

California Dairy Review

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CWT Announces Herd Retirement Effort

Bids to remove cows accepted until March 3, 2007

Cooperatives Working Together (CWT) announced in early February that it will conduct a herd retirement effort this spring, with bids being accepted until Saturday, March 3, 2007, and with cow removals to start in mid-to-late March.

This is the fourth herd retirement effort by CWT. The first three, conducted in 2003, 2004, and 2005, reduced U.S. dairy cow numbers by more than 147,000, representing the milk equivalent of 2.8 billion pounds.

Detailed bid information can be found at www.cwt.coop, including a bid application, a calculator to help estimate a farmer's bid, and answers to frequently-asked questions. All bids must be postmarked by Saturday, March 3, 2007, in order to be considered. All dairy producers submitting bids to sell their herds must be members of CWT, either through their membership in a fully participating cooperative, or as an independent member of CWT. Bids will be reviewed in early March, with field auditors then proceeding after March 19, 2007, to visit each accepted farm to begin the cow removal process.

"All of the economic indicators and benchmarks that we monitor in order to guide CWT's decisions show that now is the appropriate time for us to initiate this herd retirement program," said Jerry Kozak, President and CEO of NMPF, which manages CWT. CWT is not targeting how many pounds of milk, cows, or herds will be removed by this fourth retirement round. The final tally will be determined by the quality and quantity of the bids, Kozak said. "As always, we will operate CWT in a cost-effective and frugal manner," Kozak said. "So we will see what kind of response we receive during the upcoming bid period. If the bid prices are, in some cases, too high, we will not put ourselves in the position of taking them in order to meet an arbitrary goal."

Continued on Page 3



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

Production, Prices, Quota Transfers, Alfalfa

January Milk Production

Milk production in California for January 2007 totaled 3.364 billion pounds, up 3.9 percent from January 2006. USDA's estimate for U.S. milk production for January 2007 in the 23 major dairy states is 14.2 billion pounds, up 1.4 percent from January 2006. Production per cow in the 23 major states averaged 1,719 pounds for January, 8 pounds more than January 2006. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	Jan	Feb	Mar
1	\$13.87	\$15.22	\$15.22
2	\$11.99	\$12.59	\$12.59
3	\$11.82	\$12.43	\$12.43
4a	\$11.92	N/A	N/A
4b	\$12.47	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Jan	Feb	Mar
Phoenix, Arizona	\$15.94	\$15.74	N/A
Southern California	\$14.00	\$15.37	\$16.01
Portland, Oregon	\$15.49	\$15.29	N/A
Northern California	\$13.73	\$15.10	\$15.74
Boston (Northeast)	\$16.84	\$16.64	N/A

Quota Transfer Summary

For January 2007, six dairy producers transferred 12,485 pounds of SNF quota. January quota sales averaged \$498 per pound of SNF (without cows), average ratio of 2.41. For February 2007, three dairy producers transferred 3,186 pounds of SNF quota. February quota sales averaged \$498 per pound of SNF (without cows), average ratio of 2.41. ☀

Alfalfa Update: February

Northern California: Premium and Supreme alfalfa were steady to firm with light supplies and good demand. Fair and Good alfalfa was steady to firm with good demand and light supplies. Retail and Stable hay was steady with good demand and light supplies.

Southern California: Premium alfalfa was steady to firm with good demand and light supplies. Fair and Good alfalfa was steady to firm with good demand and light supplies. Retail and stable hay was steady with good demand and moderate supplies. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	1/26	2/2	2/9	2/16
Petaluma	N/A	\$200	N/A	N/A
North Valley ¹	\$190-200	\$185-200	N/A	\$185-200
South Valley ²	\$190	\$190-200	\$192	\$210-216
Chino Valley	\$195	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

