

# Stability In The Northeast Dairy Industry Demands United Front

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face tough competition from producers in other regions, but they also face competition from members of their own regions who refuse to join together with their fellow industry members to strengthen the dairy industry. Industry leaders agree if the Northeast is to become more competitive in the national and international market, they must do it as a cohesive unit and the sooner the better.

Dr. Hand, in giving an overview of the industry, said the instability of the Northeast dairy industry is the result of government reduction in support price levels and the move toward the "free market" pricing system. This move will result in price volatility and put more pressure on the dairy industry for better management of resources.

Dairy farmers in the Northeast find it hard to compete with milk producers in other regions. According to Carolyn Liebrand of the USDA Economic Research Service, regions with smaller average herd sizes, such as the Northeast, show much less return on their investment dollar compared to some other regions.

According to Liebrand, Northeast dairy farmers can make a profit with a \$2.00 in residual return on their investment, but may need to look seriously at the benefits of larger herd sizes.

Residual returns in other regions are:

Appalachia-\$2.62;  
Cornbelt-\$1.48;  
Pacific-2.38;  
Southeast-\$3.62;  
Southern Plains-\$2.97  
Upper Midwest-\$1.56.

The average Northeast producer with average herd size at 51 head had residual returns of \$16,000 in 1987. In the Southeast and Pacific regions, where there are much larger herd sizes, farms residual returns at 388 head were \$171,000 in the Southeast and at 322 head were \$130,000 in the Pacific.

In the Northeast facilities are high because of the cold climate which requires more substantial housing. However, facilities are used less intensively. Milking facilities are used on the average four hours in the Northeast, but in the Pacific they are used an average of nine hours.

The Pacific's estimated economic costs were the lowest of all regions partly because its average output per cow was the highest of any region at (yield is CWT. of milk per cow) 168 pounds in the Pacific, while in the Northeast is 143 pounds.

Total economic costs in the Pacific is \$10.22, meaning it cost the Pacific farmers \$10.22 to produce 100 pounds of milk compared to the USDA figures for the Northeast at \$12.01.

The future of the dairy industry in the Northwest depends upon:

—greater farm profitability  
—growth in per capita milk consumption  
—and rapid adoption of technological change to increase efficiency.

Price support and income enhancement programs will decline substantially, according to Hand, and U.S. agricultural commodities will be priced closer to world market prices and this will encourage erratic price fluctuations.

Concern over the future of the industry has generated several studies. One of these, Project 2005, pointed to several specific issues weakening the Northeast industry:

—The milk marketing system is fragmented and operates at excess capacity. The system should be consolidated to cut costs.

—Too many dairy coops in the Northeast are heavily leveraged, with low producer equity. Often directors have excellent production experience, but are weak in financial and marketing expertise.

—Production per cow and per worker in the Northeast are lagging behind the nation as a whole.

—The Northeast needs to take the lead in milk quality.

Action suggested by Project 2005:

—Assist farmers in developing profitable farm management skills.

—Accelerate the adoption rate of new technology to increase per worker and per cow production.

—Use the full potential of high quality, home grown forages through improved varieties, timely harvesting and better preservation.

—Lower the maximum permissible somatic cell count of bulk tank milk to 500,000.

—Discourage the expansion of milk production in marginal areas or on marginal farms.

According to Jim Putnam, vice-president of Springfield Farm Credit Bank, the average Northeast dairy farmer earned a positive but disappointing return on equity in 1988. This return, approximately two percent, was clearly less than

alternative investments or rates of return considered acceptable by non-farm business.

In the past two years debt usage has turned around and farmers have paid down their debt load. However, farmers are operating on much narrower profit margins.

"Dairy farmers in the Northeast are operating much closer to the edge than they were 10 years ago," said Putnam.

This makes the dairy farmer much more vulnerable to sudden shifts in milk prices and feed costs. This makes the dairy industry in the Northeast volume driven. The shrinking profit margins is a major motivating factor for expanding milk production per farm.

