



# MCT COMPASS

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## Searching for Flower Power

When the California dairy industry sneezes, the rest of the country catches a cold. That's because the Golden State produces 19% of the nation's milk, 18% of its cheese, 28% of its butter and 47% of its skim milk powder.

This year, when the nation's eyes turn westward, they're watching for the impact of energy shortages that are creating havoc with milk production and processing. Milk is run 24/7 in California, so when the energy isn't there, dairy-men and plant operators get a little edgy.

In mid-January, several cheese plants in California lost production time due to rolling blackouts. One facility was said to be turning away 100,000 lbs. of milk for every hour it was idle. Another large cheese facility voluntarily shut one-third of its operation for a day to conserve power for the rest of the community.

Six weeks later the situation has moderated from crisis to strong concern. The state bought additional electricity and it hasn't been in stage three alert since Feb. 22. However, no one seems to know exactly how the problem was alleviated or what needs to be done to prevent it from returning.

So far producers and processors have absorbed the additional costs

and managed through rolling blackouts. Many plants are adding backup generators to forestall further shutdowns. While most in California believe the lights will be kept on, no one is willing to predict at what cost.

How will the dairy industry absorb that cost? At least one cheese company boosted its selling price by tacking on an "energy surcharge." One suggestion from the cooperative community is to increase the make allowance for the Class 4a and Class 4b prices. However, this is not very palatable to dairy producers because higher make allowances reduce the class prices. Non-cooperative processors are not embracing this plan, either.

The real fear is that the state will not have enough energy once the *real* usage season kicks in. This month and next the agricultural community will jump-start energy usage as seasonal fruit and vegetable processing begins. Plants handling everything from almond roasting to tomato processing will be in high gear by April.

By then, homes and office buildings will be dialing up their air conditioners for the onset of summer heat in the Golden State. It remains to be seen if the utilities will have enough energy to meet these needs. □

## KEN'S CORNER



**by Ken Meyers**  
**President**  
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It's critical to keep an eye on the storm clouds gathering over the Western region – the literal ones and the figurative

ones. California has enjoyed six consecutive years of near-normal to above-normal Sierra Nevada snow pack and near-normal cumulative holdings in its 156 major reservoirs. This year could be different, given the dry winter we've seen in surrounding states.

Those same surrounding states also are complaining that their energy reserves are being drained by California. The rolling blackouts have tapered off, but the state is not out of the woods yet. Energy demand is roughly 50% higher in the summer than in the winter, and California, which hasn't built a new power plant in 12 years, still hasn't figured out where all the extra energy will come from.

On the other side of the world, a crisis of another kind is having a ripple effect on agricultural markets around the world. The outbreak of foot-and-mouth disease in the UK has left its livestock industry under quarantine.

In our next issue of the *MCT Compass*, we'll look at the impact of foot-and-mouth on dairy sales worldwide. □

### Markets stay unsettled

The cheese market retreated this week as buyers reassessed their inventory positions. With milk and cheese production rising seasonally, we expect prices to slip modestly lower through the spring flush. There is some uncertainty as to where prices will peak, but we

expect blocks to approach \$1.55 by October. That will translate into a Class III price of about \$13.85.

The butter market is holding firm, though a drop-off in price after Easter is likely. We look for the price to reach \$1.70 in the third or fourth quarter, driving the Class IV to about \$14.20. □

### Foot-and-mouth hits UK

Just when the Europeans thought it couldn't get any worse after last fall's BSE outbreak, a slaughterhouse in the UK reported a case of highly contagious foot-and-mouth disease in late February. Through yesterday, 84 cases of the disease had been identified in the UK and Northern Ireland.

The nation voluntarily suspended exports of all live animals, meat and dairy products on Feb. 21 and began a massive culling program. About 40,000 animals in the UK have already been slaughtered and another 40,000 are due to be killed. □

#### MCT Forecast

	<b>Block*</b>	<b>Barrel*</b>	<b>Class III</b>	<b>Butter*</b>	<b>Class IV</b>
<b>MAR</b>	<b>1.2368</b>	<b>1.2116</b>	<b>11.18</b>	<b>1.5248</b>	<b>13.45</b>
<b>APR</b>	<b>1.2302</b>	<b>1.2014</b>	<b>10.64</b>	<b>1.4750</b>	<b>13.49</b>
<b>MAY</b>	<b>1.2428</b>	<b>1.2189</b>	<b>10.79</b>	<b>1.4235</b>	<b>13.07</b>
<b>JUN</b>	<b>1.2595</b>	<b>1.2395</b>	<b>10.93</b>	<b>1.5000</b>	<b>13.36</b>
<b>JUL</b>	<b>1.2800</b>	<b>1.2600</b>	<b>11.07</b>	<b>1.5500</b>	<b>13.60</b>
<b>AUG</b>	<b>1.3348</b>	<b>1.3148</b>	<b>11.36</b>	<b>1.5500</b>	<b>13.61</b>

\* Block, barrel and butter are monthly averages of CME prices.

### February showers alleviate drought fears

What a difference a month makes.

Until mid-January, California dairymen searched in vain for rain clouds. They spied the dwindling snow pack in the Sierra Nevadas and braced for a shortage of moisture in 2001. Insufficient water levels pose two threats: reduced harvests of hay and corn and less run-off to drive the hydroelectric plants so critical to California's energy needs this year.

But some of that fear has eased over the last six weeks.

February was very wet indeed, with mountain snow pack

levels doubling from 9 to 18 inches, nearly 75% of normal, according to the National Weather Service (NWS). Season-to-date precipitation levels in Sacramento and Fresno have caught up with normal levels, while Los Angeles has received almost twice as much rain as usual.

In fact, over the last three weeks, southern California has been pounded with nearly 7 inches of rain, creating muddy feedlots that are having a negative impact on milk production. Further, early cuttings of hay are getting soaked, reducing feed quality. The rainy season generally starts tapering off

in March, so most agree that little long-term effect will be felt if the skies clear soon.

Unfortunately, little rain has hit the surrounding regions. Key regions in Idaho and Washington remain well below normal precipitation levels heading into the "dry" season. Most river basins from the Cascades to the northern Rockies received 45-70% of normal moisture this winter. As a result, NWS's drought monitor continues to label the region "abnormally dry" with a "moderate" potential for drought. These levels may be the most significant to watch for irrigation and power plant needs. □