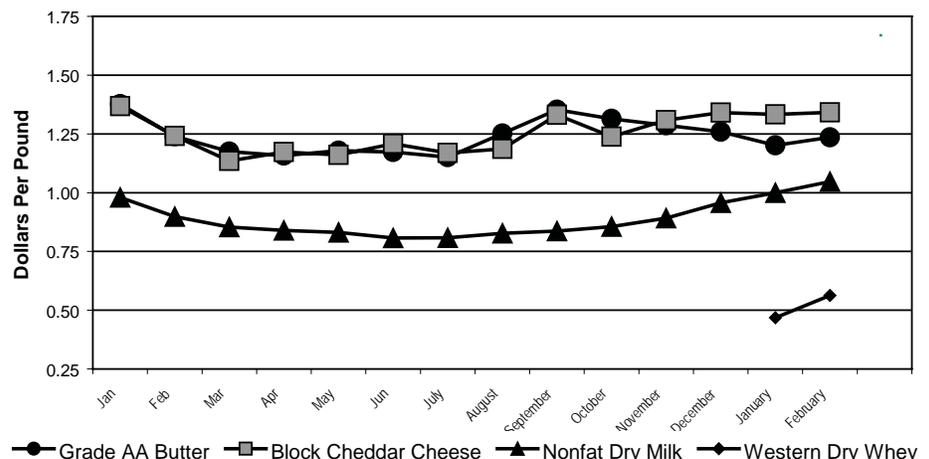
	January	February
Tons Sold ¹	36,515	45,574
Tons Delivered ²	25,655	29,585

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



Herd Retirement - from page 1

In its first herd retirement program, CWT accepted 299 of the 2,038 bids submitted. In 2004, it accepted 363 of the 736 bids submitted. In 2005, it accepted 442 of the 651 bids submitted. Through the herd retirement program, if a farmer's bid is accepted, CWT pays that farmer for the volume of milk produced by that herd in a 12 month period. The farmer is responsible for selling the cows for slaughter, and they retain the proceeds from that transaction.

In this round, any producer who had his bid accepted in any of the previous three rounds is not eligible to participate again. Also, those producers who have a financial interest in more than one dairy farming operation must include all their cows in their bid. A dairyman cannot place a bid for just one of his herds, if he has an interest in multiple operations. As in the past, the herd retirement program will again operate under regional safeguard limits to guarantee that milk capacity reductions in any one region of the country do not negatively impact local supplies. The safeguard limits are strictest in the Northeast, Southeast and Upper Midwest.

For more information on how to participate in CWT's herd retirement, visit www.cwt.coop, or call 888-Info-CWT (888-463-6298). 

Ethanol By-Products

At the Colorado Dairy Nutrition Conference, it was noted that new ethanol plants coming online mean more sources for distillers grains and also means more potential variability. In addition to wet and dry milling, some new ethanol plants are using a new dry-milling process that fractionates the corn prior to the starch entering the fermentation chamber. This substantially changes the composition of the distillers grains. Crude protein goes up, while NDF, fat and phosphorus all go down. This variation in feed composition increases risk and comes with a cost, so it is advised that producers test before you feed, and when comparison-shopping ask about the production method used as well as price.

Metal Thefts on the Rise

Tulare County Sheriff's Department deputies are investigating six reported thefts at five different locations involving metal parts or wire. As an example of the thefts, Daybreak Farms of Kingsburg, reported a theft of \$8,100 worth of brass valves. Other reported thefts include copper wire and pipe cow gates. The Tulare County Sheriff's Department is investigating these thefts. 

Drinkable Yogurt: The Fastest Growing Food Category

Annual sales of drinkable yogurt rose 18.4 percent to \$7.76 billion from mid-2005 to mid-2006, according to a survey by market research company AC Nielsen Global Services. Drinkable yogurt taps into the trend of consumers looking to eat and drink healthy foods, but not having time to stop and sit when they do it.

U.S. sales of Yoplait yogurt increased 6 percent in the latest quarter, double the overall U.S. growth rate posted by parent company General Mills Inc., although the company did not say how much, if any, of that Yoplait increase was from drinkable yogurt.

The study by ACNielsen measured 66 markets around the world across more than 100 categories. The markets measured account for more than 90 percent of the world's gross domestic product and more than 75 percent of the world's population, the company said. 

California Dairies Inc. to Be rbST-Free

The largest dairy cooperative in California plans to go rbST-free as of Aug. 1, 2007. Richard Cotta, president and CEO of California Dairies, Inc., sent a letter to members recently, telling them that they will be asked to sign documents indicating that they do not supplement their cows with recombinant bovine somatotropin. 

