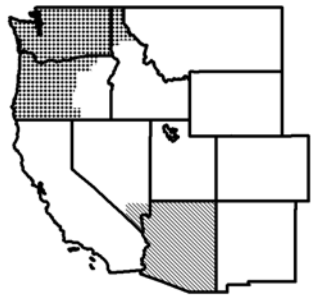
The Market Administrator's Report

Pacific Northwest & Arizona-Las Vegas Marketing Areas

1930 – 220th Street SE, Suite 102
Bothell, Washington 98021-8471
Phone (425) 487-6009
Fax (425) 487-2775
Homepage: fmmaseattle.com
E-mail: fmmaseattle@fmmaseattle.com

James R. Daugherty
Market Administrator



10050 N 25th Avenue, Suite 302
Phoenix, Arizona 85021-1664
Phone (602) 547-2909
Fax (602) 547-2906
E-mail: ma@fmma.net

November 2004

MARKET SUMMARIES FOR OCTOBER 2004

Comparisons to a year ago can be found in the tables on pages 6 and 7.

Pacific Northwest

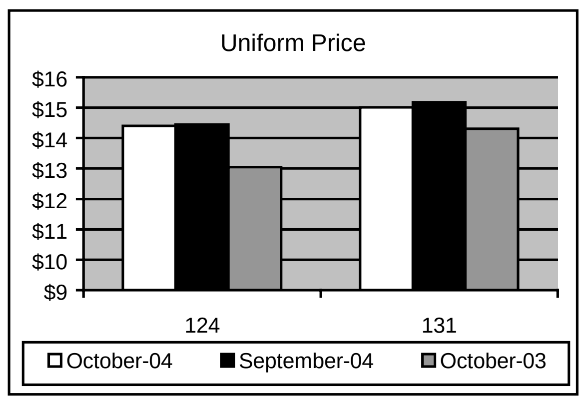
Producers delivered a total of 617.2 million pounds of milk to the market during October. Comparisons to the previous month are affected by eligible milk not pooled in September and October 2004. Daily deliveries averaged 19.9 million pounds, up 24.1 percent from September. An estimated 891 producers delivered milk to the market during the month. Daily deliveries per producer averaged 22,346 pounds, up 17.6 percent from September.

Class I producer milk during October totaled 184.9 million pounds, 30.0 percent of total producer receipts. Daily usage averaged 6.0 million pounds, down 1.9 percent from September.

Arizona-Las Vegas

Producers delivered a total of 230.7 million pounds of milk to the market during October. Daily deliveries averaged 7.4 million pounds, up 2.6 percent from September. An estimated 93 producers delivered milk to the market during the month. Daily deliveries per producer averaged 80,016 pounds, up 2.6 percent from September.

Class I producer milk during October totaled 80.8 million pounds, 35.0 percent of total producer receipts. Daily usage averaged 2.6 million pounds, down 4.9 percent from September. ♦



Federal Order Producer Prices and Component Levels: October 2004

Producer Prices	FO124	FO131	Component Levels (%)	FO124	FO131
Uniform Price 1/*	14.40	15.01	Butterfat	3.723	3.671
Butterfat 2/	1.9020	1.9025	Protein	3.138	N/A
Protein 2/	2.3814	N/A	Other Solids	5.706	N/A
Other Solids 2/	0.0677	N/A	Nonfat Solids	8.844	N/A
PPD 1/*	0.24	N/A			
Skim 1/	N/A	8.65			

N/A = not applicable. * Subject to applicable location adjustments. 1/ $ per cwt. 2/ $ per pound.

OCTOBER 2004 CLASS PRICES

October 2004 non-advanced Class Prices were calculated using NASS commodity price surveys from October 2, 9, 16, 23, and 30, 2004. Component prices for the month are $2.3814 per pound of protein, $1.9020 per pound of butterfat, $0.0677 per pound of other solids, and $0.7093 per pound of nonfat solids.