In addition, in the Northeast, there is tremendous variability from farm to farm in income above the breakeven point. The average for farms in the Northeast in 1988 was 39 cents/CWT. Average net earnings per CWT for the top percent of the farms was \$2.28. However, average net earnings for the bottom 25 percent was -\$1.79. That is a range of \$4.00/CWT in the farm's ability to meet financial obligations.

Management and the rapid adoption of technology to increase farm efficiency are the keys to improving the profitability gap per farm. And as the complexity of dairy farming increases the importance of improved management, improved efficiency is crucial to the profit margin.

Also, the volume of milk sales needed to pay fixed family living expenses has increased by nearly 50 percent in the past 10 years. In 1979-81 the volume of milk sales needed to pay family expenses was 544,000 pounds. As of 1988, the volume of milk needed to meet average family living expenses was 811,000 pounds. That is a 49 percent increase.

In this financial climate, the impact of milk price premiums becomes crucial to dairy farmers in the Northeast. Cash margins were reasonably good in 1988, however, an estimated 45 cents of the average milk price received consisted of various price premiums over the Federal order price minimum. Without these premiums, added Putnam, the average Northeast dairy farmer would have experienced as bad a year in 1988 as in the mid-1980s.

In this light, cooperatives become more important than ever because of this continuing need to obtain the milk price premiums. Cash margin per CWT. was 39 cents in 1988. Without the premiums, the cash margin would have been minus 6 cents. Marketing activity does make a difference.

Norman Harvey, chairman of Agri-Mark, Inc., calls for consolidation of all members of the dairy industry to strengthen the Northeast's position and through improved leadership dairy farmers will be able to overcome political and economic barriers.

A consensus is important now in the industry to prevent the formation of decisive groups. The goal of the dairy cooperatives is to bargain for greater economic benefits of the dairy farmer, but the cooperative is only as strong as its membership. The dairy cooperatives need total membership to be an effective, strong bargaining unit.

"Bargaining power is the greatest gain in a merger," said Harvey. "It plays a big part in the big success of MACMA."

"RCMA (Regional Cooperative

Marketing Agency) has not been totally successful due primarily to the lack of dairy farmer membership," added Harvey. "Dairy farmers pose the greatest threat to RCMA due to their lack of support."

Dairy farmers, by failing to merge into a larger cooperative, weaken the dairy farmer's position.

"There are cooperatives which believe it is more important to preserve their independent status than to enhance the income of dairy men," said Harvey. "We must address this failure soon."

Harvey added that he was seriously concerned with the lack of vision in the dairy industry.

"Coops are needed now more than ever. All members of the industry must put aside their differences. Only this will enable us to work closely together to successfully face competition from other parts of the country."

Rex Warland, Professor of Rural Sociology, Penn State University, discussed the findings of his study on public milk consumption. He found that the biggest majority of consumers who were decreasing consumption of dairy products, did so due to misinformation.

These consumers were "more likely to be concerned about the fat, calories and cholesterol in milk. Less likely to consider the calcium, protein, and vitamins in milk to be important."

"When we asked these people how much fat was in milk, they didn't know," said Warland.

Misinformation seemed to be the key reason for losing consumers. Warland's next study will be focused on the those consumers decreasing their consumption of dairy products.

The symposium was sponsored by the Northeastern Agricultural and Resource Economics Association and the Department of Agricultural Economics and Rural Sociology of Penn State University.

## Chicken Festival

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Many of the "poultry pioneers", people who have made technical and marketing contributions to the industry over its 66 years of spectacular growth, were on hand to talk over old times, look at the latest innovations in breeds and equipment, and join in the fun of the annual festival which pays honor to chicken and its achievements for Delmarva.

Chicken from Delmarva's famous 10-foot frypan filled with Mazola corn oil, from a barbecue pit and in the form of hot dogs proved so popular that this year's festival almost ran out of product. An extra supply of chicken had to be rushed to the festival grounds at the Lord Baltimore Elementary School mid-afternoon Saturday to keep the large crowd fed.