Proposed Ethanol Plant

Human BioSystems (HBS) announced that HBS BioEnergy has formed a joint venture with Visalia based Dairy Development Group and Agrimass Enviro-Energy to build an Energy Park in the San Joaquin Valley of California. The Energy Park will utilize waste from surrounding dairies to provide the power needed to fuel a proposed ethanol plant to be located on site.

Agrimass Enviro-Energy blends technology, engineering and dairy expertise to help Valley dairymen implement systems that help them meet increasingly stringent environmental regulations. HBS BioEnergy is in the business of bio-fuel production, with a team focusing on locating, constructing and operating bio-fuel facilities using cutting-edge technologies. The company has offices in Fresno, California. 

Lower Hay Stocks in the 11 Western States

Drought and Lower Yields the main factors for lower hay supplies

By Seth Hoyt, USDA- NASS, California Field Office

Drought conditions in Colorado, New Mexico, Wyoming and Montana in 2006 combined with lower yields on alfalfa hay in California pushed hay stocks on December 1, 2006 in the 11 Western States to 9 percent below a year ago. California hay stocks were down 9 percent on December 1 with U.S. stocks down 8 percent from the previous year. Western States with higher stocks compared to last year included Utah, Idaho, Nevada, and Oregon. A severe winter storm in Colorado last month further depleted hay supplies in that area with the Colorado Department of Agriculture searching for hay in surrounding States. Hay market prices, overall, as of this writing were strong in the West with California alfalfa hay prices moving higher in January and early February, according to Market News.

ACREAGE TRENDS

Some industry sources are speculating that alfalfa acreage in California could be down 10 percent from last year. However, it is still too early to get a good handle on alfalfa hay acres in California for 2007. The first indicator of acreage trends will be in late March when NASS releases the planting intention report.

The mid-January acreage report from the Imperial Irrigation District showed alfalfa hay acres in the Imperial Valley were down 12 percent from January of last year. This is nearly 19,000 fewer acres than a year ago. As expected, durum wheat acres in the Imperial Valley were up 73 percent from last January or nearly 12,000 more acres. Freezing weather in the Imperial Valley has set back the start of new crop alfalfa hay production for some growers. Premium and Supreme alfalfa hay clippings put up before the freeze was trading \$5.00 to \$10.00 per ton higher at \$140.00 to \$158.00 per ton, f.o.b.

ACREAGE CONVERSIONS

It is a sure bet that some alfalfa hay acres will convert to processed tomatoes in central and northern California after some growers obtained contracts at \$63.00 per ton for 2007. The key for profitability will be weather at planting time and yields, but early prospects for processed tomatoes look good. Alfalfa hay acres also converted to wheat and feed corn in some areas. The highest feed corn contract in California for 2007 was reported at

\$160.00 per ton, as harvested, delivered locally in northern California. Contracting has been quiet the past few weeks as the corn futures market has been volatile. Industry sources indicate the possibility of much larger plantings of corn in the U.S. in 2007 which the traders in Chicago are trying to measure with demand. It would not be surprising given the historical use of the futures market by the grain industry that a large amount of the 2007 U.S. corn production is hedged on the Chicago Board of Trade.

INSHIPMENTS OF ALFALFA HAY

Alfalfa hay shipped into California in 2006 was down 14 percent from 2005 at 768,000 tons, 126,000 fewer tons than the previous year. This was one factor in the drop of 165,000 tons in hay stocks in California on December 1, 2006. States that showed the biggest decline in shipments compared to 2005 were Arizona down 40 percent, Utah down 14 percent and Oregon down 16 percent. Nevada shipped 3 percent more alfalfa hay into California than in 2005. We could see alfalfa shipments from other States increase in 2007 if alfalfa hay production declines in California.

GOOD NEWS FOR THE DAIRY AND HAY INDUSTRIES

It was announced on February 6 that the fourth CWT Herd Retirement program will be held this spring with a March 3 deadline for submitting bids. Final bid selection will be made by March 14 with field audits to begin on March 19. The first cows should be moving to slaughter the week of March 19. The milk futures market made a sharp upward move on February 6 after the announcement. While milk prices have improved the past few months, they have not kept pace with escalating costs of milk production due mainly to soaring grain prices. Some believed that a Herd Retirement program was the only way to reduce milk production. While growth in dairy cow and milk replacement heifer numbers has slowed in California compared to past years, the reality is that with strong cow growth in some States, particularly Idaho, New Mexico, and Texas and higher production per cow, something had to be done to cut milk production. Additionally, with an estimated 1 percent more milk replacement heifers over 500 pounds on hand in the U.S. on January 1, 2007, the outlook was for more of the same.

