

**PERSPECTIVE ON THE DAIRY INDUSTRY
OR
HOW THE INDUSTRY LOOKS FROM HERE**

by
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As we at Hoard's Dairyman view the industry and what is happening, there is no doubt in our minds that change is in the air. Change began long ago. There is no stopping or even slowing change down. It is much like the huge engine entering the switchyard, going just a little bit too fast. Attached to it are tanker cars filled with milk, adding to the momentum. But someone up in the switching tower decides which track that engine will eventually take.

It is our belief that the person up in that tower does not represent the dairy industry. To be sure, dairy industry representatives are up in the tower. Each has a hand on that lever. But each is pulling in a different direction, so much so that dairy farmer efforts result in little movement, in little guidance of benefit to the dairy industry.

There are other interests up in that tower besides the regional interests of the nation's 145,000 commercial dairy farmers. All have their best, selfish interests in mind – not those of dairy farmers. All have their hands just as firmly placed around that handle as do those representing dairy farmers.

Who is up there with you, most likely pulling in a direction you don't particularly want to go?

- The Milk Industry Foundation and others representing those who bottle, process and manufacture the product of your farm have a firm and powerful grip on that handle. Their best interests are served, they make the most money, when milk is in surplus, when their plants are full and costs to consumers are influenced little by what dairy farmers receive for their milk. Such conditions spell low prices to dairy farmers.

The present situation is a good example. This group doesn't need to be told what has happened to prices at the farm. However, how many of you purchase milk and dairy products? In our town, and in cities and towns all across the nation, prices at retail have not followed suit. They are similar to what they were a year or more ago. Kraft has made headlines in our newspapers for not lowering prices on their cheeses.

Senator Patrick Leahy (D-Vt.) and others have called for a hearing to investigate why retail prices haven't followed farm prices down. That hearing is tomorrow at 9:30 a.m. in Washington, D.C.

- Those against technology for philosophical, political or pecuniary reasons have their hands on that lever. They're pushing and pulling in a number of directions. I don't know how the majority of you feel about bovine somatotropin. However, it has been our contention from the beginning that, if it is proven safe for animals and people and effective and economical, it should be given a chance in the marketplace. There are dairy farmers interested in using the product. It could be in your bag of management tools in this state. What would happen to your milk import needs in the late summer and fall months if BST were available to you?

My point is that the Jeremy Rifkins and Russell Feingolds (Madison, Wis., politician with his eyes on a Wisconsin Senate seat) of the world should not be deciding what technologies are adopted or not adopted on the nation's dairy farms. However, Rifkin is there. He has financial backing. He is a clever. He is a most worthy opponent. He will be making his presence felt to the bitter BST end.

How is this "bitter end" going to end. I predict BST will be approved by the Food and Drug Administration. At that time, there will be a tremendous amount of negative publicity. Few dairy farmers will jump in to be first to use BST and receive the expected negative publicity. After a couple of months, perhaps more, Rifkin and others will have moved on to new causes, to new membership and income-generating activities. Perhaps then, dairy farmers will be free to choose whether or not BST fits into their management scheme.

- Consumers and their representatives are tugging at your future, They're pulling on that lever, also. They're going to have a huge say in where this dairy train ends up. Since they make decisions daily with their wallets by what they purchase, they can't be ignored. They are the most important hand in that switching tower.

It is consumers whom Rifkin and others are trying to influence. If they're successful, BST and other technologies won't have a chance. In my estimation, that would be unfortunate.

Let me explain. There is nothing wrong with technology. Those who develop technology must have incentive to do so. Monsanto, Upjohn, Cyanamid and Elanco hope to see a payoff, just as you do from your dairy business. But should they fail to get BST to the market, how interested will they be in developing other technologies for the dairy industry or agriculture in general? The Rifkins of the world are not doing anyone any favors, even those dairy farmers opposed to BST for one reason or another, but mostly based economics.