October 2004 Class III and IV prices at 3.5% butterfat are $14.16 and $12.81 per hundredweight, respectively. The October Class III price compared to September is down $0.56. The Class III price is $0.23 lower than October 2003. The Class III price at 3.67% butterfat is $4.57 above the support price of $9.90 at 3.67% butterfat.

Class II butterfat was announced at $1.9090 per pound. Class I skim and butterfat and Class II skim prices for October 2004 were announced on September 17, 2004. The Class II price at 3.5% butterfat is $13.57 for October 2004 .

FINAL: NASS COMMODITY PRICES

	September	October	Change
Cheese*	$1.5867	$1.5256	-$0.0611
Butter	$1.7278	$1.7000	-$0.0278
Nonfat Dry Milk	$0.8639	$0.8565	-$0.0074
Whey	$0.2162	$0.2247	$0.0085

* The weighted average of barrels plus 3 cents and blocks.

Current Commodity Prices - - The NASS survey of cheddar cheese prices showed a net increase in prices received for 40-pound blocks and 500-pound barrels. The survey of 40-pound blocks showed a net increase of 1.38 cents between the October 16 and the November 13 surveys, to $1.5477 per pound. The survey of 500-pound barrels (**adjusted to 38% moisture**) showed a net increase of 5.97 cents to $1.5391 per pound.

The NASS butter price showed a net increase of 8.76 cents between the weeks ending October 16 and November 13 from $1.6882 per pound to $1.7758 per pound.

The NASS nonfat dry milk showed a net decrease of 1.23 cents since mid-October to $0.8515 per pound. The average price for NASS whey showed a net increase of 0.78 cents since mid-October to $0.2358 per pound. ♦

DECEMBER'S CLASS I PRICE ANNOUNCEMENT

On November 19, the December 2004 Class I price was announced at $16.33 for the Pacific Northwest Order, and $16.78 for the Arizona-Las Vegas Order. The Class I price was calculated using NASS commodity price surveys from the weeks of November 6 and 13.

The December Class III and IV advance skim prices are $8.12 and $6.37 per hundredweight, respectively. The butterfat portion of the Class I mover decreased 4.54 cents from $1.9288 to $1.8834 per pound.

The December 2004 Class II skim and nonfat solids prices were also announced on November 19. The skim price is $7.07 per hundredweight, and the nonfat solids price is $0.7856 per pound for all Federal orders. ♦

ADVANCED: NASS COMMODITY PRICES FOR CLASS I PRICE CALCULATIONS

	November	December	Change
Cheese*	$1.5373	$1.5481	$0.0108
Butter	$1.7223	$1.6845	-$0.0378
Nonfat Dry Milk	$0.8626	$0.8553	-$0.0073
Whey	$0.2241	$0.2338	$0.0097

* The weighted average of barrels plus 3 cents and blocks.

USDA ANNOUNCES LAUNCH OF MY.USDA.GOV

Agriculture Secretary Ann M. Veneman has announced the availability of "My.USDA.gov," which will allow individual users to customize the USDA homepage for their unique needs.

"eGovernment is an important part of President Bush's Management Agenda to improve the operations of government," said Veneman. "My.USDA.gov is the latest installment of USDA's efforts to provide customers with the latest information they need more quickly and easily."

Veneman announced in January 2004 that USDA would put great focus on eGovernment to standardize processes and provide tools to unleash the fuller potential of information technology. The initiative began with a new website design to make it more powerful and improve access to USDA information and science. The new look was followed by improved functionality. Features include "customer statement," launched in March, which put a whole range of USDA services and programs into a single report at the fingertips of agricultural producers. Farmers are able to view their contracts in various conservation programs, payments under commodity programs, and information on loans and crop insurance.