Despite the threat of rain and some sprinkles Saturday, the festival drew a crowd estimated at 20,000, which was just fine with the many local service organizations of Ocean View and surrounding communities which pitched in to prepare the food and handle the many chores involved in such a large event.

The importance of chicken to the region was noted by Delaware Governor Mike Castle who said that what Mrs. Steele started was as significant as, "anything that has ever happened on the Delmarva Peninsula or probably ever will happen."

Delmarva Poultry Industry, Inc. (DPI) President Donald J. Lynch, a veteran of many years in the poultry business and a 1941 graduate of the school on whose grounds this year's festival was held, said it was "appropriate to recognize today's poultry industry in the town where it began. We've come a long way since 1923."

Joseph P. Lobb, the town manager for Ocean View and festival coordinator, summed up the festival in briefer terms, "we're tickled to death."

The aspect of marketing poultry, which is now the leading meat on America's table, was not overlooked. A day-long series of demonstrations and educational seminars for cooks and eaters was held under the heading of "Chicken, The Convenient Choice" and featured presentations on preparing chicken in the microwave, use of chicken in low-fat diets, cutting and deboning chicken at home, and other subjects.

Mitzi Perdue, wife of prominent poultry marketer Frank Perdue gave standing-room-only presentations featuring a 10 question quiz on chicken and egg handling in the kitchen. She awarded prizes to her best students in the form of handsome cookbooks which she authored.

There was a lighthearted aspect to the festival in the form of the annual Chicken Capers contests, often referred to as the "Olympics of the Chicken World."

The events featured egg toss competitions, crowing and cackling contests, and a relay event for teams from the region's poultry companies.

Winners of the "chicken scratch" in which children root out coins buried in a mound of chicken feed were: Colleen McCowan of New Carrollton, Md.; Elizabeth Adkins of Frankford, Del.; and Matthew Schifano of Clarksville, Del.

Egg toss team winners were Patrick Connor and Paul Guaro of Ocean View, and Steve Cambron and Gerard Graham of Salisbury, Md.

Spoon race event winners were David Robinson of Williamstown, N.J. and Brian Rush of Seaford, Del.

Champions in the crowing and cackling contests were John Waples of Georgetown, Del., and Philip Adkins of Frankford, Del.

A battle in the senior event, the clash between the poultry company teams in the relays, drew the largest field of competitors ever. Winners and holders of bragging rights for the next year on Delmarva were the following: the Processing Plant Relay team from Hudson Foods, Inc. at Berlin, Md., comprised of Fred Hall, Larry Finney, Mark Ayres and Carl Williams, and the Grow-Out Relay team fielded by Townsend Farms, Inc., Millsboro, Del. comprised of Wayne Bunting, Danny Collins, Scott Conaway and Guy Phillips.

The 42nd Delmarva Chicken Festival will be held in Easton Md., in June of 1990 and will include the Delmarva Chicken Cooking Contest which is held every other year.

Mrs. Steele in 1923, the organizers of the first Delmarva Chicken Festival in 1948 and the folks of Ocean View in 1989 all share in the cavalcade of poultry industry dynamics on Delmarva. They never knew at the time what the future would bring, but they all have had fun in doing it.

## Pesticide Exams Set

CHAMBERSBURG (Franklin Co.) — Franklin County Agent, John Shearer, has announced that exams for interested persons to become licensed as Pennsylvania Pesticide applicators, will be held Tuesday, June 27, at the Franklin County Administration Building, 191 Franklin Farms Lane, Chambersburg.

Applicants should arrive between 9:00 and 10:00 a.m. Exams for Private-Applicator licenses, as well as for the eighteen different categories of Commercial/Public licenses, will be offered. Commercial/Public categories include: lawn and turf, industrial, rights-of-way, fumigation, wood-destroying pests, aquatic, house and related pests, wood preservation, vertebrate pests, forest pests, and others. C/P applicants should be prepared to pay exam fees. Reference materials may be brought along and used, since these are "open book" tests. Dave Thompson, pesticide inspector of the Pennsylvania Department of Agriculture will administer the written exams.