In the early 1970s, a series of complex weather and crop events combined to dramatically reduce global food supplies:

- Russia suffered a near complete failure of its wheat crop. Russian buyers—with the connivance of high-level USDA officials—bought heavily from U.S. grain supplies before our nation’s farmers and grain marketers realized there was a global wheat shortage.

- One year, the Peruvian anchovy harvest was zero, due to aberrant temperatures in the Pacific Ocean off the South American coast. Back then, Peru’s anchovy harvest made up 25% of crude protein fed to livestock and poultry globally. Resulting shortages of protein for livestock/poultry feed drove up soybean prices to $14 per bushel in the United States.

- A corn disease – Southern Corn Leaf Blight—wiped out 10% of the U.S. corn crop. As a result of these events, prices for agricultural commodities and consumer food prices spiked dramatically. The human protein complex—beef, pork, poultry, fish, and dairy—was particularly sensitive to higher grain costs. Livestock prices rose, consumers paid dearly for meat and dairy at the supermarket. The U.S. government invoked a ban on soybean exports—shutting off Japan (a key customer) from its raw materials used to make soy sauce and tofu. Fortunately, weather events (and the Peruvian anchovy harvest) soon reverted to normal and world food reserves stabilized within two or three years. Japanese investors helped develop the Brazilian soybean industry—a slap at the United States for being an unreliable trading partner. Globally, soybean acreage has grown dramatically—reducing reliance upon protein sources such as Peru’s anchovies.

In the analysis of The Milkweed, the current confluence of severe weather events and disease problems in China’s swine industry are starting to approximate those thrilling days of the early 1970s—a food shortage. As a nation and a world, we are one disruptive, major event away from a return to the early 1970s’ scarcities of human protein supplies. What’s different about modern times? First, there are a couple billion more citizens of the globe—particularly in Asia, where dramatically improved economic conditions have allowed those people to develop far greater tastes for western-style diets.

Commodities to Springers: Dairy Prices Improving

by Pete Hardin

After 4-plus long years of depressed farm milk prices and eroded dairy livestock values, dairy prices are improving—boosted by increases for dairy commodities such as Cheddar cheese and nonfat dry milk. Butter prices have recently bumped up into the $2.30s ($/lb), after spending many months locked in the $2.20s.

The combined March-April 2019 uptick in USDA’s Class III (cheese) milk has totaled $2.07/cwt. Those Class III price boosts do not reflect early May gains in Cheddar cheese prices at the Chicago Mercantile Exchange. Recent prices for both barrel and block Cheddar that pushed just above the $1.70/lb. level are a little high for current conditions (The market corrected downwards on May 12.)

Among the major dairy commodities, only whey prices are suffering. That’s greatly due to eroding demand by China’s swine industry, which is caught in a maelstrom of widespread deaths due to African Swine Fever. Perceived improving milk prices are spurring buyers’ interest in springing heifers. However, livestock brokers advise that buyers are looking for quality animals. Prices for open dairy heifers are improving. And prices for quality dairy culled are improving.

Nationally, farm milk production is slowing. March ’19 milk production in the top 23 states was down 0.1% — the first monthly decline in some time. Milk cow numbers are declining. Poor crop harvests last year in the Upper Midwest, Northeast and Southeast are also depressing milk production.

Ahead? The Milkweed projects continued improvement in farm milk prices, driven by higher prices for dairy commodities (other than whey). Dairy marketers see serious cream shortages during 2019’s second half. Difficult weather events in the world’s three major (first world) dairy-producing regions: Oceania (New Zealand, Australia), Western Europe, and North America are highly likely to challenge farm milk production for at least the next year, if not beyond. Australia’s dairy and livestock industries were scorched by heat and drought in 2018. And early 2019 saw the Aussies hit with devastating flooding in the northern parts of that island continent. Precipitation has been scarce in New Zealand in recent months—contributing to a major, late-season slow-down in farm milk production. Adequate precipitation in coming months is needed to restore pasture conditions in New Zealand throughout the next several months.

Here in mid-spring 2019, many agricultural areas of the United States feature saturated, cold soils—conditions that are delaying spring field work and planting. In northern dairy states, concerns about winterkill problems for alfalfa stands are front and center.

Ultimately, Mother Nature rules. And she’s continuing to be rather difficult.
severely impaired by incredibly wet, cold weather this winter and spring. Iowa, for example, has experienced its rainiest spring in over 120 years. Spring planting activities have been severely delayed. Some intended acreage will not adequately dry out in time for normal, intended plantings.