Finally, before I leave this subject, let me share some information with you. Eli Lilly, the parent company of Elanco, is one of the producers and marketers of insulin, the huge protein molecule which regulates carbohydrate metabolism in the body by controlling blood glucose levels. Those with diabetes do not produce enough of their own so must supplement with daily injections. Lilly produces insulin, using technology nearly identical to that used to produce recombinant bovine somatotropin. *Escherichia coli* are altered genetically by recombinant DNA technology. The altered bacteria produce insulin in huge vats. The insulin is harvested, purified and packaged for diabetics. They inject that insulin daily.

- Environmentalists are picking out a siding for the dairy train. Florida dairy farmers don't need to be told that. Their demands are expensive and sometimes outrageous. However, in many cases they have a point.

Environmental concerns have become an important force in all of agriculture. The 1985 farm bill required those participating in government crop support programs to have conservation plans for their farms. Using soil loss equations, crop rotations are dictated to participants. For the Hoard's Dairyman Farm land, I have not found those constraints too confining. However, there are those who see the 1985 farm bill as being another tentacle of government reaching around their necks.

- Politicians are in that engine cab. And politicians come in many forms. Some prefer cheap food. Others want the dairy farmers whom they represent to have a price advantage. Still others are trying to right what they perceive as a pricing wrong because milk prices get higher as you move north to south. A few are interested only in keeping their bottling and cheese plants full of milk; they're more interested in plant bottom lines than dairy farmer incomes. A majority are concerned about government costs.

Like consumers, politicians have a major influence on dairy farmer income. Every four or five years, and sometimes much more frequently, legislation is passed which affects dairy farmers' milk checks. Too often, those checks are smaller than they would have been had well enough been left alone.

But remember that train keeps going. Some important switching points are coming up all too quickly.

1. House Agriculture Committee Chairman E. (Kika) de la Garza (D-Tex.) recently introduced legislation, cosponsored by several of his committee colleagues, which will require USDA to publish for public comment by May 15, 1991 its proposed report on inventory management. The proposed final date for making final recommendations to Congress is June 15, a month and a half ear-

lier than called for in the 1990 farm bill. His decision was prompted by defeat of the Leahy amendment to the emergency appropriations bill. For awhile, it appeared as if dairy farmers might have received some price relief. But there were too many people in the tower, too many people tugging at the controls.

Regarding the Leahy amendment, Wisconsin's Representative Steve Gunderson was on public television a couple weekends ago. He said it was against House rules for the joint conference to pass a bill which the House had not considered.

It is my belief that little will come from the 75 inventory management proposals being considered by USDA. There are too many, there is too much disagreement and the word "quota" has too many opponents.

That is difficult for me to say because the Hoard's Dairyman philosophy has been for dairy farmers to control their own destiny. We believe that is possible only through supply management. There are those violently opposed. I understand the opposition from milk deficit regions. However, it seems to me there are minds associated with the industry capable of tailoring a program regionally and to design it so that quota does not have value.

Only through controlling supplies will dairy farmers enjoy consistently fair prices for their milk. Here is why we feel so strongly about supply control. The supply-demand curve for milk is what is known as inelastic. Now that doesn't mean much to most of us. Here's an explanation: When the supply of milk goes up 1 percent, it takes about a 4 percent drop in price to clear the market of the added supply. Dairy farmers make less money by producing more milk. However, the opposite is true. When supplies drop 1 percent, prices rise 4 percent. Dairy farmers make more money by producing less milk. It is that relationship which causes the huge price swings when supplies fluctuate relatively little.

In looking at the various plans before USDA, we favor the two-tier concept. However, the second-tier, lower, world price must be placed on those who choose to produce milk at that price. Those who do not choose to raise production over their base would not receive the second tier price for any of their production.

If the two tier program with bases is not acceptable politically, then we would favor the target price-deficiency payment concept.

2. The multilocation federal order hearing stopped briefly in Florida. It was open for 15 minutes or an hour in Tallahassee. It's my understanding there are some 15,000 pages of testimony from more than 175 witnesses, covering 43 hearing days with 233 exhibits. Agricultural Marketing Service personnel are struggling with the system overload right now.

