

Weekly Dairy Market Outlook

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dairy solids content of these items. This way one can compare MPC imports with domestic milk production, CCC purchases, cheese production, etc.

The other thing I have been bothered about is quantifying supply and demand in terms of actual components. The old way of doing things is to look at "milk equivalents." Not only does this approach not work, but it does not always reflect all trade (for instance, where are imports of chocolate block in USDA's supply and demand estimates?).

It is the components in milk and dairy products that drive prices. Producers are now paid on the basis of milk components. It is the component prices that drive the milk checks. Processors buy components from farmers and fashion them into products they sell. Yet the dairy industry has not come up with a method of adding up and tracing components through the entire U.S. dairy industry.

Well, I did. I'll use this system to compute my own supply and demand tables. That way I'll know what the actual supply and demand factors are that drive milk prices.

OK, that brings us to the hearing. I used this new and enhanced model to look at trade and domestic supply and demand. Here is what I found:

- Yes, imports of all dairy products have been rising relative to exports.
- Yes, imports of MPC have been rising in recent years and tariffs have been very low.
- The U.S. is a net importer of high-value protein and butterfat,

and a net exporter of lower valued other dairy solids (whey and lactose).

• MPC imports had nothing to do with volatility of domestic U.S. milk prices. Sorry, but the data does support this conclusion. That's not to say that higher MPC imports could have more impact in the future. However, over the last six years, its impact on U.S. cheese production and U.S. milk prices has been negligible.

• MPC imports contributed very little to higher CCC purchases of nonfat dry milk. In fact, most of the tremendous increase in CCC purchases of nonfat dry milk over the last six years had nothing to do with MPC imports. It's due to a market imbalance of protein and other dairy solids (we produce more than we consume).

• The price support program is an inflexible government program that is preventing the U.S. dairy industry from pursuing a real market for value-added milk proteins. Sorry, but again, the data supports this. We are moving more and more skim solids into the dairy price support program. Why? Because it is simple, cost effective, and provides very little risk to processors. These

purchases by the government are simply not going to be sustainable in the future. It would be better to find a domestic market for

these skim solids (such as MPC and casein).

My objective is to provide sound science to the U.S. dairy industry and to help farmers, processors, consumers, and government leaders better understand trade and its impact on the U.S. dairy industry. It is clear that dairy trade is now significant relative to the supply and demand balance that drives farm gate milk prices. The industry needs to do a better job of monitoring the trade fundamentals. I hope to provide this type of information.

I will not have a column next week because I'll be traveling to Europe. I'll be working with five cooperatives in rural Moldova as a volunteer with the Citizens Network for Foreign Affairs (www.cnfa.org). No, I won't be basking in the Mediterranean sun, or shopping in Paris. Instead I'll be living in rural farm houses with no running water and very little heat. I hope to send you two reports while I'm in eastern Europe.

Have a great holiday season!

Farming Trends

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culture will continue to ensure that animals are cared for in a safe, humane, and healthy manner.

• Environmental stewardship. Agriculture, government, and public influence will continue to drive environmental stewardship as a top priority for American agriculture. Agricultural producers are establishing management practices that conserve natural resources, not only on their farms but also in their watershed. Government support and regulations significantly influence these practices.

• Workforce development. Vocational and/or professional training and job incentives are increasingly more critical in order to attract workers to the Agricultural industry. Farmers must become highly trained managers or be willing to enlist the services of a management team. Outsourcing of work will become necessary in many operations.

• Food safety. Emphasis on food safety for the public will create new requirements (imposed by the industry and the government) for the production phase through the processing, shipping, and sales phase. It is likely that American agriculture will soon be expected to abide by a "zero tolerance" food safety program. This type of program will be implemented both for public health and safety and national security.

• Agriculture's contributions to energy production. Agriculture will have an increasing impact on consuming and generating energy. New technologies will create opportunities for agriculture to produce energy at the farm level to help sustain and support community growth.

• Increased public influence. There is an ongoing public interest in agriculture that ranges from land stewardship to animal welfare to food production and to packaging. As the number of "farmers" shrink and the number of "nonfarmers" continue to grow, those who do not farm will have more time to become educated and react to issues. Not only does the public have time on their side, but they also have numbers; therefore, it is inevitable that they will be able to yield substantial influence. Therefore, the agricultural industry will continue to become pro-active, educating and working with the public rather than reactive, a response that can create distrust and isolation.

For more information, contact Mike Brubaker at mike2mwrubaker.com.

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