

California

Dairy Review

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Department Announces Hearing Decision

On July 1, 2008, the Department held a public hearing to consider amendments to the Pooling Plan for Market Milk (Pool Plan) and to the Northern and Southern California Stabilization and Marketing Plans for Market Milk (Stab Plans). The amendments under consideration regarded both technical changes to the Pool Plan and the milk movement incentive system.

Having carefully weighed the contents of the hearing records, the Department has decided to implement the following amendments:

- Add a definition for the Dairy Accounting System to the Pool Plan.
- Account for the actual solids-not-fat pounds in calculating the Pool.
- Implement the PC Miler® Program for calculating distances for transportation allowances.
- Increase the transportation allowance rates ranging from \$0.03/cwt. to \$0.14/cwt. in the Southern California and San Diego Receiving Areas.
- Increase the transportation allowance rates ranging from \$0.03/cwt. to \$0.11/cwt. in the Bay Area, North Bay, and Sacramento Receiving Areas.
- Adjust the mileage brackets for transportation allowances for all of the brackets in the San Diego and Southern California Receiving Areas.
- Adjust the mileage brackets for transportation allowances for five of the six brackets in the Bay and North Bay Receiving Areas.
- Increase the transportation credit rate \$0.08/cwt. within Southern California.
- Increase the transportation credit rates ranging from \$0.13/cwt. to \$0.16/cwt. to Southern California
- Increase the transportation credit rates ranging from \$0.18/cwt. to \$0.48/cwt. to Northern California
- Designate the entire county of Stanislaus as eligible for the purposes of transportation credits.
- Add Solano and Sonoma counties as deficit counties for receiving bulk milk from plants in the supply counties of Merced and Stanislaus at a rate of \$0.74/cwt.

The changes to the transportation allowance system will be reflected in the



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

Continued on Page 3

Production, Prices, Quota Transfers, Alfalfa

July Milk Production

Milk production in California for July 2008 totaled 3.41 billion pounds, down 1.1 percent from July 2007. USDA's estimate for U.S. milk production for July 2008 in the 23 major dairy states is 14.8 billion pounds, up 1.7 percent from July 2007. Production per cow in the 23 major states averaged 1,742 pounds for July, unchanged from July 2007.

Minimum Class Prices

Statewide average hundredweight prices

Class	July	August	September
1	\$22.63	\$19.93	\$19.37
2	\$15.56	\$16.65	\$16.65
3	\$15.40	\$16.49	\$16.49
4a	\$16.08	N/A	N/A
4b	\$17.77	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	July	Aug.	Sept.
Phoenix, Arizona	\$23.13	\$20.82	\$20.00
Southern California	\$22.77	\$20.07	\$19.51
Portland, Oregon	\$22.68	\$20.37	\$19.55
Northern California	\$22.49	\$19.79	\$19.23
Boston (Northeast)	\$24.03	\$21.72	\$20.90

Quota Transfer Summary

For July 2008, four dairy producers transferred 6,670 pounds of SNF quota. July quota sales averaged \$539 per pound of SNF (without cows), average ratio of 2.43. For August 2008, seven dairy producers transferred 23,072 pounds of SNF quota. August quota sales averaged \$544 per pound of SNF (without cows), average ratio of 2.47.

Alfalfa Update: August

Northern California: Premium and Supreme alfalfa were steady in limited test, with moderate demand and light supplies. Fair and Good alfalfa was steady to weak with light demand and moderate to heavy supplies. Retail and Stable hay was steady with good demand and moderate supplies. Weather has been good for hay production as most producers working on dry cow hay production. Dairies slowing down on purchasing hay, with grain prices on the rise, many are still paying for corn silage.

Southern California: Supreme and Premium alfalfa was not tested, moderate demand, but no supplies or production. Fair and Good alfalfa was steady to weak with light demand, moderate supplies. Retail and stable hay fully steady with good demand and moderate supplies with many producers getting filling their barns for winter take out. Weather still hot with high humidity. Interest is high on the Bermuda hay coming.