Veneman noted the launch of My.USDA.gov features added functionality, allowing customers to find items of interest, by selecting "Browse by Audience" and, as launched in January, the "Browse by Subject." A customized page can be created in three easy steps by going to www.usda.gov and signing up for an ID.

Additional USDA eGovernment initiatives will continue to be announced throughout 2004. To begin the customization of the USDA homepage, users can visit www.usda.gov and click on the Login or New User button located on the left navigation bar. ♦

DAIRY OUTLOOK: HORMONE RESTRICTION TO CONTINUE INTO 2005

Monsanto has indicated that limited supplies of bovine somatotropin (BST) will continue "well into 2005, with incremental increases occurring over time," and some allocations will remain in place. For most of 2004, established users of BST were limited to only half their normal purchases, and no new customers were accepted. On December 1, 2004, allocations will increase to at least 70 percent of historical purchases.

The delay of full BST availability will dampen recovery in milk per cow during the first half of 2005. However, the prospects for substantial recovery in gains in milk per cow remain generally favorable. Some additional BST will be available, relative milk and concentrate feed prices will encourage heavier feeding, forage supplies will be ample even if quality is somewhat mixed, more normal culling may resume if heifer supplies recover, and milk per cow has already shown recovery from the very weak levels of the first half of 2004. Good weather for cows undoubtedly boosted summer milk per cow, but some of the economic factors probably also made significant contributions.

Source: "Livestock, Dairy, and Poultry Outlook," LDP-M-124, October 18, 2004, Economic Research Service, USDA, Washington, DC. For more information, contact James J. Miller, (202) 694-5184. ♦

USDA SEEKS NOMINATIONS FOR NATIONAL FLUID MILK BOARD

The U.S. Department of Agriculture is asking dairy processors and other interested parties to nominate candidates for the National Fluid Milk Processor Promotion Board.

The secretary of agriculture will appoint six individuals from those nominated to succeed members whose terms expire June 30, 2005. Newly appointed or reappointed members will serve 3 year terms from July 1, 2005 through June 30, 2008.

Established by the Fluid Milk Promotion Act of 1990, the National Fluid Milk Processor Promotion Board develops and administers a coordinated program of advertising and education to promote fluid milk products. Of the board's 20 members, 15 represent geographic regions and five are at-large members. The at-large members must include at least three fluid milk processors and at least one member from the general public. Currently, there are two members from the general public serving on the board.

The national fluid milk program is financed by a mandatory 20-cent per hundredweight assessment on fluid milk processors who process and market commercially in consumer-type packages more than 3,000,000 pounds of fluid milk products per month in the contiguous 48 states and the District of Columbia, excluding those fluid milk products delivered directly to the residence of a consumer.

USDA will accept nominations for board representation in five geographic regions and for one at-large position. Nominees for all six positions must be active owners or employees of a fluid milk processor. The geographic regions are: Region 2 (New Jersey and New York); Region 5 (Florida); Region 8 (Illinois and Indiana); Region 11 (Arkansas, Iowa, Kansas, Missouri, Nebraska and Oklahoma); and Region 14 (Northern California). No more than three members shall represent a fluid milk processor on the board.

Fluid milk processors and interested parties can submit nominations for regions where they are located or market fluid milk and for the at-large position.

To nominate an individual, please submit completed nomination background forms by Dec. 3, 2004, to: Promotion and Research Branch, Dairy Programs, AMS, MRP, USDA, 1400 Independence Ave., SW, Stop 0233, Room 2958 S, Washington, DC 20250-0233. To obtain forms or additional information, call (202) 720-6909. Blank forms are also available on the Dairy Promotion and Research Branch's Website at http://www.ams.usda.gov/dairy/dairyrp.htm. ♦

(Continued from Page 8)

economic outcomes and were combined into a single report.

The report focuses on the following questions: What have been the measurable effects of dairy programs on economic variables – price level and volatility, milk production, and producer revenues? How have these market impacts in turn affected farms, rural economies, and nutrition programs? How might States cooperate to support prices in the absence of a Federal price support program?