A series of weather disasters, along with China’s African Swine Fever, is combining to be a demand for global human protein supplies – particularly in the red meat sector.

What’s the difference between present challenges and those of the “Great Leap Forward” of 1958 in China? At the end of 1970, China was an insular country of some 829.9 million citizens living in Third World status. China was struggling to recover from Chairman Mao’s fatally-flawed, “Great Leap Forward.” As a result of forced collectivization of food in rural areas dictated by Chairman Mao, untold millions of Chinese died of starvation and related diseases in subsequent years. The “Great Leap Forward” went so far as to feature Communist functionaries seizing rural villagers’ cooking pots – forcing their dependence on communal food systems. Then, the food supply withered.

Today, China is a nation of approximately 1.4 billion citizens, a large number of whom have enjoyed tremendous economic growth during the past three decades. China’s economic class has blossomed; they’ve widely adopted western-style diets, including greater amounts of meat and dairy.

Compared to the chilling days of the “Great Leap Forward,” the Chinese are generally well fed. However, adequacy of food supplies is just about the most important pillar undergirding Chinese confidence. The fact that China’s leaders are reaching out to secure supplemental food supplies from many parts of the world, including the United States. Ownership by the Chinese military of Smithfield Foods – the United States’ largest hog slaughterhouse operator – is one example of China’s tentacles spreading to grip critical links in the global food supply chain, particularly red meat.

The single most consumed meat in China, on a per capita basis. Pork prices by Chinese consumers represent a key factor in China’s inflation. The Chinese government seeks to buy, China’s citizens are generally well fed. However, adequacy of food supplies is just about the most important pillar undergirding Chinese confidence. That fact explains China’s reaching out to secure supplemental food supplies from many parts of the world, including the United States. Ownership by the Chinese military of Smithfield Foods – the United States’ largest hog slaughterhouse operator – is one example of China’s tentacles spreading to grip critical links in the global food supply chain, particularly red meat.

Conservative estimates, such as those reported recently by Rabobank, estimated that 150 to 200 million of China’s swine population would either die from African Swine Fever or be killed in disease eradication efforts. It’s likely that the swine population in China has doubled in recent months. China’s pork industry is in deep trouble, due to African Swine Fever.

China’s Hog Deaths Drop Demand for U.S. Whey/Lactose by Pete Hardin

River City Mayors, con’t

Continued from page 2

The ASA president said he hoped the administration could “resolve this situation and make sure the China market is viable going forward.” The flooding and the trade war’s effect on international marketing affects farmers throughout the basin, he added.

The Chinese government’s efforts reassuring the US farmers and traders that there is a nuance to these recent cancellations and how to work through them.

The meat industry sources said that China is now buying rations for its swine population in distant parts of the world, and is still using those feed, and then heating-treating the to kill pathogens prior to feeding. Credit China officials with trying to find solutions. Unfortunately, there is no vaccine available, and the United States has no such vaccine.

China has started purchasing increased amounts of beef from the United States, to supplement dwindling available pork supplies. Two factors are further demand for added Chinese purchases of our national beef:

• Weather ravages (heat, drought and flooding) have caused Australia to lose over one million head of cattle – dairy and beef – during the past year. That massive loss recent months’ milk production down double-digits in Australia (compared to same-month, year-ago figures). Also, Australia’s diminished beef cattle numbers leave far less beef available for export. Surviving animals often suffered severe stress from weather events.

• Some Chinese citizens fear that eating pork may not be safe. Thus, they are purchasing more beef. This is a Chinese government that pork, “safe” ring hollow with some Chinese citizens. They’ve been skeptical of their government’s food safety. Despite China’s recent beef imports, it’s likely that China will push back against international pressures brought upon it during a period of food vulnerability.

China’s Hog Deaths Drop Demand for U.S. Whey/Lactose

by Pete Hardin

Every time a Chinese hog dies of African Swine Fever, on the way down it depletes the price of U.S. whey, and milk production in the United States. The United States government is trying to at least in part reverse the Chinese government’s demands regarding international trade rules and practices. The relationship between China and the United States is unique. For many years, there isn’t a situation worse than the one we’re in now. China’s tariffs on U.S. soybeans have dramatically diminished our nation’s exports by 74% during the past year. China has not been perceived by its citizens as being subservient to the United States’ dictates. Historic humiliations of the Chinese by western nations is a still sore scar in the psyche of the Chinese people.

