Dairy Industry Inundated With Issues

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marketing reform (it's on the U.S. Department of Agriculture Internet homepage), as well as the expansion of the Northeast Dairy Compact, and hearings are yet to be held on the proposal for establishing an emergency, temporary $13.50 basic formula price for Class I and Class II uses.

But changing alliances and mergers continue to create interest and concern.

The Jan. 1 creation of the nation's largest dairy cooperative — Dairy Farmers of America (DFA), which controls about 21 percent of the nation's milk supply — has generated some of that interest and concern, from among non-member and member farmers alike, as well as businesses relying on dairy products.

The four cooperatives that merged on Jan. 1 to form DFA were the Southern Region of Associated Milk Producers Inc., Mid-America Dairymen Inc., Milk Marketing Inc. and Western Dairymen Cooperative Inc.

DFA last week announced a joint business venture with the New Zealand Dairy Board through its United States subsidary Milk Product Holdings (North America) Inc., to make cheese together in a Midwestern facility.

The announcement of that pact with New Zealand, one of the world's largest exporters of dairy product and a leader in least-cost milk production, comes less than two months after the DFA milk marketing cooperative officially formed.

According to a DFA news releases, the cooperative has 22,000 members in 42 states and markets more than 38 billion pounds of milk.

The partnership with the New Zealand subsidary, Milk Products Holdings (North America) Inc., involves a large Italian cheese (Romano and Parmesian) production operation in Wisconsin.

In the limited explanation of the venture in a cooperative news release, the possibility remained that DFA was entering into a partnership that could threaten to displace domestic dairy production and therefore help to reduce all milk prices.

This week, spokespeople for DFA said that simply is not true. They said the cooperative has entered into a joint venture agreement with Milk Products Holdings (North America) Inc. to produce the Italian cheeses together.

They will be importing New Zealand dairy product, but the DFA-imported product will not displace domestic product, according to Lewis Gardner, chairman of DFA Northeast Council (there are six sub-councils which address regional needs).

Gardner said that the imported product from New Zealand will be used to make the Italian cheeses. He said that, for some time, DFA (through a previous member co-op) has been importing the cheese product through several other non-domestic sources.

For strategic and financial reasons, Gardner said the DFA corporate board of directors decided to pursue an exclusive, and restricted, relationship with the New Zealand company.

New Zealand is widely known for having the lowest production cost per hundredweight of milk. American dairy producers have been studying their grazing practices and low overhead milking and production techniques in order to achieve lower production costs here.

While United States dairy production is greater, New Zealand is known for being aggressive in capturing world markets, by using the New Zealand Dairy Board as a promotional and political tool in nations whose markets it seeks to penetrate.

It also has a reputation for doing common-sense marketing — finding out what the market wants and making it for the market, and being a safe, dependable and low-cost supplier.

According to DFA spokesman Dan Reuwee, the pact with the New Zealand Dairy Board is considered a strategic move in partnering the cooperative with one of the most respected global marketers in the dairy industry, in order to position itself better to export United States dairy products.

He said that DFA also has international dealings with Avonmore, an Irish dairy concern. That international venture involves pizza cheeses.

According to Reuwee, prior to the multi-cooperative merger that formed DFA, Mid-American Dairymen Inc. had operated the Italian cheese plant, manufacturing cheeses for numerous labels and in containers to serve a range of customers, from independent retailers to restaurants to institutions.

"We've been working to build exports for United States dairy products and, in the process, looking for partners," Reuwee said.

"Trade is a two-way street," he said, explaining that importing New Zealand dairy product goes hand-in-hand with exporting United States dairy product.

According to Reuwee, it is anticipated that DFA will benefit in getting established internationally a lot faster by tapping into the marketing expertise established by New Zealand.

He said New Zealand has been looking for a United States group with which to link.

However, at the same time DFA has announced the joint venture with the Milk Product Holdings Inc., it also announced it is seeking to open up the Northeast Interstate Dairy Compact, and is also seeking a national floor price of $13.50 basic formula price for Class I and Class II milk.

Combined, the policy requests by DFA seem at odds:

• It could be argued that importing dairy product from New Zealand is an false open market trade deal that just decreases the odds that dairy producers will get paid properly for their milk, given the production conditions the consuming public demands of United States producers and not of the producers of the imported product.

Gardner and others have shown that even though GATT and NAFTA have opened the doors for additional agricultural product to enter the United States, that United States' agriculture trade balance is growing and healthy.

"It's going to come in anyway, and it makes sense financially," he said.

• The DFA wants to expand the Northeast Dairy Compact to include Pennsylvania, New York and Maryland, but at the same time some predict it could serve no purpose at best, or, at worst, further distort and retard the industry's recovery from the changes that are iminent as far as the government's involvement in dairy pricing, as well as distract people from learning more about the USDA proposals for change in the federal milk marketing order system before the end of the comment period, March 31.

DFA's position is that dairy farmers need money now to pay bills and debt, and that their leaders can't be put on hold until the industry adopts a new dairy pricing system.

Gardner said the cooperative's position is that ensuring a cost-of-production price for milk for the limited time that such an expanded Compact would be in effect would not allow for enough time for dairy operations to grow production significantly.

He said that, in theory, if producers would increase milk production enough under Compact pricing to drive the overall price of milk down, there are procedures detailed in the regulations that can be used to curb increased production — if the increase in production in the Compact were to go above the national average, Compact producers could be assessed for the increased production, and/or a quota system could be implemented.

The Northeast Compact currently provides dairy farmers in six New England states with a higher price for their drinking milk and was authorized in the Farm Bill as a transitional program due to end with the adoption of reform of the federal milk marketing order system, which has an official target of April 1999, .