The standard tools of economic analysis are used to address these questions, but there are also other forces at work that have influenced the dairy sector. Changes in the dairy sector should be considered in a larger context with a longer-run perspective.

Conclusion:
Dairy Policy Has a Modest Impact

An examination of dairy programs' impacts suggests that Federal dairy programs raise the all-milk price by only about one percent, and raise total producer revenues (returns plus Government payments) by three percent, on average, over five years. While producers are, as a whole, better off with dairy programs, these programs do raise consumer costs, albeit modestly, and increase Government expenditures.

An analysis of dairy programs' effects on the financial conditions of representative farms around the United States reveals that the current policy structure may lower the returns of some Western dairies.

Dairy programs raise the retail price of fluid milk, which affects both consumer expenditures on food and the cost of operating food and nutrition programs. In the case of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), it is possible that higher fluid milk prices could affect participation. Because WIC is a discretionary grant program funded by annual appropriations, the number of participants depends on the appropriation and the cost of operating the program. Other food and nutrition programs are entitlement programs, and their costs are indexed to price indices that increase Government outlays when dairy programs raise product prices. Higher dairy prices are therefore unlikely to affect participation, but could affect how food stamp recipients choose to spend their food dollars.

National dairy programs have almost no impact on aggregate economic activity Both nationally and at a broad regional level, the industry's impact on employment is less than one-tenth of one percent of total employment. In areas that are highly dependent on milk production, impacts are likely to be greater. Dairy programs very likely have greater impacts on metropolitan than on nonmetropolitan employment because farm input production, such as machinery and fertilizer, as well as much of the upstream processing and distribution activities are located in metropolitan areas.

Conclusion:
State Management of Milk Supplies and Prices Raises Difficult Issues

Unlike most other agricultural commodity markets, milk markets have a long history of State intervention. However, as milk markets have become increasingly integrated across State boundaries, the potential for effective State-level intervention in dairy markets has diminished. Today, of the major milk-producing States, only California and Pennsylvania set minimum prices for milk to any great extent.

This analysis raises questions regarding other means of State support. If States pursue a support program similar to the Federal milk price support program, States would need to address program funding, and establish price support levels. Also, States would need to dispose of surplus stocks if product purchase programs were implemented. If supply control programs were adopted, additional considerations include establishing and enforcing quota levels, and penalties or incentives for compliance. Such systems raise questions regarding cross-border issues, as well, including: how to deal with milk flowing to areas with different price support or quota levels? While State or regional management of milk prices has received considerable attention as a possible alternative to current policy, this analysis suggests that it likely raises even more difficult issues than current policy. ♦

COMMERCIAL DISAPPEARANCE OF DAIRY PRODUCTS UP 0.8% FOR FIRST EIGHT MONTHS OF 2004

Commercial disappearance of U.S. milk for the first eight months of 2004 was up 0.8 percent over the same period of 2003. Commercial disappearance is used as an indicator of consumption of U.S. milk marketings and is a residual figure. This measure of consumption includes civilian and military purchases of milk and dairy products for domestic and foreign use (exports), but excludes farm household use, commercial stocks, and imports. The table below shows commercial disappearance by commodity and their milk-equivalent on a fat solids basis.

Butter, American cheese, other cheese, and nonfat dry milk disappearance showed increases from 2003. Only fluid milk disappearance showed decreases from 2003. Nonfat dry milk disappearance increased the most, up 50.7 percent. Fluid milk disappearance was down 1.5 percent. ♦

Commercial Disappearance

	January-August		%
	2004	2003	Change #
Selected Products	- - Million Pounds - -		
Butter *	794.4	777.5	1.7%
American Cheese *	2,469.2	2,425.2	1.4%
Other Cheese *	3,592.8	3,456.4	3.5%
Nonfat Dry Milk *	890.8	589.0	50.7%
Fluid Milk Products	35,873.9	36,289.3	-1.5%
Total *	115,602	114,277	0.8%

- Commercial Disappearance, milk-equivalent, milk fat basis. Source: Dairy Market News, Volume 71, Report 43. # Percent change on a daily average basis.