Supreme Hay Prices

Statewide average prices per ton

Area	8/1	8/8	8/15	8/22
Petaluma	\$285	N/A	N/A	N/A
North Valley ¹	\$265-275	\$260-270	\$260-270	\$265-270
South Valley ²	\$267-284	N/A	\$270-290	\$270
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

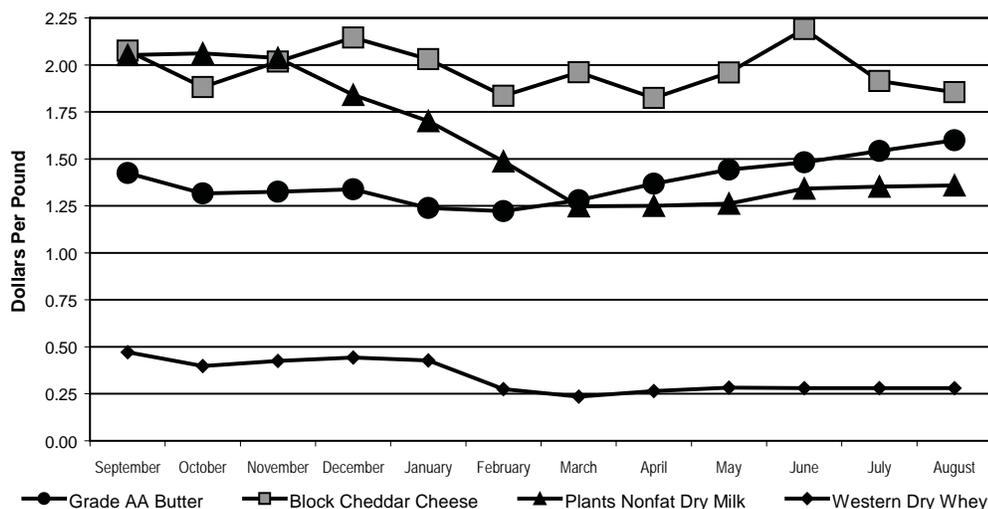
	July	August
Tons Sold ¹	405,276	231,971
Tons Delivered ²	136,862	110,420

¹For current or future delivery.

²Contracted 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



Decision - Continued from Page 1

amendments to the Pool Plan, Order Number 108. The changes to the transportation credit system will be reflected in the amendments to the Stab Plans, Order Numbers 52 and 67, respectively, for the Northern California Marketing Area and the Southern California Marketing Area. All changes will be effective September 1, 2008.

The Hearing Determinations, Panel Report, Pool Plan, Stab Plans and more detailed explanation of the Department's decision can be obtained on the Department dairy home page at www.cdfa.ca.gov/dairy by clicking on [Hearing Matrix]. To access the Stab Plans, click on [Dairy Marketing], located in the middle of the dairy home page and then on [Stabilization Plans]. To access the Pool Plan, click on [Milk Pooling], located in the middle of the dairy home page and then on [Pooling Plan (PDF)]. If you wish to receive a hard copy of the hearing results, please contact the Milk Pooling Branch at 916-341-5901 or the Dairy Marketing Branch at 916-341-5988.

Should you have any questions or desire further information, please contact Hyrum Eastman with the Dairy Marketing Branch or Don Shippelhouse with the Milk Pooling Branch at the numbers above. 

New Leprino Plant in Colorado

Leprino Foods officials announced that the company would build a cheese and whey products plant in Greeley, Colorado. The plan is to take down the former Western Sugar Cooperative plant in Greeley and build the new plant on that site. After the roughly 11 structures of the former sugar plant are demolished, the final month and a half of the project will allow time for about 30,000 cubic yards of concrete to be ground up to be recycled for use in the building of Leprino's new plant. It will be used for the foundation and parking lot of the new project.

The company hopes to break ground on the new facility in the Spring of 2009. The Leprino plant is expected to cost about \$270 million from start to finish. 

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2007, USDA estimates that overall milk production across the U.S. was up 1.4% in July, led by Texas' 18.4% growth in milk production (on 35,000 more cows and 130 more pounds per cow). USDA reports that California milk production was down 1.0% on 30,000 more cows, but 50 less pounds per cow compared to July 2007. Among the western states, Arizona was down 0.9%; New Mexico up 9.0%; and Washington was up 3.6%. Two of the top 10 states reported a production decrease.

Quarterly: For the second quarter of 2008 compared to the first quarter of 2008, U.S. milk cow numbers increased to 9.274 million, production per cow increased 112 pounds per cow; the net effect was increased milk production to 48.7 billion pounds. USDA projects that for the third quarter of 2008 compared to the second quarter of 2008, U.S. milk cow numbers will decrease to 9.260 million cows, production per cow will be down 207 pounds per cow; the net effect would be decreased milk production to 46.7 billion pounds.