What's going to result? Tough question. I think there will be fewer federal orders, as few as a dozen (presently there about 40). I don't think Florida dairy farmers will have to share totally their 80 percent Class I utilization and higher prices with upper midwest dairy farmers.

Multiple pricing points will result, too. There are low-product-cost areas with low Class I utilization other than in the upper midwest (Missouri, Pennsylvania and New York). It is those multiple pricing points that could have an impact on your milk pricing.

I don't think reconstituted milk from powder will be part of the recommended decision. If it is, you can say good bye to any premiums above federal order minimums.

Federal orders will survive the hearings. They'll be different, but recognizably so. I don't think dairy farmers from any particular area will be hurt too drastically. It is our belief that you shouldn't take away, lower prices, in one area and add to, raise prices, in another.

A final note on the federal order hearings: If the basic price, the Minnesota-Wisconsin price, would have been high enough and incomes in the upper midwest at a respectable level, the federal order hearings probably would not have been forced by Wisconsin and Minnesota politicians and some dairy farmer groups.

3. The Minnesota-Wisconsin price is under review. Because there are serious and valid questions about whether or not the M-W is a competitive pay price, the basic formula pricing method will change. What evolves will pretty much mimic what the M-W does. However, whatever results will not enhance prices to dairy farmers.

4. GATT (General Agreements on Tariff and Trade) talks are ongoing. As you are aware, dairy product imports into the U.S. are controlled by import quotas. Those quotas, under what is known as Section 22, are an exception to the GATT rules. Basically, what Section 22 says is that, if the U.S. support program is in jeopardy because of dairy imports, the President has the right to establish dairy product quotas.

Section 22 is on the table in the Uruguay Round, the present round that was scheduled to end last December. However, negotiators failed because the European Community does not want to change its import protection and Common Agricultural Policy which establishes the rules under which their farm commodities are supported. Also, neither Japan nor Taiwan want to open up their shores to U.S. agricultural products, especially rice.

Even though those talks have resumed, I doubt that any progress will be

made this round. The fast track approval authority by our Congress has expired but could be opened up. I don't think either the Europeans or the Japanese will change their position enough to cause major changes in world trade.

5. Higher minimum standards in fluid products could do much for the U.S. dairy industry. Those we have now were established during WWII when there was a shortage of food. At that time, minimum fat was set at 3.25 percent for whole milk and minimum solids nonfat at 8.25 percent. Fifty years ago, there was little, if any, low-fat milks sold.

But times have changed. The amount of low-fat fluid products sold surpassed whole milk in 1983. We favor higher standards for a couple of reasons: Frankly, we can't taste anything when we have skim milk; it doesn't even look very appetizing. If something isn't going to taste good, it isn't going to sell very well. Secondly, a more uniform product can be offered across the U.S. if standards were raised. A more uniform, better-tasting milk will lead to higher fluid product sales. We would recommend the "California standards of 8.7 percent solids nonfat in whole milk, 10 percent in 2 percent products and 9 percent solids nonfat in skim milk.

There are a number of people driving and switching this dairy train – too many. Our recommendation would be to have just dairy farmers deciding what track is best for dairy farmers. However, that's not going to happen with the degree of regionalism and differences of opinion existing presently. That track has many possible paths through the switchyard. There are a number of exits at the far end. What track this industry ends up on isn't all that clear.

But I have to stress; dairy farmers will have a major influence on policy decisions only through unity. Also, we at Hoard's Dairyman prefer the supply management track for realistic prices. That may sound a little naive when talking to dairy farmers who produce milk for an 80 percent Class I market. However, I have noted on the editorial pages of the magazine how your prices mirror those of northern dairy farmers and fluctuate with cheese prices. You in the southeast can benefit from inventory management, also. Certainly, the rules could be written so that your production can rise, without penalty, to meet growing fluid milk needs.