The Milkweed

Dairy's best information and insights

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Several Regions Face "Homeless Milk," Let the Dumping Begin

by Pete Hardin

In several regions of the nation, dairy farmers and milk marketers are preparing for what's becoming a annual spring ritual … dumping large quantities of milk. Hard to believe that in a supposedly modern (but undisciplined) industry … and in a hungry world … USDA is sanctioning dumping milk from April 1 to July 15, 2016 in the Northeast (#1), Mid-East (#33), Upper Midwest (#30) and Central States (#32) federal milk orders.

The Milkweed projects that big production increases in the Upper Midwest (Wisconsin, Minnesota and surrounding states) will likely force dumping of milk in those states. But the Upper Midwest federal milk order (Order 30) has not sanctioned dumping, so beleaguered marketers in that region will have to financially "eat" any dumped milk.

These excess volumes of farm milk, spread over several marketing regions, terribly disrupt the dairy industry, from farm bulk tanks all the way to dairy commodity prices. Milk haulers are tied up in long waits at manufacturing plants, prices for distressed farm milk are tumbling to as low as $3-$4/cwt. delivered, product marketers are chiseling prices to maintain and/or maintain sales volume. At many tiers of the industry, excess production is disrupting normal industry functions and price structures this spring. And dairy producers keep making more and more milk, with numerous dairy farm expansions in the works or in the planning stages.

We're witnessing an irrational, destructive "race to the bottom" that can haunt dairy for years.

More and more farm milk …

Big increases of farm milk output – particularly in key states such as New York, Michigan and Wisconsin – threaten to overwhelm critical industry infrastructures such as milk transportation and dairy plant capacity. And in some instances, where marketers find a home for "distress" (homeless) milk, the losses on purchase offers that are far under the prevailing monthly federal milk order class prices will be brutal. In late March and early April, tales are already filtering back to *The Milkweed* that a cheese plant with extra capacity (at the right discount) is offering as little as $3.00/cwt. (delivered) for distress milk.

With the exception of Land O'Lakes (in the Northeast and Upper Midwest), few marketers are signaling producers to put a cap on farm milk output. To its credit, LOL has informed members in those regions that excess production (over a defined base) will result in payments for excess milk that will net returns after disposal costs. That wise approach allows LOL to put the financial burden on excess milk, not dock all producers' volumes.

Otherwise … look out. February 2016 milk production data reflect huge gains in per cow productivity in some states. Such per-cow milk gains — compared to February 2015, after filtering out this Leap Year's extra day – indicate that additional factors beyond a relatively warm winter, cheap feed, and genetic improvement are at work. On a same-day basis, the following states exhibited these per-cow gains (after accounting for Feb. 2016's extra day):

Continued on page 3

Green County, Wisconsin Hits a Triple!

So far in early 2016, Green County, Wisconsin has gained recognition for three global dairy honors.

World record for one year milk production. In early 2016, Holstein USA announced a new, all-time record for a single cow's milk production in 365 days. That cow is Bur-Wal Buckeye Gigi, a Holstein who calved at nine years and three months of age and just finished setting a 365-day record of 74,650 pounds of milk with 2,126 pounds of fat and 2,142 pounds of protein. She is owned by the Behnke family who farm near Brooklyn, Wisconsin — a collaboration of Bob and Denise Behnke and Bob's parents Wallace and Donna Behnke.

World championship cheese. In March 2016, the Emmi Roth cheese plant in Monroe gained the world championship honors as the top cheese at the World Championship Cheese Contest (a global event). The Emmi Roth USA's Grand Cru Surchoix® beat thousands of competitors from around the world. (See article, page 4 of this issue.)

World championship yogurt. Also this past March, Sugar River Dairy (located near Albany) had its Whole Milk Plain Yogurt named as the top yogurt in the world at the U.S. Cheese Makers Contest. Sugar River Dairy's yogurt products gained a total of seven awards at that contest. (See article, page 4 of this issue.)

$230 Mil. Cheese Plant Studied for Fair Oaks Farms

by Pete Hardin

Fair Oaks Farms (Fair Oaks, Indiana) is working with local government officials on various approvals for a $230-million cheese plant. The location of that plant would be at or near the Fair Oaks Farms facilities, located about an hour south of Chicago on Interstate 65.