UNITED STATES MILK PRODUCTION UP 1.2 PERCENT IN OCTOBER 2004

Milk production for October 2004 was up 1.2 percent for the United States compared with October 2003. United States' milk production for October 2004 equaled 14,067 million pounds, 169 million pounds more than last October. The table below shows data for October 2004 for selected states with comparisons to year-ago levels.

Milk production in the 20 major states during October 2004 totaled 12,245 million pounds, up 1.3 percent from production in these same states in October 2003.

In ranking the order of contribution, California, Idaho, Arizona, Texas and Ohio were the primary sources of increases in milk production. The total increases from these states more than offset the decreases in the other states. In a similar method of ranking, Washington, New York, Michigan, Indiana, and Iowa showed decreases in milk production from year-ago levels. ♦

Milk Production October 2003 - 2004

	2003	2004 1/	% Change
	- - million pounds -		
Arizona	269	296	10.04%
California	2,921	3,080	5.44%
Idaho	750	779	3.87%
Illinois	163	157	-3.68%
Indiana	256	244	-4.69%
Iowa	305	293	-3.93%
Michigan	542	528	-2.58%
New York	968	949	-1.96%
Ohio	368	378	2.72%
Oregon 2/	N/A	N/A	N/A
Texas	450	470	4.44%
Utah 2/	N/A	N/A	N/A
Virginia	136	141	3.68%
Washington	461	442	-4.12%
Wisconsin	1,831	1,826	-0.27%
20 States 3/	12,083	12,245	1.34%
U.S.	13,898	14,067	1.22%

1/ October 2004 is preliminary. 2/ Data for Oregon and Utah is published quarterly. 3/ 20 States do not include Oregon and Utah. N/A = not available. Source: National Agricultural Statistics Service.

MONTHLY SELECTED STATISTICS

Minimum Class Prices (3.5% B.F.)	PACIFIC NORTHWEST Oct 2004	PACIFIC NORTHWEST Sep 2004	PACIFIC NORTHWEST Oct 2003	WESTERN Oct 2004	WESTERN Sep 2004	WESTERN Oct 2003	ARIZONA-LAS VEGAS Oct 2004	ARIZONA-LAS VEGAS Sep 2004	ARIZONA-LAS VEGAS Oct 2003
Class I Milk ($/cwt.)	$16.68	$15.84	$16.17			$16.17	$17.13	$16.29	$16.62
Class II Milk ($/cwt.)	13.57	13.66	10.84			10.84	13.57	13.66	10.84
Class III Milk ($/cwt.)	14.16	14.72	14.39			14.39	14.16	14.72	14.39
Class IV Milk ($/cwt.)	12.81	13.00	10.16			10.16	12.81	13.00	10.16
Producer Prices									
Producer Price Differential ($/cwt.)	$ 0.24	$(0.28)	$(1.34)			$(0.63)	+	+	+
Butterfat ($/pound)	1.9020	1.9354	1.2553			1.2553	+	+	+
Protein ($/pound)	2.3814	2.5431	3.2815			3.2815	+	+	+
Other Solids ($/pound)	0.0677	0.0589	0.0311			0.0311	+	+	+
Uniform Skim Price ($/cwt.) . . .	+	+	+			+	8.65	8.79	10.29
Uniform Butterfat Price ($/pound)	+	+	+			+	1.9025	1.9128	1.2503
Statistical Uniform Price ($/cwt.) . .	$14.40	$14.44	$13.05	No data available. FO 135 was terminated effective April 1, 2004.		$13.76	$15.01	$15.18	$14.31
Producer Data									
Number of Producers	891 *	844	693			557	93 *	93	104
Avg. Daily Production (lbs.) . . .	22,346 *	19,006	17,545			10,119	80,016 *	77,967	72,758
Number of Handlers									
Pool Handlers	29	29	26			17	5	5	6
Producer-Handlers	7 *	7	8			5	2 *	2	2
Other Plants w/ Class I Use . . .	23 *	23	18			22	32 *	32	34
Producer Milk Ratios									
Class I	29.95%	37.89%	49.84%			57.54%	35.03%	37.82%	36.67%
Class II	6.36%	7.63%	8.25%			17.63%	8.31%	10.65%	8.24%
Class III	35.59%	17.59%	0.92%			2.19%	41.89%	40.38%	39.53%
Class IV	28.10%	36.89%	40.99%			22.64%	14.77%	11.15%	15.56%

