigation was prompted by specific complaints received about the venue. The 375 pounds of seized illegal cheese included panela, queso fresco and queso oxaca varieties.

"Illegally produced cheese is a serious threat to public health," said CDFA Secretary A.G. Kawamura, "we urge consumers to protect their families and avoid the purchase of illegally produced products. Traditional cheeses, as well as meat products, can be purchased at reputable retailers and specialty stores – these products are licensed and wholesome." 

Herd retirement in 2008 possible

A fifth herd-retirement program (under the auspices of the Cooperatives Working Together program) could take place in 2008. Jim Tillison, chief operating officer of CWT, told a town-hall forum Tuesday that there will be 1.8 billion pounds of excess milk production in 2008 and 1.5 billion pounds in 2009, based on NMPF projections. One way to deal with that, he said, is to continue implementing the herd-retirement and export-assistance provisions of CWT. He later told Dairy Herd Management that a herd-retirement program in 2008 is likely. No official announcement has been made as to when in 2008 this may occur. 

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 3.5% in October, led by Arizona's 13.0% growth in milk production (on 9,000 more cows and 130 more pounds per cow). USDA reports that California's milk production was up 5.8% on 48,000 more cows and 55 more pounds per cow compared to October 2006. Among the western states, Arizona was up 13.0%; New Mexico up 1.5%; and Washington was up 3.5%. None of the top 10 states reported a production decrease.

Quarterly: For the third quarter of 2007 compared to the second quarter of 2007, U.S. milk cow numbers increased to 9.157 million, production per cow decreased 150 pounds per cow; the net effect was decreased milk production to 46.1 billion pounds. USDA projects that for the fourth quarter of 2007 compared to the third quarter of 2007, U.S. milk cow numbers will increase to 9.175 million cows, production per cow will be down 46 pounds per cow; the net effect would be decreased milk production to 45.8 billion pounds.

Milk Prices

Comparing the third quarter of 2007 to the second quarter of 2007, U.S. average milk prices were up to \$21.67/cwt. USDA projects that for the fourth quarter of 2007, U.S. average all-milk prices will be \$20.95-21.25/cwt.; Class 4b prices will be \$18.56-18.86/cwt; and Class 4a prices will be \$21.08-21.58/cwt.

Utility Cow Prices

Comparing the third quarter of 2007 to the second quarter of 2007, average U.S. utility cow prices were up \$0.10/cwt. to a national average of \$54.07/cwt. USDA projects that utility cow prices will average \$48-50 in the fourth quarter of 2007.

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

New Dairy Information Website Launched

Dairy specialists at land-grant universities across the U.S. have launched a new website filled with dairy information and educational tools. Check it out at: http://www.extension.org/dairy_cattle 

U.S. Dairy Export Growth Continues

Excerpts from Dairy Herd Magazine

International markets continue to provide profitable outlets for U.S. dairy producers, as evidenced by strong export growth during the first six months of 2007. From January through July, U.S. dairy exports increased 32 percent from a year ago. This represents more than 11 percent of U.S. milk production (on a total solids basis), up from 9.3 percent for 2006. Analysts predict exports could top \$2.4 billion this year if the trend continues.

Dairy producers, through their checkoff investment in the U.S. Dairy Export Council® (USDEC), help find a home for new milk production by selling to dairy customers around the world. Currently, more than 9 percent of annual domestic milk solids production is exported — nearly double the export volume from just five years ago. This is equivalent to more than five months of milk solids production in California and nearly nine months of milk solids production in Wisconsin.

"Developing new international markets has been critical for the U.S. dairy industry, as it comes off a period of dramatic expansion in supply," said Tom Suber, president of USDEC. "Without outlets abroad, excess milk solids would be a burden on the domestic market."

Through USDEC, the checkoff partners with the U.S. Department of Agriculture and about 60 cooperative, processing and manufacturing partners to develop and expand international markets for U.S. dairy products and ingredients. Exports have increased from \$982 million in 1995 to \$1.89 billion in 2006, of which 98 percent are commercial sales.

In 2006, 47 percent of U.S.-produced whey proteins and 43 percent of U.S.-produced milk powder was exported – the United States now sells nearly as much whey protein and milk powder outside its borders as it does within them. In 2002, the United States exported only 28 percent of whey proteins produced in the country and 16 percent of the nonfat dry milk.