The estimated $230 million price tag would entail a massive cheese production and whey processing facility, presumably in partnership with an established industry firm. Fair Oaks Farms partner Mike McCloskey definitely thinks B-I-G. Industry pros see numerous efficiencies that could accrue from a cheese plant virtually on-site at Fair Oaks Farms. Certainly, farm-to-plant hauling costs would be minimal. Perhaps milk could be pipelined from the 3000-cow milking barns to the cheese plant – skpping the need for cooling the raw product prior to cheese-making. Fair Oaks could shift milk cows around barns, concentrating the top protein-producing animals' and dedicating that raw supply to the cheese plant.

Fair Oaks Farms milks around 36,000 cows. Fair Oaks Farms also includes a visitors center, restaurant, farm tours, a calving center (for visitors), and a large-scale, modern hog production facility. Another project on the planning board includes locating a hotel at Fair Oaks Farms.

Walmart to Build Big Fluid Plant in Indiana

by Pete Hardin

In mid-March, giant retailer Walmart unveiled plans to construct a massive, 250,000-square foot dairy processing plant near Fort Wayne, Indiana. The ripple effects from this move by the nation's largest food retailer will be wide-ranging for the dairy industry.

Historically, Walmart's milk needs have been supplied by regional dairy plants. Dean Foods – the nation's largest fluid milk processor – has been Walmart's predominant overall supplier of packaged milk. Walmart's management is widely known as a brutal bargainer on products supplied to its stores. Many vendors have faced command visits bleak cubicles in Walmart's Bentonville, Arkansas headquarters. In those cubicles, Walmart buyers chew up vendor's margins and spit out price dictates. Firms supplying Walmart with packaged milk knowingly lock in narrow margins per unit, while praying that large volumes will compensate for small margins.

Evolving as Walmart's biggest fluid milk supplier was a key element in Dean Foods' business strategy over the past 15 years. Dean Foods' management has felt most comfortable "swimming with the big fish" … at least until now. In fact, at times, Dean Foods has paid Walmart millions of dollars to lock in regional and sub-regional store accounts. But now the game is changing. Like the television show with the same name, Dean Foods is potentially set up as "The Biggest Loser" in Walmart's announcement to build its own fluid milk plant.

In the United States and abroad, it's common for big food retailers to own in-house fluid milk plants. Walmart, in fact, is one of the few major U.S. food retailers that does not own its own fluid milk processing plants. Food retailers such as Kroger, Inc., HEB, Publix and Safeway own in-house fluid milk plants supplying their stores, as well as those of their subsidiaries. Mejier's stores – a powerhouse, mega-retailer based in Michigan, with stores stretching from Milwaukee to Indiana – brought its own fluid milk/ice cream plant in western Michigan on line a couple years ago. In England, the biggest food retailer – Tesco – operates its own fluid milk plants.

Continued on page 2

— Plants with Independent Producers Hurt

USDA Okays Milk "Dumping" in Northeast, Mid-East and Central States

by Pete Hardin

The USDA has again formalized milk dumping in some federal milk orders. In March, USDA announced formal rules covering how dumped milk will be administratively treated for the Northeast, Mid-East, and Central States milk orders. Dumped milk will be "pooled" at zero value and classified to the lowest-valued use (likely Class IV, milk processed into butter-powder).

USDA "dumping" rules favor big co-ops

One more time, USDA's regulations for "dumped" milk create a situation that dramatically favors big dairy cooperatives, while simultaneously delivering a financial kick-in-the-pants to privately-owned dairy firms with overabundant farm milk supplied by independent producers. What the milk "dumping" rules show is that, once again, there are two sets of rules – one for cooperatives and another for proprietary firms procuring farm milk. The old adage, "Cooperatives can do whatever they want" again rings true.

Here's a simple breakdown of how USDA's milk "dumping" rules squeeze in the Northeast, Mid-East and Central States milk orders:

• Private firms (not co-ops) buying direct farm milk are required to physically test individual producers' bulk tanks for components and quality. Private buyers must then physically haul those producers' raw milk to a dumping site. Dumping sites may include field-spreading (where legal) manure pits, or manure digesters. (Note: Skim milk makes an excellent spring fertilizer, spurring activity of critical soil micro-biota.) Dairy cooperatives "may do whatever they want" with dumped milk, absent any rules on testing for components/quality.

