

Our Say

Dairy producers need a plan

By FRAN O'LEARY



DAIRY farmers across Wisconsin and the nation are dealing with what many are calling the worst economic times in the dairy industry since the Great Depression.

Input costs are high while base milk prices have hovered below \$10 since the beginning of the year — less than half of what they were 12 months ago and about \$6 to \$8 below breakeven for most producers.

Milk prices have been this low before. We saw a base price between \$9 and \$10 in 1978, 1991 and 2003, but input costs during those years were much lower. Corn sold for \$1.60 per bushel in 2003, and fertilizer and fuel prices were only a fraction of what they are today.

Those who milked cows during the early 1980s and other rough times in the past 50 years may dispute that these are the worst economic times dairy producers have experienced, but most will agree these are very tough times.

I know dairy farming is cyclical and milk prices will go up. But many experts are warning that it may take nine to 12 more months for prices to recover. The \$64,000 question is when the milk price does rise, will it stay up long enough for dairy farmers to recoup their losses from this latest downturn? Probably not.

Experts are predicting that on average, each producer will lose between \$1,000 and \$1,200 per cow in 2009. If you milk 60 cows, that's \$60,000 to \$72,000; 150 cows, that's \$150,000 to \$180,000; 1,000 cows, that's

\$1 million to \$1.2 million. It could take years for many producers to recover the equity they are losing this year.

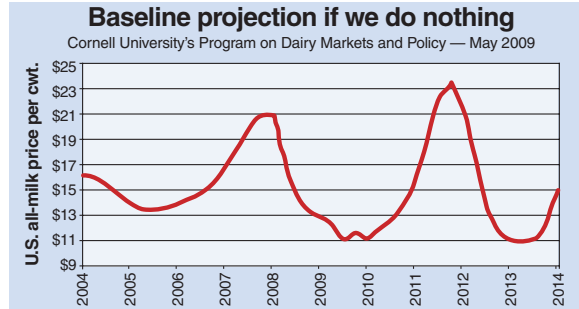
I find it very disappointing that we are six months into this milk-price crash and we still don't have a plan in place that would successfully boost milk prices and offer a long-term solution to ending the boom/bust milk prices that are causing dairy producers of all sizes so much pain.

Yes, Cooperatives Working Together finally got around to sending 102,000 dairy cows to slaughter during the past month, but that did little if anything to help bolster milk prices. Ditto the Milk Income Loss Contract payments. Granted, every little bit helps, but again, MILC payments have offered no long-term solution to resolving low milk prices. Keep in mind, dairy experts predict the U.S. will average about 9.2 million milk cows in 2009, down from 2008 but well above the 8.9 million needed to meet current milk production demands.

Long-term solution

I was beginning to wonder where all our dairy leaders had gone when I read that the Holstein Association has developed the Dairy Price Stabilization Program. Read more about the DPSP at www.holsteinusa.com/association/dairyprice.html. This plan is almost identical to the Growth Management Plan developed by Milk Producers Council in Chino, Calif.

I find myself agreeing with a lot of what Rob Vandenheuevel, general manager of MPC, has to say. Both plans received a boost last month when Cornell University endorsed the GMP. The chart shows what Cornell



University's model forecasts for the U.S. all-milk price if we do nothing. Note the next crash predicted in 2012-13.

Reality check

I can't help but agree with Vandenheuevel, who says: "The U.S. dairy industry is a highly regulated industry, and anyone who says something like 'the markets will fix this problem' is not living in reality. Some people will tell you this is the market getting rid of the 'less efficient dairymen.' The wreck we are going through has almost nothing to do with efficiency on the farm. After going through the volatility we've seen in the past couple decades, the 'inefficient' dairymen are long gone. This wreck is about who can bleed equity the longest. Who has the massive amounts of family money behind him? And for those that don't, too bad."

Vandenheuevel notes that in virtually any other industry, a new entry into an established market would have to compete directly with its competition for a piece of that market. Once that market share is established, the new business merely needs to stay even with its competitors to maintain its customers.

"Contrast that with the dairy industry where anyone can set up shop, and as long as they can find a cooperative that will pick up their milk, they are guaranteed an equal share of the market revenues — on day one," he says. "What if the market is theoretically full and that new production is actually surplus milk that is ultimately sold to the government? That cost is spread over all producers in the pool while the new producer gets the full blend price, just like his neighbor."

So how does the GMP or DPSP change that? Under these

programs, the new entry would still be able to set up a dairy just as it can now. But during the first year of production, that dairy would need to pay a "market access fee" — its cost for bringing new production to the market. That fee would be distributed to all the dairies that hold their production in check, which in turn allows the market room to absorb the additional production. And the same concept applies for dairies that expand their production.

For the dairies that hold their production, their benefit is an additional revenue stream (their share of the market access fees) and stability in the market. For new dairies or dairies that wish to expand, they have the benefit of growing in a stable and profitable industry, and once they have established their new production for a year, they no longer have to pay the market access fee.

If you are opposed to this plan, what do you support?

Vandenheuevel asks: "Is the current supply management we have, enough bankrupt dairy farmers to finally get production in-line with demand, your preferred option? Are you confident that you will be able to hemorrhage equity longer than your neighbors? How many weeks will it be before your number is called?"

Get involved

It's easy to be against something. It takes courage to be for something. This is the time for the dairy industry to show courage. In the words of Holstein Association President Doug Maddox, this plan would allow us to "produce for the market instead of trying to market all we can produce."

What can you do? Call your co-op or other dairy leaders. Ask them what their plan is.

"The time for action is now," says Vandenheuevel, "and dairy producers should be demanding that their leadership be engaged in this debate." I couldn't agree more.

Your Say

Dairy needs stability

If I could have one thing in life, it would be stability. I would desire stability in those human relationships that are formed in my life with my family, friends and business associates. I would desire stability in the social environment we all live in. I would like to have access to those elements that are necessary to lead a productive life: affordable health care, access to a plentiful food supply, a feeling of safety when I am at home or in public, transportation, communication and education. The list could go on and on. I would desire economic stability. I would hope that by virtue of the service that I provide to the social environment, I would be compensated in a sense of balance. These three elements of stability interact on a daily basis in everyone's life and determine if we have a positive or negative human experience.

If human beings act in a responsible manner with integrity, honesty, a good work ethic and a genuine concern for the well-being of their fellow man, that experience will most likely be positive.

The dairy industry is but one part of the makeup of the human experience. We are currently mismanaging this industry and making it unsustainable. Consider the Dust Bowl and the Russian experience with state-run farm-collectives. We humans can indeed destroy the means to produce food. The good news is we can still fix the dairy industry if we act quickly. We are still producing an adequate supply of milk. We have efficient producers. We have adequate infrastructure for processing milk. Consumers are still demanding milk. We just need to better manage the milk commodity in such a way as to put balance back in the economics. I understand there are a variety of plans to deal with this situation.

If we come together as an industry, with consideration of everyone involved (producers, processors, haulers), and act responsibly, we can fix this. These plans are just concepts and must become reality. If dairy leaders can exercise vision and responsibility in creating a management plan to provide economic balance in the industry, we will have a positive outcome. If we continue with the business-as-usual approach, we will destroy the dairy industry.

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