Milk Prices

Comparing the second quarter of 2008 to the first quarter of 2008, U.S. average milk prices were down to \$18.57/cwt. USDA projects that for the third quarter of 2008, U.S. average all-milk prices will be \$18.75-19.05/cwt.; Class 4b prices will be \$17.53-17.83/cwt; and Class 4a prices will be \$16.67-17.07/cwt.

Utility Cow Prices

Comparing the second quarter of 2008 to the first quarter of 2008, average U.S. utility cow prices were up \$3.42/cwt. to a national average of \$57.30/cwt. USDA projects that utility cow prices will average \$58-60 in the third quarter of 2008.

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

NMPF Asks USDA to Close Canadian Border to Cattle Imports in Light of New Report Faulting Livestock Tracking

National Milk Producers Federation (NMPF) states . . . “We request that USDA close the Canadian border to the importation of cattle for breeding or herd replacement purposes until such time that USDA can sufficiently ensure the health of imported cattle and your ability to track these cattle.”

According to NMPF: A new internal report by the U.S. Department of Agriculture that faults the agency’s ability to track imported Canadian cattle is ample evidence that the agency should reconsider its decision last year to open the border to those livestock. In a letter to Agriculture Secretary Ed Schafer, NMPF President and CEO Jerry Kozak noted that the USDA’s Office of Inspector General, in a report finished last March but now publicly available, “suggests USDA has problems tracking and ensuring the health of cattle imported from Canada.” The full report is at the USDA website.

The letter to Secretary Schafer states: “NMPF believes that the BSE (bovine spongiform encephalopathy, or mad cow disease) situation in Canada is such that an animal could be imported into the U.S. and, if allowed to reside amongst the U.S. dairy herd, introduce or disseminate BSE in the U.S. This is evident by the number of cases of BSE from animals born after the USDA determined date of effective enforcement of their feed ban.” The letter then asks the USDA to consider closing the border to animals to be used for breeding purposes, which would include dairy heifers. USDA reports that approximately 45,000 Canadian dairy animals have been sent to the U.S. since the border was reopened in November 2007.

“Under the Animal Health Protection Act, the Secretary of Agriculture may prohibit the importation of any animal or article if the Secretary determines that the prohibition is necessary to prevent the introduction into or dissemination within the United States of any pest or disease of livestock,” NMPF wrote.

The NMPF letter noted that there have been nine Canadian cattle infected with BSE that were born after 1997, when Canada’s ruminant feed ban was imposed – a measure believed to prevent the spread of mad cow disease from infected feed. Seven of those nine animals were born after March,

1999, a point in time that the USDA determined Canada achieved compliance with international standards to prevent the spread of BSE.

“The enforcement of the 1997 Canadian feed ban does not appear to be effective in preventing the spread of BSE in Canada,” NMPF wrote, in light of the periodic reoccurrence of infected cattle, many of which could have been exported to the U.S. The first case of BSE discovered in the U.S., in 2003, was in a Canada-born dairy animal.

“Cattle imported for breeding or herd replacement purposes may not show clinical symptoms of BSE infection for many years, allowing BSE to incubate in U.S. cattle herds. In addition, any offspring from these cattle will also reside in the U.S. cattle population. If any of these animals are confirmed positive for BSE, both domestic and export markets for U.S. producers will be disrupted,” NMPF said.



Milk-Feed Ratio Continues Decline

In July, the milk-feed price ratio fell to 1.82, down from 3.16 in July 2007.

According to the USDA, the all-milk price used to calculate the July ratio was \$19.40 per hundredweight, a \$0.10 increase from the previous month.

The corn price increased to \$5.61 for July - \$1.29 per bushel higher than last July when it was \$ 3.32 per bushel. The price of soybeans rose \$1.00 to \$14.20 per bushel.

Baled alfalfa hay rose \$5 to \$177 per ton, \$40 higher than July 2007.

A ratio of 1.82 means that a dairy producer can buy 1.82 pounds of feed for every pound of milk sold. Whenever the ratio meets or exceeds 3.0, it is considered profitable to buy feed and produce milk. 

Department Calls Hearing

The California Department of Food and Agriculture (Department) is calling a consolidated public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas (Plans). The hearing will be held on October 30 and 31, 2008, beginning at 10:00 a.m. in the Department Auditorium, 1220 N Street, Sacramento.