"Exports help the dairy industry grow," said Paul Rovey, an Arizona dairy producer and chairman of Dairy Management Inc.™, which manages the national dairy producer checkoff program. "Customers all over the world seek and appreciate the high-quality dairy products offered by U.S. dairy producers." 

The Fuel of the Future?

Wisconsin entrepreneur Joe Van Groll started a renewable energy company that produces both ethanol and bio-diesel without a single corn kernel or soybean in sight. The Grand Meadow Energy LLC located in Wisconsin, trucks in waste from surrounding cheese plants and raw canola oil from a nearby farm. Van Groll bought the Grand Meadow Coop cheese plant when it closed more than three years ago, converted it and with \$29,000 from the state's Agricultural Development and Diversification grant program, began testing what is now a trade secret. Today, customers buy a license to use the yeast-based technology he developed with help from the grant.

The advantages of his method: "I don't use energy; I put it back on the grid. I don't slurp up water; I purify and recycle it. I don't push up food costs; I dispose of waste," he said. Van Groll is a 13-year veteran of the state's cheese industry, and his process focuses on permeate, a by-product of cheese making. But Van Groll says the technology can be used on a variety of waste streams and he sees no end in sight to its

application. He buys permeate, blends it with a customized yeast culture, and produces pure alcohol ethanol. He does so at about a quarter of the cost of producing corn-based ethanol. Two months ago, he began blending the ethanol with raw canola oil to make biodiesel. He uses the biodiesel to power a generator that produces electricity for his plant and plans to sell excess energy back to the power company. Producing two renewable fuels gives him the option of choosing which market is offering the best return. He also sells dried yeast, a byproduct of the process, for livestock feed. The small-scale, self-contained operation is patterned after a cheese plant, working on a 24-hour cycle that starts with yeast fermentation and ends with the distillation process.

Having successfully completed the first phase of his business, Van Groll says he is ready to grow. He's looking to expand by purchasing another former cheese plant nearby with a capacity for producing up to 6 million gallons of ethanol a year. An average corn-based ethanol plant produces about 40 million gallons a year.



Fluid Milk Processors Approve Continuation Of The California Milk Processor Board

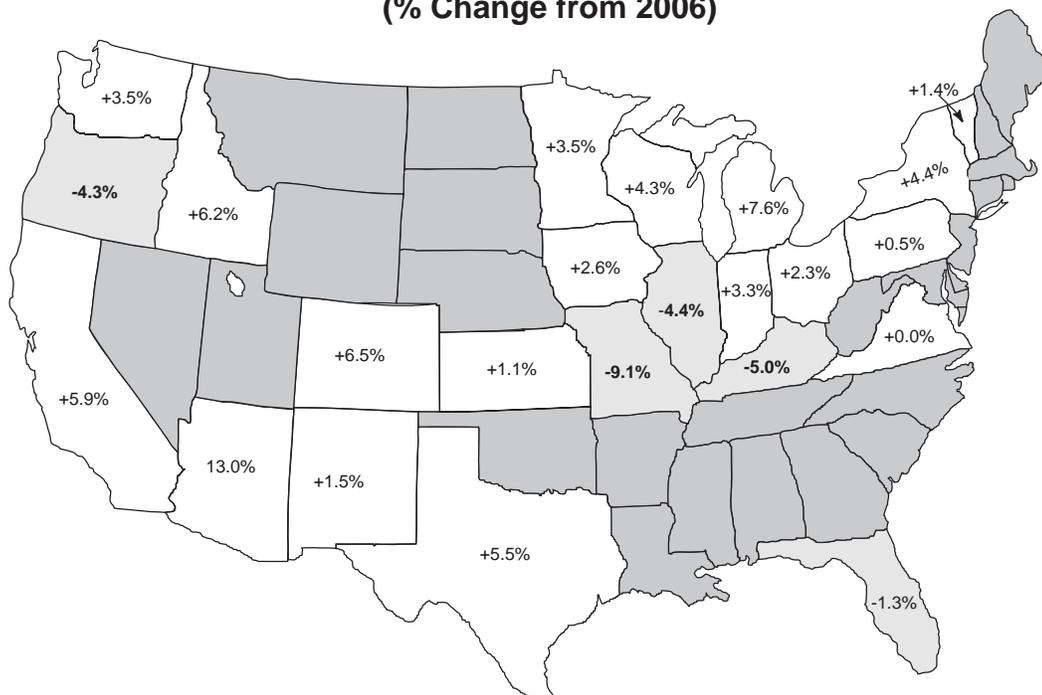
In a referendum recently conducted by the California Department of Food and Agriculture (CDFA), fluid milk processors voted in favor of continuing the operations of the California Milk Processor Board for another three years. The California Milk Processor Board is a processor-funded state milk promotion program operating under the authority of the Marketing Order for Advertising, Promotion, Research, and Education relating to Fluid Milk Products in California. The voting results are presented below.