A Cornell University Extension dairy economist said the six New England states now included in the Northeast Dairy Compact are fairly awash with milk and there were reports of dumping milk at some dairy product manufacturing plants because the flow of milk exceeded plants storage capacity.

Expanding the Northeast Compact to high production states such as New York and/or Pennsylvania, or nationally as another cooperative would have it, could lead to excessive production of non-drinking milk supplies and further drive down the price paid to farmers nationally.

Gardner said that if the Compact is expanded to additional states, then if a new federal order system isn't adopted by April 1999, then the Compact would still be in place.

• A $13.50 basic formula price floor for Class I and Class II uses could further add to lower-paying uses of milk. Cornell University dairy economist Mark Stevenson said that, without question, higher retail prices for drinking milk are related to a decrease in purchases of drinking milk, and more diversion of milk into the lower-paying uses, further driving down the overall farmer pay for milk.

The $13.50 floor price would be instituted using emergency powers by the U.S. Secretary of Agriculture Dan Glickman and be limited to a year.

Again, even though elimination of government price controls has been the expressed goal of the dairy industry, until the transition to an acceptable substitute system is adopted, dairy producers are at risk of failing.

Of the two proposals for reform of the federal milk marketing orders, DFA has announced it is in favor of option 1A, as it is referred to. The 1A proposal retains a payment structure similar to what currently exists, although allowing for some changes to reflect cost of production differences.

Secretary Glickman is in favor of the option 1B, which places much more pricing on market conditions.

The DFA is apparently right in line with other farmer group positions.

For example, Pennsylvania Farm Bureau and most farmer groups have recently announced their support for expansion of the Compact.

According to Joel Rotz, dairy policy specialist for the PFB, if the Northeast Compact were in place currently for Pennsylvania, all it would do is act as a floor price, because the price currently received through the effect of the Pennsylvania Milk Marketing Board over-order premium is higher than currently received by in the Compact.

Such an expansion may help stabilize the price in the New England states, since it would removed incentive to ship milk produced in Pennsylvania and New York into those states.

Expanding the Compact would expand the better pay price across the state. He said that roughly, producers would receive about 70 to 80 cents more form Class I milk under the Compact, were it to be in effect.

At the same time, the retail price would not be moved.

The increased price to the farmer would come from the milk handlers and processors.

Rotz said that while the whole effort to get the Compact expanded may be wasted if it does indeed stop in April 1999.

However, he noted that no matter what final proposal results from the comments received from this federal order reform proposal, and what rule eventually is adopted, that someone is not going to be satisfied and could easily challenge it in court.

Therefore, having a Compact in place, and having Congress authorize such a structure would provide a safety net for producers.

Overall, through, Rotz said the dairy situation does seem "chaotic."

Dairy Industry Is A Complex Beast

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HARRISBURG (Dauphin Co.) — To be able to follow along with the potential affects and effects of the issues currently before the United States dairy industry, especially in the North-east, at least a cursory understanding of the system of milk production, processing and delivery to the customer is needed.

Few in the dairy industry, including those who deal with it daily, claim a thorough understanding of the system.

Ironically, more claim to know how to make the situation better.

For those completely unfamiliar with the system, very simply, dairy farmers receive payment for their milk after it is used, and they have very little say in how it gets used, even in cooperatives.

Dairy farmers pay for their own entire milk production setup — land, taxes, buildings, cows, labor, consultants and professional services, animal feeds and health products, fencing, milking systems, milk cooling and storage equipment and facilities, all farm maintenance, for the milk to be hauled to a "milk handler" who either resells or uses the milk for a variety of purposes, for breeding animals, and for generic promotion efforts to encourage consumers to buy more milk and dairy products.

Depending upon the operation, the costs also include such things as employee housing, cooperative dues, milk production record keeping services, registered breed organization dues and associated costs, specialty publications and advertising.

The farmer's pay comes out of what the consumer pays for milk and dairy products and from buying products that use dairy-derived ingredients.

However, dairy farmers are the last to receive a cut.

The dairy farmer's portion is what is left over after the government, retailers, marketers, wholesalers, processors, haulers, and many others take out their portion.

The price of milk itself is a function of both supply-and-demand balances, and government-influenced limits.

Since the post-Great Depression New Deal food assurance program, the federal government and some states have maintained a minimum amount that has to be paid to farmers for their milk.

This was done so the many people who were out of work and had little to spend could afford some basic foods. Nutritional requirements were not being met for many children, and dairy products, especially whole milk, can provide many components necessary for a basic, nutritionally sound diet.

Compared to then, determining the minimum price to be paid to farmers has become extremely complicated, both because of political motivations and actions, and also because the industry is nothing as it had been when milk pricing started.

The dairy industry has changed unrecognizably from what it was during the 1940s. The federal programs changed too. Though while farmers were becoming more efficient, federal government was not.

Federal "farm bills" over the years have added to and altered the authority of the U.S. Secretary of Agriculture to set prices, and USDA regulations control price setting, such as through establishing formulas for determining fair milk prices.

Likewise, the uses of dairy products has been expanded far beyond the staples of butter, cream, cheese and milk.

Farmer and industry supported research, and private research have expanded the uses of dairy components.

In the meantime, using research-based information, American dairy farmers have been able to increase milk production per cow many fold.

Again using research-based information from both private and public sectors, farmers have been able to increase the sizes of their herds tremendously. In Pennsylvania, the largest herds are under 2,000 milking cows. In states such as Florida and California, herd size far exceeds that.

Further aggravating dairy pro-

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