• Private milk buyers (but not co-ops) must pay their independent, direct-shipping producers at least the monthly "Statistical Uniform Price" on all milk … even on "dumped" volumes. Again, dairy cooperatives "may do whatever they want" in terms of monthly producer pay prices. The USDA allows dairy cooperatives to "reblend" members' milk checks, i.e., pay "whatever they want" to members for monthly milk sales. In the case of Dairy Farmers of America (DFA), a common deduct in the Northeast and Mid-East regions to cover overall marketing losses has been around $.50/cwt for many months.

• This next aspect of USDA's milk "dumping" rules benefiting large dairy cooperatives is hard to believe! For some dairy cooperatives, "dumping" excess milk can be a money-maker! Dairy cooperatives may first haul "dumped" milk to a processing plant, where the valuable cream may separated from the raw product. That cream is sold or otherwise internally utilized. The skim portion ends up in a manure digester or gets land spread. This crooked scenario gets worse! Dairy cooperatives are not administratively required to report what's done with the money gained from cream skimmed from "dumped" milk. That cream can add up to a lot of "moo-la" in the greasy mitts of dairy cooperatives' management. Hard to believe? Read on about certain fat cats sucking the cream!

In 2015, the Northeast federal milk order permitted "dumping" of farm milk during the months of April, May, June and July. Let's focus strictly on the July 2015 data from the Northeast federal milk market administrator, which reported some 22 million lbs. of farm milk were "dumped" that month. The 22 million lbs. of farm milk was virtually identical to the amount dumped in June 2015, despite the fact that some 200 million pounds less milk were produced and pooled in Order #1 in July, compared to the prior month. The Northeast market administrator also reported the milk fat content of the "dumped" milk for July 2015: about 2.71%. In other words, *somebody* (likely major dairy co-ops) removed about 75% of all the cream, "pre-dumping." *The Milkweed* later analyzed how in July 2015, about $4 million dollars of cream were removed from "dumped" milk in the Northeast federal milk order. That gross cream value was calculated by taking the monthly milk fat value cited by USDA and taking the mid-July 2015 "cream multiple" announced by USDA's Dairy Market News. Bottom line: about $4 million of cream disappeared! No doubt, the same foolishness and inequities will continue during the "legal dumping months" of April 1 to July 15 of this year. (Note: Elsewhere in this issue, we analyze that butter manufacturers are holding back product from current sale, anticipating another price run-up for butter later in 2016.)

Let's summarize the ways USDA's milk "dumping" rules advantage major dairy cooperatives and discriminate against non-co-op buyers of farm milk.

• Private firms must sample and test all "dumped milk," for components and quality. Private milk buyers must report that information to the regional market administrator. Co-ops are not required to report that information to the market administrator.

• Private firms must transport "dumped" milk to a non-plant location. Any farm milk that a private buyer moved to a plant must be fully pooled and included in reports to the regional market administrator. Co-ops may haul milk to plants and remove most of the cream, prior to dumping, without accounting for the value of that cream to the market administrator … or to members.

• Cooperatives apparently must report only the milk fat content of the milk that's dumped.

• Private firms must pay their direct-shipping producers at least the "Statistical Uniform Price" each month, including paying for milk that's "dumped." Dairy co-ops can, and often do, "reblend" members' monthly milk payments to levels below federal milk order blends.

Such selective enforcement by USDA hammers private dairy firms, while benefiting major dairy cooperatives that enjoy access to plants where, pre-dumping, most of the cream may be separated from "dumped" milk.

"Homeless Milk" … Let the Dumping Begin …, con't

Continued from page 1

Wisconsin ....+4.66%
Michigan..................................+5.21%
New York ....+7.31%

Those per-cow milk production gains are particularly unbelievable, when realizing that Michigan and New York farm milk marketers dumped a lot of milk during the spring and early summer months of 2015. Clearly, proper signals have not gone out to dairy farmers to ease off producing unneeded milk. (Note: Admittedly, New York State's winter of 2015-2016 was appreciably warmer than bitter conditions that lambasted the Empire State over the previous winter.)

