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Dairy Marketing Branch

California
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In This Issue . . .

1 Cost of Producing Milk Comparison
2 Production, Prices, Quota Transfers, Alfalfa
3 CWT Completes 4th Round
3 CDQAP Offering Workshops
3 Last O'ahu Dairies Closing
4 Proposed Biorefinery
4 World Cheese Awards
5 New Foot and Mouth Vaccine
5 National Dairy Situation & Outlook
6 U.S. Dairy Exports
6 Pacific Northwest Federal Order
8 Pool and Mailbox Price

1st Quarter 2007: California Cost of Producing Milk

The Department recenly released the Statewide Cost Comparison Summary report for the first quarter of 2007. Compared to same period in 2006, statewide milk production costs per hundredweight increased in all four cost of production survey areas of the State. The primary reason for this overall cost increase was due to total feed costs increasing by 10.2 percent. The higher corn prices due to ethanol production, drove up prices for grain and grain byproducts.

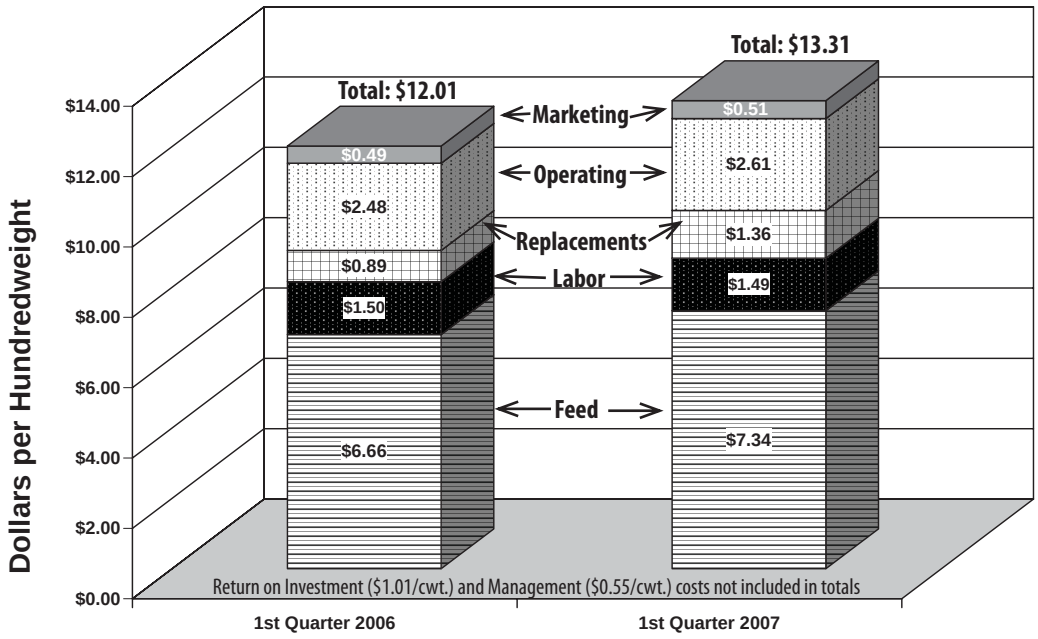
Other notes on increased costs:

Feed

- Rolled corn prices increased (due to ethanol production)
- Grain byproducts increased (as corn prices increased, demand for byproducts increased, resulting in higher prices (example: whole cottonseed)
- Increased corn acreage across the U.S. has resulted in less acres of other

Continued on Page 4

California Statewide Cost of Producing Milk Comparison
First Quarter 2006 vs. First Quarter 2007



Statewide Cost Comparison Summary can be found on our website at:
http://www.cdfa.ca.gov/dairy/Cost_Of_Production_CostComparison.htm

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

Production, Prices, Quota Transfers, Alfalfa

May Milk Production

Milk production in California for May 2007 totaled 3.47 billion pounds, up 2.7 percent from May 2006. USDA's estimate for U.S. milk production for May 2007 in the 23 major dairy states is 14.9 billion pounds, up 1.1 percent from May 2006. Production per cow in the 23 major states averaged 1,795 pounds for May, 13 pounds above May 2006.

