

Pennsylvania's Role In The Global Dairy Industry

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livestock Farmers don't even know how they are paid for their milk! Third, the cash and futures markets for dairy products are still relatively thin markets There aren't yet enough players involved to make participants comfortable yet

Despite this concern, demand for a well functioning futures market is there and participation is growing In time, dairy farmers will be able to go to their local cooperative or proprietary firm and forward contract their milk each month Importers and exporters will use dairy futures to prevent large losses from market swings The futures markets are crucial to the free market development of the dairy industry

International Trade

I've heard estimates that international trade has accounted for only 3-5 percent of our domestic milk production After the recent conclusion of the General Agreement on Tariffs and Trade, dairy farmers were expecting a major benefit from trade They haven't seen it yet In fact, one could argue that replacing quotas with tariffs has allowed more butter imports to enter this country this fall That may have contributed to lowering butter prices from lofty levels One could also ask why worry about international trade when we have the market that everyone wants to export to We aren't even doing enough to expand our own domestic consumption of dairy products Why look at export markets which require an even bigger investment in time and money?

The reality is that the U S will not likely be a major exporter of milk and dairy products within the next 5 years Historically we have looked at the export markets as a dumping ground, a way to get rid of excess dairy products like butter or nonfat dry milk Domestic prices for butter, nonfat dry milk and cheese are well above international prices And allocations under the Dairy Export Incentive Program are reduced each year

The reason for the interest in dairy exports today is so that we can potentially have access to markets in the future As countries reform their markets and as wealth is created, diets improve and demand for dairy products increase Many of these countries do not have the history and infrastructure to build their own dairy industry Thus they will turn to other countries for sources As export subsidies subside and as world market prices improve, there will be more opportunities for the U S to play an increasing role in the global dairy market But that market won't be available for another 5-10 years, maybe longer In the meantime, it would be wise to continue to press for open and fair markets

So what can we conclude from all these trends? The global marketplace is going to continue to be subject to trends that are out of the control of dairy producers. Some of these trends can be capitalized on Others cannot Individual dairy farmers cannot control the price of milk, or even where it is being produced or processed. Farmers can, however, control their own operations and work with their cooperatives to strengthen markets and work with future trends, not against them.

Washington Solutions

There are lots of things happening in Washington that could affect the future of dairy farmers in Pennsylvania Farmers need to be aware of these developments.

Federal Order Reform

Secretary Glickman's federal order reform effort is continuing to move forward, although at a slower pace Glickman has developed a massive proposal that merits consideration It involves

- 1 Consolidating the number of federal milk marketing orders (see figure below)
- 2 Introducing new formulas that define class prices using multiple component pricing
- 3 Creating new Class 1 differentials

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