HAY MARKET OUTLOOK

The outlook for 2007 alfalfa hay prices was already bullish given the likely transfer of acres out of alfalfa hay to other crops and lower hay stocks coming into

Alfalfa Hay - Continued from page 4

2007. The CWT Dairy Herd Retirement program this spring, while appearing to be icing on the cake for the California alfalfa hay industry was in reality a key factor. Higher hay markets in 2007 in an environment of continued financial losses in the dairy industry would not be a good situation. With the profitability picture looking much brighter for dairy producers in the coming months, alfalfa and other hay producers can feel much better about the year ahead. Now, if we can just get Mother Nature to cooperate!! 

New Housing Rules . . .

Dairy producers in various counties in California recently received letters from the County Department of Environmental Resources informing them that they might qualify as dairy labor camps. According to the letter, any dairy that provides housing for five or more employees is considered a labor camp, and must apply for a permit and pass an inspection. These inspections will cover such items as fire safety, structural soundness, plumbing, and electrical compliance.

The state law that governs employee housing on dairies has been on the books since 1962, but it hasn't been enforced in the northern San Joaquin Valley, according to Sonya Harrigfeld, director of the Department of Environmental Resources. The State Department of Housing & Community Development started enforcing the law in surrounding counties, Harrigfeld said, so the Department sent the letters.

Many dairies provide housing to workers as part of a wage package, and because the workers are needed very early in the morning.

In many instances, dairy farms provide mobile homes for workers and their families who are year-round residents and employees. 

Ninth Case of Mad Cow Disease Confirmed in Canada

Canada has confirmed its ninth case of mad cow disease since 2003, in an Alberta bull that died on a farm last week. The Canadian Food Inspection Agency reported that a mature bull tested positive for mad cow, or bovine spongiform encephalopathy. Dr. George Luterbach, the agency's senior veterinarian for Western Canada, said the animal's death caused it to be identified as an "animal of interest" at the farm level as part of a national surveillance program.

Luterbach wouldn't identify where in the province the animal was when it died. An investigation is under way to find other animals born within a year of the bull that may have been exposed to the same feed source, Luterbach said. "These animals are removed, destroyed, tested and disposed of in a manner that they do not enter into the feed system," he said, adding officials are certain this particular bull also did not enter that system.

Eight previous cases of BSE have been reported in Canadian cattle since May 2003, when the discovery of an Alberta cow with the disease caused the United States to close the border to cattle exports entirely. The border reopened for Canadian beef from younger cattle within months of the original ban, however, live cattle have only been allowed to move across the U.S./Canadian border since July 2005.

Five new cases were discovered in Canada in 2006, including one in a cow born five years after safeguards were adopted to prevent the spread of the disease. A ban on using cattle remains in feed in Canada went into effect in 1997 to guard against the spread of BSE.

A new, enhanced feed ban, which comes into effect on July 12, 2007, should see BSE eliminated from the national cattle herd within 10 years, the agency has said.

New rules proposed by the U.S. Department of Agriculture that would allow exports of older live Canadian cattle to resume are up for public review until March 12. Almost one-third of the Canadian beef herd and one-quarter of the total herd is estimated to have been born before 1998. 

Manure As Construction Material

Home-buyers of tomorrow could find themselves walking across floors made from manure. Researchers and scientists at Michigan State University and the U.S. Department of Agriculture are working on a fiber from processed and sterilized manure that may someday replace sawdust in fiberboard, which is used to make everything from furniture to flooring to store shelves. So far, the experimental product has performed well in mechanical tests, meeting or exceeding standard fiberboard requirements. And, it does not smell like manure. The real test lies with the construction industry and whether it will accept the product.