Portion of All Eligible Processors That Actually Participated by Casting Valid Ballots:	80%
Portion of Those Processors Voting Who Favored Continuation of the Milk Processor Board:	83%
Portion of the Voted Volume Represented by Those Processors Favoring Continuation of the Milk Processor Board:	93%

The marketing order for the Milk Processor Board specifies that the program may be continued if CDFA finds that of those voting, a majority of the handlers accounting for a majority of the voted volume favor continuation. Since the above voting results meet the marketing order's continuation requirements, CDFA has authorized the Milk Processor Board to continue operating for another three years through January 31, 2011.

If you have questions about this referendum, please contact Dennis Manderfield of CDFA at (916) 341-6005. If you have questions concerning the operations of the California Milk Processor Board, please call Steve James, Executive Director of the Board, at (949) 481-6620.

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



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

- U.S. Milk production during October was up 3.5%
- The number of cows on farms was 9.169 million head, up 60,000 head
- Production per cow averaged 1,677 pounds, 45 pounds more than October 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		12.58		12.73		12.56		12.71	
Total Costs & Allowances*	16.14		14.10		14.33		13.90		14.26	
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
March '06	\$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
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

Milk Mailbox Prices

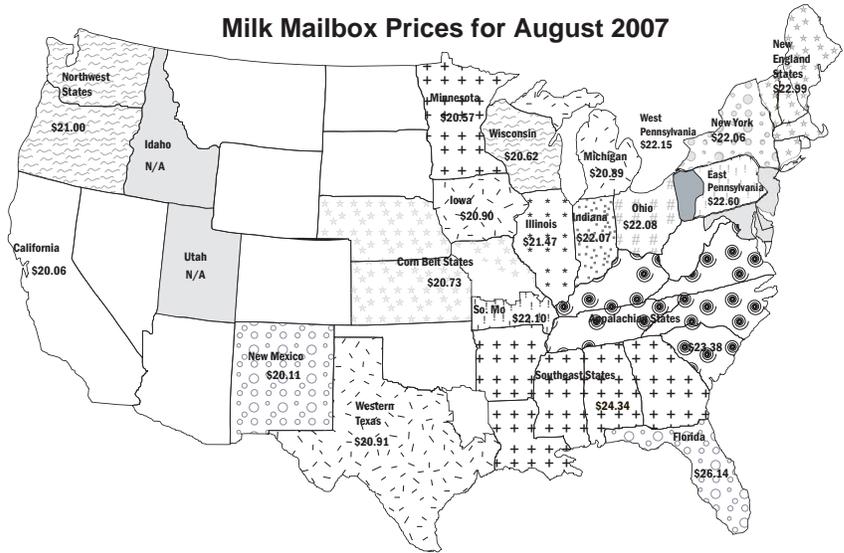
Milk Mailbox Prices in Dollars per Hundredweight

	February	March	April	May	June	July	August
California ¹	\$13.09	\$13.89	\$14.83	\$16.77	\$19.12	\$19.98	\$20.06
USDA ²	\$14.92	\$15.60	\$16.45	\$17.78	\$19.80	\$21.49	\$21.47

¹ California mailbox price calculated by CDFA.

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

Milk Mailbox Prices for August 2007



In August 2007, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$21.47 per cwt., down \$.02 from the July 2007 record setting month. The component tests of producer milk in August 2007 were: butterfat: 3.57%; protein, 2.97%; and other solids, 5.71%. On an individual reporting area basis, mailbox prices increased in all Federal milk order reporting areas except six, and ranged from \$26.14 in Florida to \$20.11 in New Mexico. In August 2006, the Federal milk order all-area average mailbox price was \$11.92, \$9.55 lower.

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Milk Pricing Information:
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