Minimum Class Prices

Statewide average hundredweight prices

Class	May	June	July
1	$17.58	$20.14	$23.14
2	$13.60	$16.07	$16.07
3	$13.44	$15.90	$15.90
4a	$16.00	N/A	N/A
4b	$18.05	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	May	June	July
Phoenix, Arizona	$18.27	$20.19	$23.26
Southern California	$17.44	$20.28	$23.26
Portland, Oregon	$17.82	$19.74	$22.81
Northern California	$17.71	$20.01	$22.99
Boston (Northeast)	$19.17	$21.09	$24.16

Quota Transfer Summary

For May 2007, thirteen dairy producers transferred 12,053 pounds of SNF quota. May quota sales averaged $497 per pound of SNF (without cows), average ratio of 2.43. For June 2007, thirteen dairy producers transferred 8,729 pounds of SNF quota. May quota sales averaged $492 per pound of SNF (without cows), average ratio of 2.41.

Alfalfa Update: June

Northern California: Premium and Supreme alfalfa were were steady to firm with light supplies and good demand. Fair and Good alfalfa was steady to firm with moderate to good demand and supplies. Retail and Stable hay was steady with demand and supplies moderate. Most producers working on third cutting except intermountain areas that are finishing 1st cutting.

Southern California: Premium alfalfa was not well tested with very light supplies but good demand. Fair and Good alfalfa was steady with moderate demand and light supplies. Retail and stable hay was steady with moderate demand and supplies. Some producers aer trying to put hay away for winter take out. Exporters were buying Sudan hay. Weather was hot.

Supreme Hay Prices

Statewide average prices per ton

Area	5.25	6/1	6/8	6/15
Petaluma	$190	$190	$185-195	$210-220
North Valley[1]	$195-210	$190-205	$190-210	$195-210
South Valley[2]	$200-222	$207-220	$213-227	$200-227
Chino Valley	N/A	$180	$200	N/A

[1]North Valley is Escalon, Modesto and Turlock areas.

[2] South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

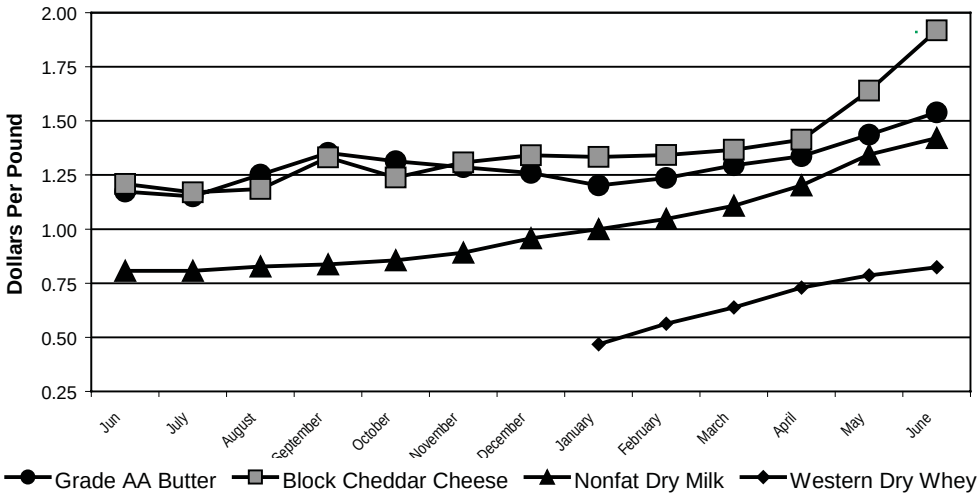
	May	June
Tons Sold[1]	245,705	355,523
Tons Delivered[2]	110,145	149,635

[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



CWT Completes 4th Round Herd Retirement

Cooperatives Working Together (CWT) has finished all of the farm audits of its fourth herd retirement effort, resulting in the removal of 52,783 cows representing one billion pounds of milk. The CWT committee also endorsed the continuation of the farmer-led and funded self-help program in 2008. In a report to CWT's members, Chief Operating Officer Walt Wosje said that 333 farms were ultimately accepted by CWT in this herd retirement round, out of 1,374 bids that were submitted to CWT earlier this spring. Those farms were spread across 39 states, although most of the cows removed were in the western regions of the country.

