

# 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 an 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 dis-

count) 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):

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## 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 — skipping 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. Meijer'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.

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