What’s ahead? Overall returns from the whey market will be 15% below the previous year. Each penny per pound movement in whey prices will move the Class III price by $0.66/cwt. – up or down. Thus, we’ll probably see whey prices off some of the upwards propulsion currently being seen for commodity Cheddar prices at the Chicago Mercantile Exchange.

China’s Hog Deaths Drop Demand for U.S. Whey/Lactose

by Pete Hardin

River City Mayors, con’t

Continued from page 2

The ASA president said he hoped the administration could “resolve this situation and make sure the China market is viable going forward.” The flooding and the trade war’s effect on international marketing affects farmers throughout the basin, he added.

The Chinese government’s efforts reassuring the US farmers and traders that there is a nuance to these recent cancellations and how to work through them.

The meat industry sources said that China is now buying rations for its swine population in distant parts of the world, and is still using those feed, and then heating-treating the to kill pathogens prior to feeding. Credit China officials with trying to find solutions. Unfortunately, there is no vaccine available, and the United States has no such vaccine.

China has started purchasing increased amounts of beef from the United States, to supplement dwindling available pork supplies. Two factors are further demand for added Chinese purchases of our national beef:

• Weather ravages (heat, drought and flooding) have caused Australia to lose over one million head of cattle – dairy and beef – during the past year. That massive loss recent months’ milk production down double-digits in Australia (compared to same-month, year-ago figures). Also, Australia’s diminished beef cattle numbers leave far less beef available for export. Surviving animals often suffered severe stress from weather events.

• Some Chinese citizens fear that eating pork may not be safe. Thus, they are purchasing more beef. This is a Chinese government that pork, “safe” ring hollow with some Chinese citizens. They’ve been skeptical of their government’s food safety. Despite China’s recent beef imports, it’s likely that China will push back against international pressures brought upon it during a period of food vulnerability.

China’s Hog Deaths Drop Demand for U.S. Whey/Lactose

by Pete Hardin

Every time a Chinese hog dies of African Swine Fever, on the way down it depletes the price of U.S. whey, and milk production in the United States. The United States government is trying to at least in part reverse the Chinese government’s demands regarding international trade rules and practices. The relationship between China and the United States is unique. For many years, there isn’t a situation worse than the one we’re in now. China’s tariffs on U.S. soybeans have dramatically diminished our nation’s exports by 74% during the past year. China has not been perceived by its citizens as being subservient to the United States’ dictates. Historic humiliations of the Chinese by western nations is a still sore scar in the psyche of the Chinese people.

What’s ahead? Overall returns from the whey market will be 15% below the previous year. Each penny per pound movement in whey prices will move the Class III price by $0.66/cwt. – up or down. Thus, we’ll probably see whey prices off some of the upwards propulsion currently being seen for commodity Cheddar prices at the Chicago Mercantile Exchange.

China’s Hog Deaths Drop Demand for U.S. Whey/Lactose

by Pete Hardin

Every time a Chinese hog dies of African Swine Fever, on the way down it depletes the price of U.S. whey, and milk production in the United States. The United States government is trying to at least in part reverse the Chinese government’s demands regarding international trade rules and practices. The relationship between China and the United States is unique. For many years, there isn’t a situation worse than the one we’re in now. China’s tariffs on U.S. soybeans have dramatically diminished our nation’s exports by 74% during the past year. China has not been perceived by its citizens as being subservient to the United States’ dictates. Historic humiliations of the Chinese by western nations is a still sore scar in the psyche of the Chinese people.

What’s ahead? Overall returns from the whey market will be 15% below the previous year. Each penny per pound movement in whey prices will move the Class III price by $0.66/cwt. – up or down. Thus, we’ll probably see whey prices off some of the upwards propulsion currently being seen for commodity Cheddar prices at the Chicago Mercantile Exchange.
DFA Studying Doubling of Members’ Equity Requirements

by Pete Hardin

Details are nebulous, because the co-op’s leaders are studying various proposals. But word emanating from the annual meeting of Dairy Farmers of America in late March is that the co-op is reviewing its member equity needs and seems likely to double members’ equity requirements — which would mean every cent on a year's milk production up to $.30/cwt. $30.50 per hundredweight on a year’s production? That’s a lot of moo-la.

Raising equity levels at DFA was reported in the April 19, 2019 issue of Progress Dairy. That report stated:

“Despite the lengthy stretch of lower milk prices, Rick Smith, DFA president and chief executive officer, said the cooperative needed to invest in milk markets and be in the position to take advantage of other market opportunities. That will include adjustments in DFA’s capital retention and patronage programs, asking investors to move a larger share of their milk check and patronage earnings back into the co-op.