The average accepted bid in this round was $5.50 per hundredweight, significantly less than the $6.75/cwt. average in CWT's herd retirement round in 2005. CWT auditors were sent to each of the farms whose bids were accepted. Once the information submitted by the farmers was verified, each of the cows was tagged with a special CWT identifier, and the farmers were given a brief amount of time to sell their cows for slaughter. Once tags are collected by CWT, and the sales receipts for the animals are verified, farmers are issued payment, and their names are posted on the CWT website.

The CWT committee also voted to allocate an additional $15 million between now and the end of 2007 for export assistance. In the first five months of the year, the program has spent approximately $14 million to help export 27 million pounds of cheese, butter and anhydrous milkfat.

CWT members also passed a motion recommending extension of the program an additional 12 months, starting Jan. 1, 2008, at the current assessment rate of 10 cents per hundredweight. CWT's member cooperatives will now take this recommendation back to their own respective member boards for consideration prior to the next full CWT committee meeting in November. Currently, 69.1% of the nation's milk supply is paying into the program.

Wosje, who has served as COO since its inception in July 2003, announced he will be stepping down on July 1st, although he will still consult with CWT in the future. He will be replaced by Jim Tillison, who currently serves as NMPF Senior VP of Special Projects.

CDQAP Offering Fall Workshops on New Water Quality Regulations

The new water quality rules are in place for all Central Valley dairies - to be phased in over the next few years with the first reporting deadline of December 2007. The California Dairy Quality Assurance Program (CDQAP) is scheduling workshops in dairy counties across the Central Valley to assist dairy producers in understanding and complying with these new regulations.

Workshops will cover:

- Summary of new rules and requirements
- Overview of schedule/deadlines
- Suggestions of best management practices
- Assistance and tips for completing reports and forms - the necessary paperwork for the December 31, 2007 deadline can be completed and turned in at the workshop.

Upcoming workshop dates and additional information will be sent via mail, UCCE newsletters, and producer trade organization newsletters.

Last O'ahu Dairies Closing

All milk consumed on O'ahu will be shipped in by the end of summer following the closing of the island's two remaining dairies. Wai'anae's Mountain View Dairy will deliver its last milk in June, and O'ahu's Pacific Dairy plans to shut down later this summer. The pending loss of O'ahu's remaining dairies follows years of declining production amid rising feed, shipping and land costs, urban encroachment, environmental regulations and stagnant sales.

As recently as 1999, there were five dairies on O'ahu and five on the Big Island. The closing of Mountain View and Pacific Dairy would leave Hawai'i with just three Big Island dairies. Prior to the closing of O'ahu's two dairies, statewide milk production satisfied less than one-third of demand. In the 1980s, all milk consumed in the state was locally produced.

Proposed Dairy/Biorefinery in Western Arizona

XL Dairy Group is proposing building a $260 million ag-industrial complex that will produce 100 million gallons of ethanol, 25-to-30 million gallons of biodiesel fuel, and 21 million gallons of milk per year.

The concept is to use waste produced by the dairy cows to make energy that would be used to turn corn into ethanol and biodiesel. Byproducts of the ethanol and biodiesel production will be cycled back to produce internal energy for the biorefinery and to provide feed for the dairy cows. Dennis Corderman, chief executive and chairman of XL Dairy Group, states that "The biggest difference between us and other ethanol plants is we will use waste streams from the dairy to produce our own energy. It will provide the electrical and heat and steam energy for the entire facility."