On August 4, 2008, the Department received a petition from the Alliance of Western Milk Producers (Alliance), Western United Dairymen (WUD), and the California Dairy Women Association (CDWA) requesting a public hearing to consider amendments to the Plans. The hearing will consider the proposal of the Alliance, WUD, and CDWA for increases in the current Class 1, Class 2, and Class 3 prices, based on increases in the cost of producing milk (FAC Section 62062a). The hearing will also consider any additional Class 1, 2 and 3 pricing formulas, including those raised by alternative proposals received in the time and format specified. Any formulas adopted will be based on consideration of all relevant economic factors; these will include, but will not be limited to, that the resulting prices:

- are in a reasonable economic relationship with national prices (FAC Section 62062);
- shall insure, in relation to demand, an adequate supply of milk to consumers at reasonable prices (FAC Section 62062b);
- are reasonably related among all classes of milk (FAC Section 62062c);
- are, for Class 1 prices, reasonable compared to prices paid in contiguous states (FAC Section 62062.1); and
- maintain, for Class 2 and 3 prices, a reasonable relationship to the value of the products yielded from such milk (FAC Section 62076a).

All interested parties are entitled to submit proposals detailing alternative adjustments in the Class 1, 2 and 3 price formulas. Alternative proposals must be signed by a responsible party and received by the Department's Dairy Marketing Branch no later than 4:00 p.m. on Thursday, September 25, 2008. The Dairy Marketing Branch's office location is the Downtown Plaza, 560 J Street, Suite 150, Sacramento. Alternative proposals may be sent electronically via email to dairy@cdfa.ca.gov, faxed to (916) 341-6697, or mailed to Hearing Officer, c/o CDFa Dairy Marketing Branch, 1220 N Street, Sacramento CA 95814.

To assist interested persons in preparing for the hearing, a public workshop will be held on Wednesday,

October 15, 2008 beginning at 9:00 a.m. in the Department Auditorium, 1220 N Street, Sacramento. At this workshop, interested persons can review and discuss all proposals submitted with Department staff and other interested parties. The Department will supply background and analysis of the petitions and only those alternative proposals submitted by the September 25 deadline. The workshop will be informal and educational in nature. Discussion during the workshop will not be part of the official hearing record and shall not be considered in rendering a decision.

If any interested party has questions regarding the call of this hearing please contact Dave Ikari at (916) 341-5988. 

Federal Order Formula Changes Effective With September Milk

USDA announced that dairy producers in all Federal Order markets have approved the interim final rule on Class III and IV price formulas, originally published on June 20, 2008. These amendments take effect beginning with September milk for all classes, including the advanced prices that will be announced on August 22, 2008.

The decision raises the manufacturing ("make") allowances for all four products whose price enters into the formula. The cheese make allowance is raised from 16.82¢ per pound to 20.03¢, lowering the Class III formula price by 31¢ per hundredweight, according to NMPF's analysis. The butter make allowance goes from 12.02¢ per pound to 17.15¢, lowering the butterfat price by 6.2¢ per pound, the Class IV price by 22¢ per hundredweight and the Class III price by 3¢ per hundredweight. The nonfat dry milk make allowance is raised from 15.7¢ per pound to 16.78¢, lowering the Class IV formula by 10¢. Dry whey's make allowance is raised from 19.56¢ per pound to 19.91¢ per pound, lowering the Class III formula by 2¢. The butter yield factor of the butterfat price is also raised from 1.20 to 1.211. Because this is multiplied by the butter price in calculating the butterfat value, the impact of the change depends upon the butter price.

This rule is based on testimony in hearings that began in February 2007. It is an interim final rule, because the make allowance and yield factor changes are subject to comment and revision in another final rule. It is also a partial decision, because several proposals heard in the hearings, including NMPF's proposal to use energy cost indexes to adjust make allowances, will be addressed in another decision. For more information, call Roger Cryan at the NMPF office. 

Governor Signs Law to Ban Downer Cow Meat

Governor Schwarzenegger signed a law banning the purchase, sale, and processing of meat from downed livestock. Processors who sell meat from downer cows or swine face fines and jail, according to the legislation. The Governor vowed that we are strengthening California's food safety laws and sending a message that violating these laws will not be tolerated.

The new law follows this year's recall of 143 million pounds of beef produced by Chino, Calif.-based Hallmark/Westland Meat Co.; the recall was prompted by a Humane Society of the United States video showing workers abusing downer cows.

USDA Secretary Ed Schafer said that USDA is tightening the ban on non-ambulatory, or downer, cattle entering the food supply. While the federal government has banned downer cows from the food supply, there is an exception for slaughter of an animal that goes down after an initial inspection but before reaching the "knock box."

The exception allows government veterinarians to approve such animals for slaughter if a second inspection determines that the animal is not sick but is merely suffering from an injury. The USDA now wants to eliminate that exception.