One significant factor in those big boosts in per-cow production is probably heavier use of Posilac – the milk-stimulating biotech cow hormone now marketed by Elanco. Somewhat irrationally, dairy farmers' inclination is to make more milk when milk prices are high. And when milk prices are low, dairy farmers strive to produce even more milk! We chuckled at the tale, in spring 2015, about a New York dairy farm milking several hundred cows with serious mastitis problems, which lost its milk market. But that farmer persisted in using Posilac!

Obviously, rational behavior has gone out the window when it comes to farm milk production in regions where access to manufacturing plants is constricted and dumping large volumes of farm milk is pre-ordained. Unfortunately, except for the Land O'Lakes example, the dairy marketplace – beyond the farm gate – has failed to infuse some rationality into the current, costly surplus milk burdens. Enough!

Dairy plants in a dilemma …

As detailed in the article on this page, dairy processors with independent farm milk suppliers face lose-lose situations. They must pool farm milk brought into their plant (or any pooled plant). Such plants must pay their producers at least the federal milk order's monthly Statistical Uniform Price (what old-timers still sometimes refer to as the "Blend" Price) … even for volumes of "dumped" milk.

Margins are being busted at many tiers of the U.S. dairy industry. Most farms are running red ink in their monthly cash flow. Marketers being forced to sell milk at several … sometimes, many … dollars below Class price (delivered) are losing money. Some milk truckers – especially in the Northeast and Mid-East – are waiting long times in line to get offloaded at backed-up manufacturing plants. Plants processing milk that's priced at the federal order class price are losing their competitive advantage to competitors buying low-ball, "distress" milk. Commodity marketers' sales prices and net margins selling dairy commodities are being pared, amid intense pressures to move product out of the warehouse. And perhaps worst of all … consumers are seeing little price relief at the supermarket when buying fluid milk, yogurt and cheese.

This situation reflects a dangerously unstable dairy industry. *The Milkweed* is deeply concerned that dramatic expansion of mega-dairies and incredible expansion of dairy processing capacity could be a dangerous "bubble." Investments in production capacity – both at the farm and processing plant levels – are looking "over the top" in terms of potential consumer demand, domestic and abroad. Even worse, the Irish and western European dairy industries seem hell-bent on making a lot more milk and strategically undercutting U.S. dairy product markets (here and abroad).

FDA Answers rbGH Critic's Citizen Petition, con't

Continued from page 2

• Elevated IGF-1 content of milk from cows receiving rbGH injections, and

• Whether IGF-1 in milk survives gastric acids in humans and may enter the human bloodstream, and

• IGF-1's possible role in expanded incidents of certain human cancers and multiple births ("twinning"), which started spiking very soon after commercial sales and use of Posilac started.

IGF-1 is an important secondary hormone that is identical in both cows and humans. The FDA, in 1990, acknowledged that if bovine IGF-1 entered the human bloodstream, it would be biologically active.

The FDA response to the rbGH Citizen Petition consisted mostly of recycled citations of long-ago studies that helped build the agency's defense for the biotech cow hormone over the past 30 years. The FDA's response also denigrated, often on technical details, a number of studies cited by the Petitioners that contradicted FDA's positions on human health issues.

(Note: Hard to accept FDA's pious denigrations of research studies and data showing IGF-1 survives digestion in humans and is seriously linked to human cancers. Such dismissals stem from the same federal agency that cited, in 1990 as proof of rbGH "safety" research from the 1950s in which human dwarfs were dosed with natural cow growth hormones scraped from the pituitaries of dead bovines. Such research was terminated earlier than intended because of an unuually large number of those dwarfs dosed with cow growth hormones died of a rare brain-wasting disease!)

Obviously, way back in 2007 (and now), the petitioners were swimming against prevailing currents of FDA's pro-biotechnology zealotry. Why FDA required ***nine years*** to answer that Citizen Petition is hard to fathom. Certainly, FDA's long-delayed response denigrates the Citizen Petition process.

Posilac was originally developed and marketed by Monsanto. The FDA approved that drug for commercial use in November 1993. Commercial sales to dairy farmers started in early February 1994. In fall 2008, Monsanto sold Posilac to Elanco (the veterinary products division of pharmaceutical giant Eli Lilly & Co.)