Cordeman also explains that because the plant will supply its own power, the operation will have an energy efficiency ratio of 10-to-1. That means for every one British Thermal Unit of energy put into the process — including indirect energy consumption such as fuel needed to grow corn — the equivalent of 10 units of energy in the form of ethanol and biodiesel will be produced. Conventional ethanol plants have an energy efficiency ratio of about 1.2-to-1. One similar cow-power facility exists in the United States — the E3 BioFuels Genesis plant in Mead, Nebraska, which has an ethanol plant attached to a dairy/feedlot. It became fully operational in late May.

XL Dairy Group has completed construction of the first phase of the dairy on a 307-acre site about 100 miles west of Phoenix and plans to begin construction on the second phase of the dairy, which will eventually house about 7,500 milk cows. Construction on the biorefinery and an internal energy plant, or "energy island" will begin soon with completion of both expected by the end of 2008. A second phase that would more than double the output of the biorefinery could be running in about five years. Corderman estimates the efficiencies will allow the Vicksburg Biorefinery to produce ethanol about 30 cents a gallon cheaper than conventional ethanol plants.

ALGAE POWER

But Corderman believes that real efficiencies will start after the second phase goes into action. Instead of corn shipped in by rail from the Midwest, it will use algae as the feedstock to produce both ethanol and biodiesel. XL plans to grow algae on 2,400 acres of

Continued next page

World Cheese Awards

This year, over 130 international experts gathered in London to judge the 2007 World Cheese Awards. For the first time, a U.S. cheese - from California - took first place in a highly competitive Cheddar cheese category. The winning cheese, an aged Cheddar produced by Fiscalini Cheese Co., Modesto, Calif., also became the first non-British cheese ever to win the Wyke Farms Trophy for the judging's "Best Extra Mature Traditional Cheese." In another strong showing, Marin French Gold, a cheese from Marin French Cheese Co., Petaluma, won first place in a Brie category.

California winners for 2007:

Fiscalini Cheese Company, Modesto, for Bandage Wrapped Extra Mature, (Gold), Cheddar Block (Gold) and Bandage Wrapped Reserve (Silver)
Marin French Cheese Company, Petaluma, for Marin French Gold (Gold), Pesto Brie (Bronze) and Triple Crème Brie (Bronze)
Mozzarella Fresca, Tipton, for Fresh Mozzarella (Gold) and Fresh Mozzarella - Cultured (Gold)
Cantaré Foods, San Diego, for Fresh Mozzarella, Ovoline (Silver) and Fresh Mozzarella, Boconccini (Bronze)

Cost of Production- *Continued from page 1*

grains or grain byproducts
- Wet roughages: corn silage, wheatlage and haylage prices increased (partly due to higher fuel costs raising the costs to plant, harvest and put up silage plus more demand for corn silage as corn prices have increased).

Operating
- Prices paid for diesel & gas increased
- Interest expense increased due to higher interest rates and higher loan balances – Short-term interest rates have almost doubled from a year ago
- Expenses for supplies increased as fuel prices increased

Replacement Costs
- Replacement costs increased due to higher demand for springers as milk prices have increased
- Due to last year's heat wave, producers were buying more heifers due to breeding issues
- Bull calf prices dairy producers received have decreased from a year ago.

Marketing Costs
- Milk haul cost has increased due to higher fuel prices

Milk Mailbox Price
- The milk mailbox price (net dollars dairy producers receive after deductions) increased by 12.1 percent

Biorefinery - *Continued*

adjacent state land, using manure water, carbon dioxide produced as a byproduct of the ethanol process, and sunlight. The company will propagate algae in a patent-pending system of horizontally mounted clear tubes. The reason algae are a potentially efficient fuel source is that huge amounts can be grown in a relatively small area. Algae grown on 2,400 acres could produce as much fuel as 115,000 acres of corn, Corderman said. Another benefit of algae farming is that it consumes carbon dioxide, a greenhouse gas, produced in the ethanol-making process. Carbon dioxide also will be captured for other applications such as beverage carbonation, cooling and the production of dry ice.