Secretary Schafer says the new proposal has to go through a comment period and an approval process before it can be implemented. "Since [the comment period] will take some time, last month I called on the beef industry to voluntarily abide by the ban while the new rule is being developed, and to date we believe industry has responded very favorably to that voluntary ban," he says.

"We supported such a ban even before the beef recall was issued," says Stevie Ipsen, spokeswoman for the 3,000-member California Cattlemen's Association (CCA), based in Sacramento, Calif. In a press release, Bruce Hafenfeld, CCA president, said the California beef cattle industry supports zero tolerance of non-ambulatory animals at all points in the production, marketing, and processing chain. 

Expenditures for Farm Production At Record Highs

The Farm Production Expenditures 2007 summary released by USDA's National Agricultural Statistics Service (NASS) states that the rising cost of fuel and other products helped drive U.S. farm production expenditures to a record high \$260 billion in 2007. Total U.S. farm production expenditures rose 9.3 percent from 2006 and nearly 30 percent from 5 years ago.

Increasing petroleum cost meant farmers not only paid more for fuel, but also for fertilizer products, chemicals and transportation services. Indirectly, fuel prices and the growth in ethanol production also led to higher crop prices, resulting in increased cost for livestock feed.

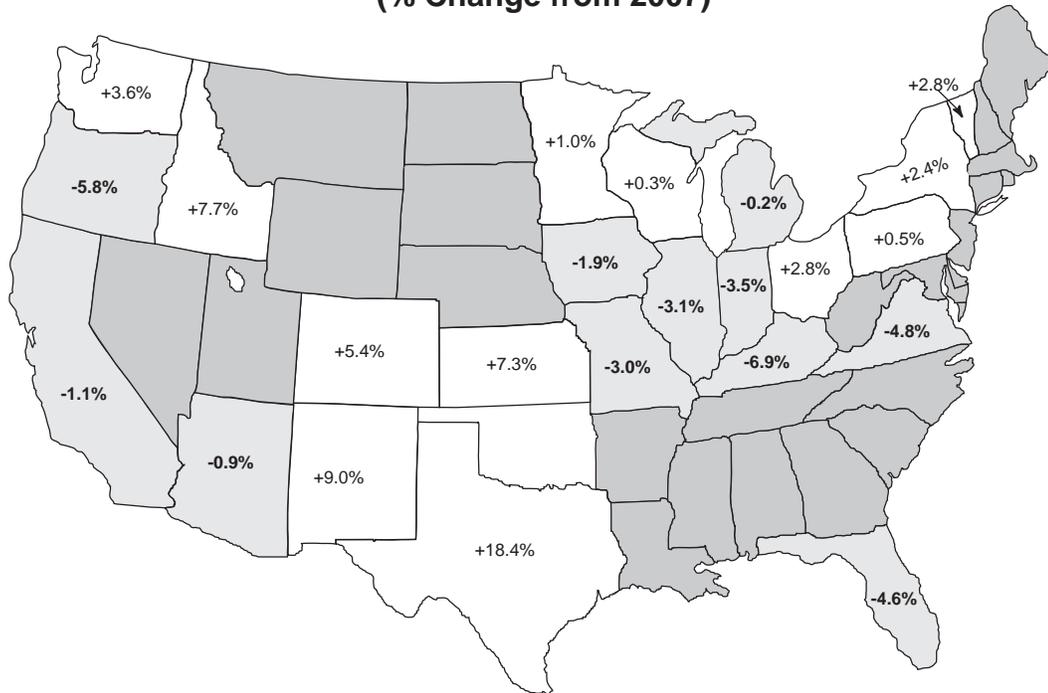
The NASS report indicates the average production expenditures per farm increased 10 percent nationwide, from \$114,186 in 2006 to \$125,648 in 2007. U.S. farm expenditures for fertilizer, lime and soil, on average, jumped 26 percent to \$8,070; feed cost rose 22 percent to \$18,412; fuel cost increased by 15 percent to \$6,137; and agricultural chemicals climbed 12 percent to \$4,832.

In total, U.S. producers spent \$12.7 billion on fuel, including \$7.71 billion for diesel, up 15 percent; \$2.74 billion for gasoline, up 16 percent; \$1.5 billion for LP gas, up 17 percent; and \$750 million for other fuels, up 4.2 percent. 

Corn Crop Forecast Very Bright

U.S. farmers are on pace to produce the second-largest corn crop and fourth largest soybean crop in history, according to the USDA Crop Production report recently released. Corn production is forecast at 12.3 billion bushels, down 6 percent from last year's record, but up 17 percent from 2006. Soybean production is forecast at 2.97 billion bushels. 