\+ Not Applicable. * Preliminary.

MONTHLY SUPPLEMENTAL STATISTICS

Producer-Handler Data	PACIFIC NORTHWEST Sep 2004	PACIFIC NORTHWEST Aug 2004	PACIFIC NORTHWEST Sep 2003	WESTERN Sep 2004	WESTERN Aug 2004	WESTERN Sep 2003	ARIZONA-LAS VEGAS Sep 2004	ARIZONA-LAS VEGAS Aug 2004	ARIZONA-LAS VEGAS Sep 2003
Production	19,234,489	20,073,882	23,460,789			2,280,864	R	R	R
Class I Use	16,660,782	16,472,221	20,668,249			1,662,640	R	R	R
% Class I Use	86.62%	82.06%	88.10%	No data available. FO 135 was terminated effective April 1, 2004.		72.90%	R	R	R
Class I Route Disposition In Area									
By Pool Plants	161,726,503	155,529,721	152,167,356			68,865,422	76,229,015	77,082,824	76,392,727
By Producer-Handlers	16,262,374	15,492,724	20,193,661			1,640,390	1/	1/	1/
By Other Plants	3,978,166 *	3,418,305	5,442,966			3,793,867	27,832,793 *	30,784,731	31,501,355
Total	181,967,043	174,440,750	177,803,983			74,299,679	104,061,808	107,867,555	107,894,082

* Preliminary. R = Restricted. Not included. 1/ Restricted. Included with other plants.

MONTHLY STATISTICAL SUMMARY

(Product pounds based upon reports of handlers)