"Farmers are having to put more and more money into dealing with manure," said Tim Zauche, a chemistry professor at the University of Wisconsin-Platteville. "This is a huge cost to farmers." Many large livestock operations are installing expensive manure treatment systems known as anaerobic digesters. The digesters use heat to deodorize and sterilize manure, while capturing and using the methane gas it produces to generate electricity. The systems also separate phosphorus-laden liquid fertilizer from semisolid plant residue. The solids already have some known uses, such as for animal bedding and potting soil.

"We really need to think outside the box on what uses for manure are," said Wendy Powers, a professor of agriculture at Michigan State University. Scientists at Michigan State in East Lansing and at the USDA's Forest Products Laboratory in Madison, Wis., are conducting tests on various types of fiberboard made with the "digester solids." As with the wood-based original, the manure-based product is made by combining fibers with a chemical resin, then subjecting the mixture to heat and pressure. So far, fiberboard made with digester solids seems to match or beat the quality of wood-based products. "It appears that the fibers interlock with each other better than wood," said Charles Gould at Michigan State's College of Agriculture and Natural Resources. "We end up with, I think, a superior material." Their report concludes that fiberboard panels made with processed manure "performed very well in mechanical tests, in many cases meeting or exceeding the standard requirements for particleboard."

In Wisconsin, the USDA forest products lab has just begun an 18-month, \$30,000 study that will test the strength and endurance of the manure-based fiberboard and examine the economic practicality of using digested fiber to make building products.

Manure Facts . . .

- A dairy cow produces over 100 pounds of manure per day.
- A chicken produces about 0.9 pounds of manure a day.

-- About 1.5 trillion to 2 trillion pounds of manure is produced in the U.S. per year.

-- At least 95 percent of manure now is applied to the land as fertilizer.

Sources: Colorado governor's office, Michigan State University, Northwest Earth Institute. 

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 2.8% in January, led by Idaho's 5.9% growth in milk production (on 28,000 more cows and the same pounds per cow). California's estimated production was up 3.9% (on 15,000 more cows and 55 more pounds per cow). Among the western states, Arizona was down -0.3%; New Mexico down -4.1%; and Washington was down -3.3%. Four of the top 10 states reported a production decrease.

Quarterly: For the fourth quarter of 2006 compared to the third quarter of 2006, U.S. milk cow numbers decreased to 9.116 million, production per cow was flat; the net effect was relatively no change in milk production to 44.6 billion pounds. USDA projects that for the first quarter of 2007 compared to the fourth quarter of 2006, U.S. milk cow numbers will increase 9,000 cows to 9.125 million cows, production per cow will be up 180 pounds per cow; the net effect would be increased milk production to 46.4 billion pounds.

Milk Prices

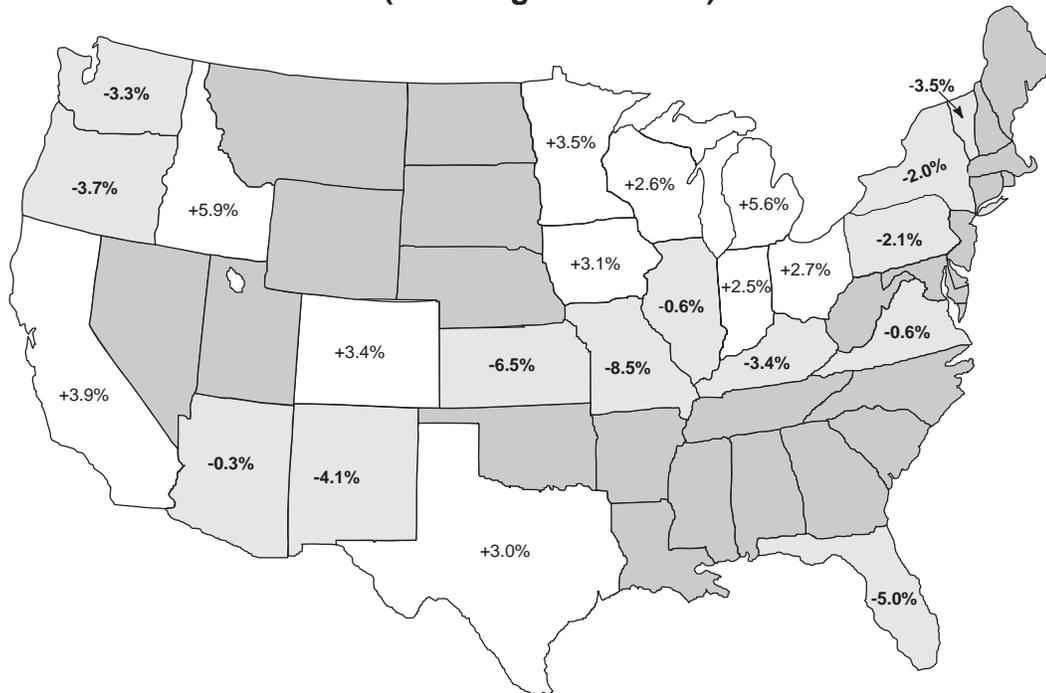
Comparing the fourth quarter of 2006 to the third quarter of 2006, U.S. average milk prices were up to \$13.83/cwt. USDA projects that for the first quarter of 2007, U.S. average all-milk prices will be \$14.45-14.75/cwt.; Class 4b prices will be \$13.25-13.55/cwt; and Class 4a prices will be \$12.34-12.74/cwt.

