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Penn State
FARM AND DAIRY
Business Seminar of the Week

(Continued from Page E10)

Effects on Milk Composition and Consumption

Studies to date have shown BST has little or no effect on the composition of milk as it comes from the cow. The Food and Drug Administration (FDA) has already cleared the sale of meat and milk from BST treated cows in FDA-approved research herds. Even if this approval is extended to all commercially produced milk, only a necessary, not a sufficient condition for consumer acceptance has been met. This author knows of no significant study of the probable consumer acceptance of BST milk from the perspectives of their preferences for natural, safe, wholesome and healthy foods. Milk from BST cows is unlikely to have any physiological effect on humans because BST is a protein that is inactivated by the human digestive process. Nevertheless, BST could become the object of a negative publicity effort by some consumer group or another, and the dairy industry could have its hands full counteracting such publicity. Where it would all end is anyone's guess at this point, but BST itself is unlikely to win any new converts to milk drinking.

The Aggregate or Market Effects of BST

Generally, I have argued, BST will not be viewed much different-

ly by dairy farmers than other technologies have been. If farmers think it will pay them to use it, they will. If longer-term effects then prove it doesn't pay, they will stop using it. Whether to begin and continue the use of BST is an individual farm decision, with somewhat predictable or at least observable results. Because of the atomistic nature of the dairy producing sector, individual dairy farmers can continue to ignore the effects of their decisions on market quantities and prices. Changes in market prices, of course, do not in turn ignore individual dairy farmers. How is BST likely to effect market prices? More importantly, how is BST likely to affect dairy farm profits? The nature of adopted technology has been to make certain dairy farm tasks less difficult or less distasteful (about the only way early mechanical barn cleaners could be justified), or to reduce costs of production. Most cost-reducing technology has been output-increasing, and this is clearly by the nature of BST. With increased individual farm output would come increased market output. Now, in the case of milk, the federal government could hold to the existing level of price support and simply buy the increased production in the form of dairy products. Somehow, that doesn't seem to square with the current mood of Congress or the administration. Ultimately, the government will allow the price received by farmers in the market

to decline. Aside from the possibility of playing out their dislike of BST milk in the market place by lowering their levels of consumption, consumers will normally purchase more milk and dairy products at these lower prices, but never enough more to keep farm milk prices from falling. At some point, the reduction in prices received will exceed the savings in costs of production as farm level adjustments take place. These adjustments are likely to be the same as they almost always have -- those that result in fewer, but larger dairy farms. If BST ever comes close to living up to its promise, the long-term on-going trend toward fewer and larger farms is likely to accelerate, but there is little reason to expect the industry to crash out of control.

If and When BST Will be Used Commercially

Many people believe BST will eventually be approved for general use -- and many people better informed that I am guessing it will happen in time for adoption sometime in 1990. Early adopters of technology that later proves to be sound usually benefit most from the new technology. They get the benefits of lower costs of production before market prices fall to take these benefits away. This is likely to be especially true of BST because it will be so easy to adopt, and the pay-off to the early adopters may be unusually short-lived.

Inter-farm, Inter-regional, and Inter-national Comparative Advantages

BST will benefit some adopters more than others even for the same date of adoption. Those with higher levels of management skills will probably "milk" more out of BST technology than those with lower levels of management skills. But then that is true of almost all tech-

nological change, isn't it? Some researchers suggest higher-production cows will respond more to BST than lower-producing ones; others say little difference can be expected. It may even be the other way around. Almost everyone says BST won't make good cows and good managers out of poor cows and poor managers, however.

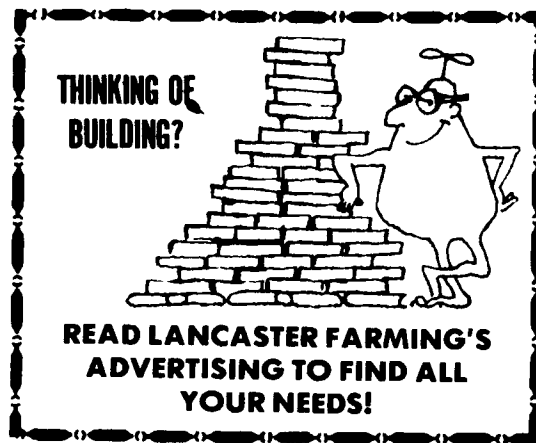
The most comprehensive study of BST was released by the U.S. Department of Agriculture in October, 1987. It is titled "BST and the Dairy Industry, A National, Regional, and Farm-Level Analysis, U.S. Government Printing Office: 1987-180-917/605586." In this report it is asserted that, regardless of which of the several policy scenarios they evaluated, BST is expected to have little effect on the regional location of milk production.

Furthermore, the USDA report says, the use of BST under current international trade rules would have little effect on U.S. competitiveness in the world dairy market. If, however, a change to a freer international trade environment were to take place, and other countries were to adopt BST while the United States did not, U.S. dairy farmers would be put a consider-

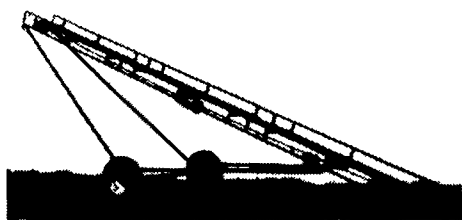
able disadvantage. In this connection the United Kingdom did recently approve the use of BST in the British Isles, as the Ministry of Agriculture there expressed the belief that BST milk poses no risk to human health. Australia, New Zealand, the European Community and other countries are researching BST, but when any of them may approve its use is uncertain at this time.

What's A Dairy Farmer To Do?

Watch developments regarding further research into the effects of BST on milk production per cow, its effects on the cows themselves, and on how cows to be administered BST must be managed for optimum results. Learn how BST should be administered and how all the probable costs of BST adoption will compare with the probable benefits of increased production per cow. Know when BST is approved for use in the United States. Then if all systems are go for your situation, don't procrastinate. Remember: the early adopters are the ones most likely to benefit from adoption. The longer you wait, the harder it will be for you to stay competitive with your neighbor, with dairy farmers in other regions, and with dairy farmers in other countries.



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