The ethanol will be used primarily as an additive to gasoline to make it burn cleaner, not as a primary fuel known as E85 — a blend of 85 percent ethanol and 15 percent gasoline. The plant's service area — Arizona, Las Vegas and Southern California — demands so much ethanol that it will absorb all of the plant's production just as an additive, Corderman said.

New Foot and Mouth Disease Vaccine

Researchers have developed a new vaccine for protection against foot-and-mouth disease which strikes cattle, swine, sheep, goats and deer. The new vaccine is quick acting, demonstrating effectiveness within seven days. Tests have shown that vaccinated cattle retain immunity for at least 21 days, but scientists expect future studies will show that the new vaccine will match the six months of immunity provided by current vaccines. The new vaccine has been tested on cattle and swine, and is equally effective in both species.

The new vaccine is administered in a nonreplicating adenovirus and does not require expensive, high-containment production facilities. It can be produced safely in the U.S. because it can be made without using infectious foot and mouth disease materials.

One important aspect of the new vaccine is that it makes it possible for scientists to determine whether an animal found to have foot and mouth disease antibodies acquired them through vaccination or from infection. This is vital information affecting trade restrictions concerning vaccine use.

Although the U.S. has not had a foot and mouth disease outbreak since 1929, the disease is still considered a serious threat to the nation's economy and food supply. Although rarely transmissible to humans, foot and mouth disease is devastating to livestock and has critical economic consequences.

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 0.8% in May, led by Michigan's 5.4% growth in milk production (on 10,000 more cows and 40 more pounds per cow). California's estimated production was up 2.7% (on 15,000 more cows and 35 more pounds per cow). Among the western states, Arizona was up 3.2%; New Mexico down -9.5%; and Washington was down -1.9%. Five of the top 10 states reported a production decrease.

Quarterly: For the first quarter of 2007 compared to the fourth quarter of 2006, U.S. milk cow numbers increased to 9.128 million, production per cow increased 145 pounds per cow; the net effect was increased milk production to 46.0 billion pounds. USDA projects that for the second quarter of 2007 compared to the first quarter of 2007, U.S. milk cow numbers will decrease 25,000 cows to 9.100 million cows, production per cow will be up 175 pounds per cow; the net effect would be increased milk production to 47.5 billion pounds.

Milk Prices

Comparing the first quarter of 2007 to the fourth quarter of 2006, U.S. average milk prices were up to $15.00/cwt. USDA projects that for the second quarter of 2007, U.S. average all-milk prices will be $17.45-17.75/cwt.; Class 4b prices will be $16.86-17.16cwt; and Class 4a prices will be $16.44-16.84/cwt.

Utility Cow Prices

Comparing the first quarter of 2007 to the fourth quarter of 2006, average U.S. utility cow prices were up $3.30/cwt. to a national average of $47.60/cwt. USDA projects that utility cow prices will average $49-51 in the second quarter of 2007.

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

U.S. Dairy Product Exports to Middle East Increase

Excerpt from Dairy Management Inc.

The westernization of lifestyles and eating habits in many Middle Eastern countries has opened the door for the U.S. dairy industry – boosting U.S. dairy exports in the retail sector by an average of 5 percent annually since 2000. Dairy producers, through their checkoff investment in the U.S. Dairy Export Council® (USDEC), help increase sales by funding demand-building market development and expansion programs in Middle Eastern countries such as Saudi Arabia, Egypt and the United Arab Emirates, that help find a home for new U.S. milk production.

The Middle East represents the sixth largest export market for U.S. dairy products and ingredients. "The growth and lifestyle changes in the Middle East make it an important market for U.S. dairy producers," said Kimberly Clauss, a California dairy producer and USDEC board member. "Without international markets like the Middle East, excess milk solids would be a burden on the U.S. market and would constrain industry growth."

The high-quality reputation of U.S. dairy products and ingredients has helped increase demand as Middle Eastern consumers have come to view dairy as an important part of their diet. For example, USDEC has conducted retail promotions to help build sales by educating consumers about high-quality U.S. cheese. Today, U.S. cheese is available in Middle Eastern retail refrigerated dairy cases and in delis.