RECEIPTS, UTILIZATION AND CLASSIFICATION OF MILK	PACIFIC NORTHWEST Oct 2004	PACIFIC NORTHWEST Sep 2004	PACIFIC NORTHWEST Oct 2003	WESTERN Oct 2004	WESTERN Sep 2004	WESTERN Oct 2003	ARIZONA-LAS VEGAS Oct 2004	ARIZONA-LAS VEGAS Sep 2004	ARIZONA-LAS VEGAS Oct 2003
TOTAL PRODUCER MILK	617,207,024	481,232,360	376,914,747			174,721,753	230,687,234	217,527,462	234,571,925
RECEIPTS FROM OTHER SOURCES	16,669,404	136,308,717	33,869,538			8,916,700	26,216,792	6,838,144	2,505,209
OPENING INVENTORY	31,544,635	30,730,395	27,564,740			15,001,699	13,540,510	12,761,344	13,801,339
TOTAL TO BE ACCOUNTED FOR	665,421,063	648,271,472	438,349,025			198,640,152	270,444,536	237,126,950	250,878,473
UTILIZATION OF RECEIPTS									
Whole milk	30,241,284	29,703,340	30,749,553			13,741,802	20,295,573	19,937,053	23,576,200
Flavored milk & milk drinks	12,921,851	11,678,896	12,778,716			7,049,403	5,988,528	6,136,022	6,495,564
2% milk	67,727,937	68,091,902	71,679,193			30,499,111	30,388,073	29,350,494	29,327,672
1% milk	25,363,516	24,826,573	24,955,130			14,395,553	10,114,222	10,034,355	9,668,496
Skim milk	26,541,951	26,120,499	26,785,101			9,318,524	10,509,074	10,249,153	9,987,996
Buttermilk	1,292,974	1,305,293	1,424,539			602,667	526,414	521,938	567,847
CLASS I ROUTE DISP. IN AREA. .	164,089,513	161,726,503	168,372,232			75,607,060	77,821,884	76,229,015	79,623,775
Class I dispositions out of area . . .	13,965,976	14,473,226	14,140,776			21,478,056	4,065,494	3,960,672	4,832,880
Other Class I usage	22,343,642	22,157,203	23,343,360			16,653,827	8,589,934	9,132,661	8,393,645
TOTAL CLASS I USE.	200,399,131	198,356,932	205,856,368			113,738,943	90,477,312	89,322,348	92,850,300
TOTAL CLASS II USE	45,522,447	46,799,127	44,478,868	No data available. FO 135 was terminated April 1, 2004.		36,347,692	19,858,715	24,023,134	19,872,916
TOTAL CLASS III USE	223,357,221	201,844,479	3,591,103			4,425,051	97,377,141	88,420,783	92,943,906
TOTAL CLASS IV USE	196,142,264	201,270,934	184,422,686			44,128,466	62,731,368	35,360,685	45,211,351
TOTAL ACCOUNTED FOR	665,421,063	648,271,472	438,349,025			198,640,152	270,444,536	237,126,950	250,878,473
CLASSIFICATION OF RECEIPTS									
Producer milk: Class I . .	184,876,568	182,378,520	187,837,226			100,515,913	80,833,157	82,281,131	86,004,175
Class II .	39,258,177	36,700,704	31,088,918			30,811,780	19,163,409	23,160,129	19,332,876
Class III .	219,636,128	84,635,442	3,478,233			3,832,643	96,624,795	87,835,314	92,737,499
Class IV .	173,436,151	177,517,694	154,510,370			39,561,417	34,065,873	24,250,888	36,497,375
Other receipts: Class I .	15,522,563	15,978,412	18,019,142			13,223,030	39,757,302	19,599,488	16,306,548
Class II .	6,264,270	10,098,423	13,389,950			5,535,912	1/	1/	1/
Class III .	3,721,093	117,209,037	112,870			592,408	1/	1/	1/
Class IV .	22,706,113	23,753,240	29,912,316			4,567,049	1/	1/	1/
Avg. daily producer receipts	19,909,904	16,041,079	12,158,540			5,636,186	7,441,524	7,250,915	7,566,836
Change From Previous Year . .	63.75%	29.47%	-42.73%			-62.84%	-1.66%	-2.02%	-2.39%
Avg. daily Class I use	6,464,488	6,611,898	6,640,528			3,668,998	2,918,623	2,977,412	2,995,171
Change From Previous Year . .	-2.65%	5.12%	-0.57%			6.85%	-2.56%	2.27%	-0.01%

1/ Restricted - Included with Class I.

Market Administrator's Report Volume 29, Number 11 November 2004

HIGHLIGHTS THIS ISSUE:

USDA RELEASES 2002 FARM BILL STUDY OF DAIRY POLICY

The U.S. Department of Agriculture issued a Report to Congress that focuses on the effects of dairy programs on economic variables—price level and volatility, milk production, and producer revenues. The report, entitled *Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing*, is available on the internet at http://www.usda.gov/documents/NewsReleases/dairyreport1.pdf.

The following is excerpted from the report:

Overview: The U.S. Congress, in the Farm Security and Rural Investment Act of 2002, directed the Secretary of Agriculture to study the effects of (a) terminating Federal milk price support and supply management programs, and (b) allowing State cooperation to manage milk prices and supply. Both studies deal with similar questions that relate to the effects of government policies on

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