July Milk Production in the Top 23 States (% Change from 2007)



For the U.S. overall, comparing July 2008 to July 2007:

- U.S. Milk production during July was up 1.4%
- The number of cows on farms was 9.281 million head, up 128,000 head
- Production per cow averaged 1,716 pounds, 1 pound less than July 2007
- Eleven 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* By Quarter, 2007-2008

Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
<i>Dollars per Hundredweight</i>										
1st Quarter										
Total Costs	17.52	19.74	13.33	15.14	13.16	15.31	13.17	15.44	13.31	15.34
Total Costs & Allowances*	19.27	21.97	14.86	16.98	14.76	17.17	14.55	17.07	14.87	17.31
2nd Quarter										
Total Costs	16.23		13.41		13.51		13.00		13.49	
Total Costs & Allowances*	18.15		15.13		15.29		14.53		15.25	
3rd Quarter										
Total Costs	17.12		13.62		14.20		13.76		14.01	
Total Costs & Allowances*	19.24		15.51		16.24		15.52		15.98	
4th Quarter										
Total Costs	19.01		14.93		15.04		14.46		15.03	
Total Costs & Allowances*	21.21		16.84		17.05		16.23		14.97	

* Includes an allowance for management and a return on investment

Pool Prices

Month	Quota	Overbase
February '07	\$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
November	\$21.93	\$20.23
December	\$20.79	\$19.09
January '08	\$19.14	\$17.44
February	\$18.42	\$16.72
March	\$17.71	\$16.01
April	\$17.56	\$15.86
May	\$18.47	\$16.77
June	\$19.12	\$17.42
July	\$19.05	\$17.35

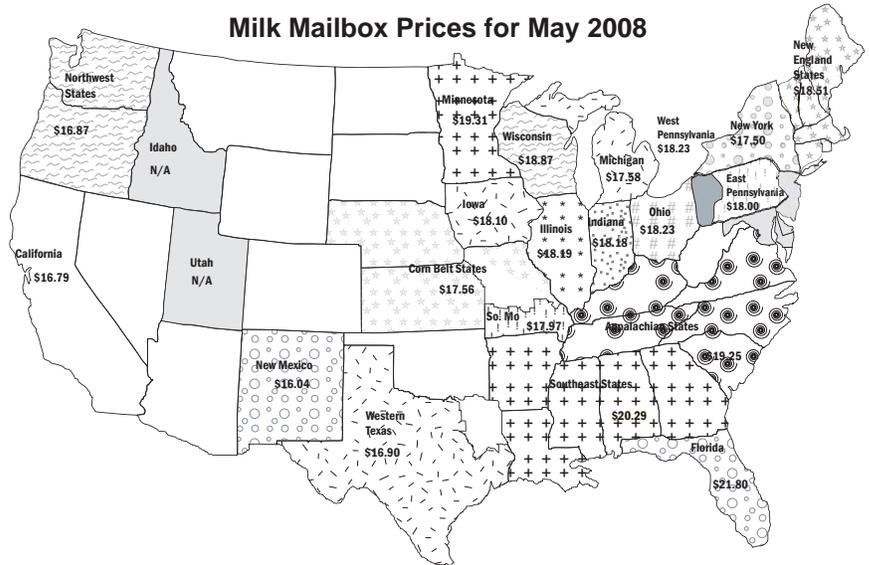
Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

	November	December	January	February	March	April	May
California ¹	\$20.62	\$19.71	\$17.97	\$17.05	\$16.04	\$15.88	\$16.79
USDA ²	\$21.81	\$21.04	\$20.70	\$19.03	\$18.01	\$18.19	\$18.09

¹ California mailbox price calculated by CDFA.

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



In May 2008, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$18.09 per cwt., down \$0.10 from the previous month, and up \$0.31 from May 2007. The component tests of producer milk in May 2008 were: butterfat, 3.62%; protein, 3.02%; and other solids, 5.72%. On an individual reporting area basis, mailbox prices decreased in all Federal milk order reporting areas except in Florida, Wisconsin and Minnesota, and ranged from \$21.80 in Florida to \$16.04 in New Mexico.



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

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

The California Department of Food and Agriculture Dairy Marketing Branch publishes the California Dairy Review monthly. Please direct any comments or subscription requests to Karen Dapper at (916) 341-5988 or send an email to dairy@cdfa.ca.gov

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