Experts predict a 5 percent to 6 percent increase in U.S. dairy export demand from now through 2010 due to ideal conditions for market expansion, including limited trade restrictions, high per capita incomes and growing demand. These factors, along with producer-funded efforts to help build international U.S. dairy sales, will help keep U.S. dairy products on Middle Eastern supermarket shelves for years to come.

Pacific Northwest Federal Order May Expand

In an effort to improve marketing conditions for dairy farmers in the greater Pacific Northwest region, Northwest Dairy Association (NDA) and Dairy Farmers of America, Inc. (DFA) have agreed to work together on certain milk marketing efforts.

The parties have agreed to coordinate marketing efforts in defined regions to bring greater returns to dairy farmers. To achieve this goal, NDA and DFA are proposing an expansion of the Pacific Northwest (PNW) Federal Milk Marketing Order to include the states of Idaho and Utah. They also are developing marketing agencies in common (MACs) in Idaho/Utah and Washington.

This will allow both cooperatives to better facilitate the efficient marketing and delivery of milk in the region, says Les Hardesty, chairman of DFA's Mountain Area Council. "An expanded PNW Federal Order and MACs should provide more milk price stability across the region, while providing an opportunity to improve margins for producers."

Rod DeJong, chairman of the NDA Board of Directors, agrees. "The expanded PNW Federal Order and new MACs will allow cooperatives that service the Class I markets across the region to better meet the needs of both dairy producers and processors," he says.

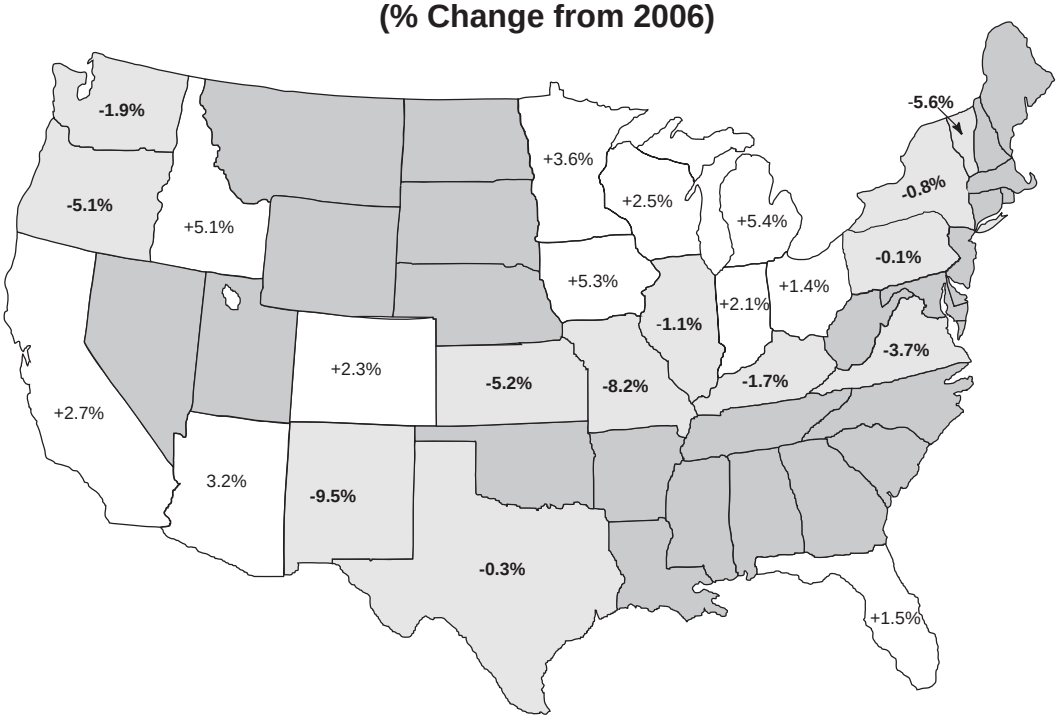
Under the Federal Order expansion proposal, milk sales to fluid milk processors with significant sales in Idaho, Utah, and Western Wyoming would become regulated under an expanded Pacific Northwest Federal Milk Marketing Order. The proposal keeps most of the pooling provisions currently in the Pacific Northwest Federal Order, however with the proposed modifications, the expanded PNW Order will contain the most restrictive de-pooling provisions currently in any Federal Order.