Utility Cow Prices

Comparing the fourth quarter of 2006 to the third quarter of 2006, average U.S. utility cow prices were down \$5.00/cwt. to a national average of \$44.29/cwt. USDA projects that utility cow prices will average \$44-46 in the first quarter of 2007.

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

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



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

- U.S. Milk production during January was up 1.1%
- The number of cows on farms was 9.128 million head, up 40,000 head
- Production per cow averaged 1,699 pounds, 9 pounds more than January 2006
- Thirteen 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	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										
Total Costs & Allowances*										

* Includes an allowance for management and a return on investment

Hundredweight Pool Prices

Month	Quota	Overbase
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
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

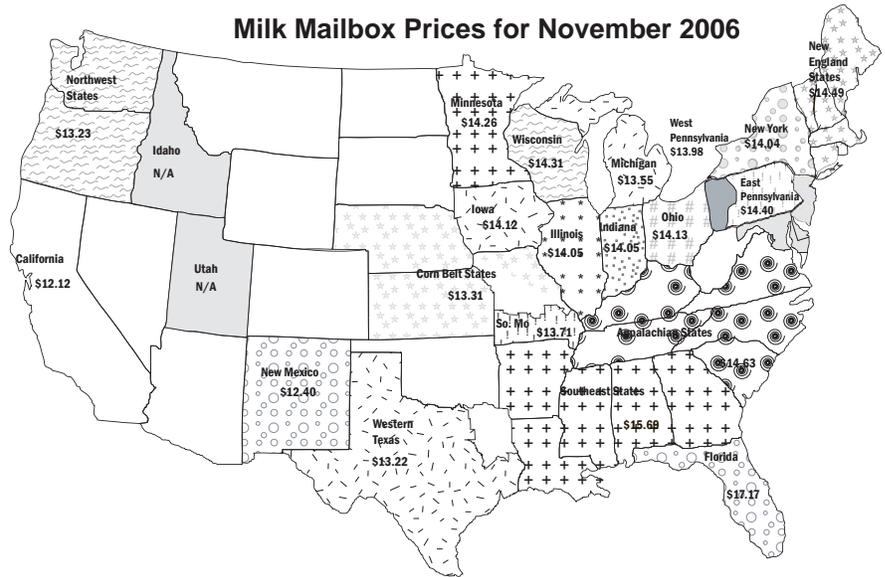
Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

	May	June	July	August	September	October	November
California ¹	\$10.45	\$10.42	\$10.16	\$10.63	\$11.44	\$11.62	\$12.12
USDA ²	\$11.80	\$11.75	\$11.67	\$11.93	\$12.88	\$13.65	\$14.00

¹ California mailbox price calculated by CDFA.

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



In November 2006, mailbox prices for selected reporting areas in Federal milk orders averaged \$14.00 per cwt., \$0.35 more than the figure for the previous month. The component tests of producer milk in November 2006 were: butterfat, 3.80%; protein, 3.14%; and other solids 5.69%. On an individual reporting area basis, mailbox prices increased in all reporting areas except one, and ranged from \$17.17 in Florida to \$12.40 in New Mexico. In November 2005, the Federal milk order all-area average mailbox price was \$15.09, \$1.09 higher.

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