John Underwood, CEO of NDA notes that, "the combination of an expanded PNW Federal Order and marketing agencies in common offer great opportunities for increased stability in the market."

DFA Mountain Area Council Chief Operating Officer Greg Yando agrees. "The MAC will provide several benefits to its members and their customers, including increased hauling efficiency, improved market balancing, and mutually beneficial service charge programs," said Yando.

May Milk Production in the Top 23 States

(% Change from 2006)



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

- U.S. Milk production during May was up 0.8%
- The number of cows on farms was 9.119 million head, down 10,000 head
- Production per cow averaged 1,776 pounds, 16 pounds more than May 2006
- Twelve 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
	Dollars per Hundredweight									
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		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	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

Hundredweight Pool Prices

Month	Quota	Overbase
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
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

Milk Mailbox Prices

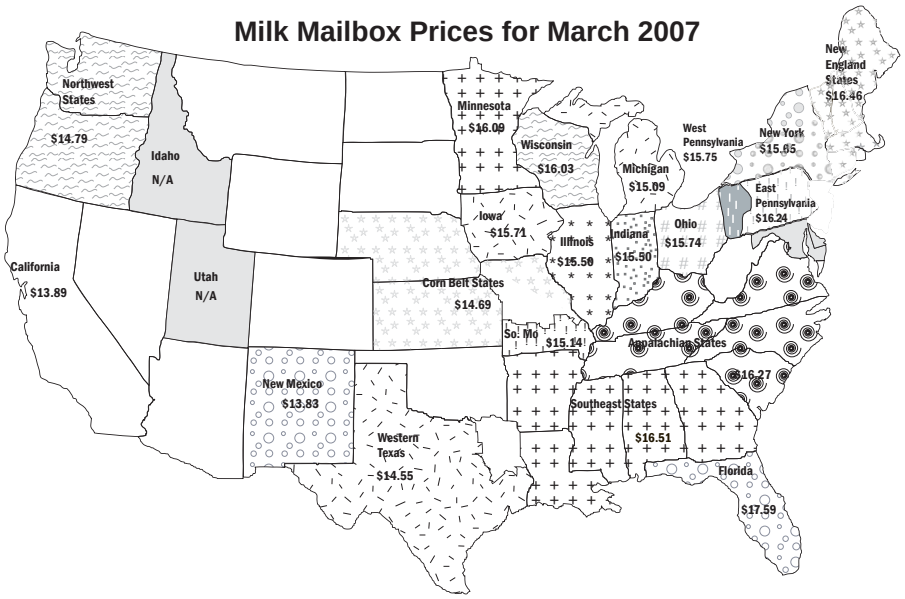
Milk Mailbox Prices in Dollars per Hundredweight

	September	October	November	December	January	February	March
California [1]	$11.44	$11.62	$12.12	$12.42	$12.55	$13.09	$13.89
USDA[2]	$12.88	$13.65	$14.00	$14.20	$14.66	$14.92	$15.60

[1] California mailbox price calculated by CDFA.

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

Milk Mailbox Prices for March 2007



In March 2007, mailbox prices for selected reporting areas in Federal milk orders averaged $15.60 per cwt., $0.68 more than the figure for the previous month. The component tests of producer milk in March 2007 were: butterfat, 3.71%; protein, 3.06%; and other solids 5.70%. On an individual reporting area basis, mailbox prices increased in all reporting areas, and ranged from $17.59 in Florida to $13.83 in New Mexico. In March 2006, the Federal milk order all-area average mailbox price was $12.64, $2.96 lower.

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