“Under a timeline outlined during the meeting, the board will provide details on capital restructuring to members by the middle of 2019, with implementation expected before July 2020.

Within weeks of DFA’s announcing pending higher equity requirements, many DFA members in Wisconsin were calling other middle milk marketers, seeking to leave DFA.

In the Milkweed’s analysis, DFA’s current equities are woefully inadequate, but not for reasons that the co-op’s leaders would want to admit. According to DFA's 12/31/18 financial report:

- DFA’s financial audit is full of “blue skies” assets, including “Goodwill” ($247.1 million) and “Intangible assets” ($344,965 million). Those two book-keeping contrivances total $592 million.

Kansas Statute #17-1642: Ex-DFA Members May Object to Merger, Request Equity Pay Out

by Pete Hardin

Dairy Farmers of America – the nation’s largest dairy cooperative (DFA) – is working towards merger with the St. Albans Co-op, which is based in Vermont.

With DFA in merger talks, former members of that co-op who still hold equities in DFA, have a legal option to seek payment of those equities by objecting to the merger DFA/St. Albans. The enabling legal statute is Kansas Statute 17-1642. DFA is chartered as an agricultural cooperative in the State of Kansas.

Specifically, Kansas Statute 17-1642 states that former members may recover retained earnings and equity by writing before votes take place on the proposed merger involving a Kansas-based cooperative.

If the merger were to pass, Kansas law repayment of all equities and retained earnings within 60 days.

Equities “and retained earnings” at DFA are easily extracted by the co-op, but hard to recover for former members. DFA currently requires an equity investment of $1.75/cwt on all milk produced in a year, paid by farmers (and sometimes through regular deductions from members’ milk checks), “retained earnings” (i.e., a members’ share of the co-op’s annual profits), and by purchasing equities held either by non-members and members.

But extracting equities by former members is tough, unless the individual becomes deceased. For member-equities are held by DFA without interest. Starting on the 11th year after a former member has departed the co-op, DFA will start paying back 10% per year for the next 10 years (without interest). Thus, the co-op holds onto former members’ equities for as long as 20 years (without interest). Such re-payments are subject to the approval of DFA’s board of directors (and creditors).

Put pen to paper …

Former DFA members interested in requesting their equities under Kansas Statute 17-1642 should write DFA directly at:

1405 N. 88th St.  Kansas City, Mo 64111

It’s strongly suggested that folks send their letters by Certified Mail and cover the costs of a Return Receipt. Note that you are a former member and that you specifically object to the pending merger between DFA and St. Albans. (Cost for a one-sentence letter by Certified Mail and including a Return Receipt is $.85. This is important to confirm that DFA personnel receive your letter on behalf of the co-op.) A full copy of Kansas Statute 17-1642 is posted on The Milkweed’s website – www.themilkweed.com

Go to the red icon on the home page that reads, “Kansas Statute 17-1642.

The Milkweed • May 2019 — 5

Year’s ago, DFA lawyers lied/threatened …

In fall 1997, when DFA was being formed, a similar effort was started among some ex-members to solicit return of equities. Back then, the merger creator, Dairy Farmers was ready to use a 'my-corporation (a financial bank for cooperatives) to pay off financially-troubled dairy cooperatives under the same roof with one healthy one.

In response to former members of Mid-American Dairymen, Inc. (DFA’s predecessor co-op) objecting to the merger and asking for their money back, DFA’s lawyers first lied … and then sued the claimants.

Did DFA’s then-career lawyer Kaye Hafee lie? He was quoted by Dairy Profit Weekly stating that the merger creating DFA was not a merger. That assertion was made, despite the fact that the word “merger” appeared 38 times in an 8-page document.

Title: Statement of Terms for the Merger, given to former members of Mid-American Dairymen, Inc. (DFA’s predecessor co-op) to put three financially-troubled dairy cooperatives into a fluid processing enterprise, paid $50 million to the St. Albans co-op. DFA suited the several hundred claimants. Those claimants were scattered across the nation and few, if any, had the resources to go against DFA in court.

Today? DFA’s financial condition is still tenuous – marred by bogus assets, in the analysis of The Milkweed. Will DFA contest ex-members’ claims for re-payment of their equity? The USDA has decided to modern communications and a significant number of lawyers who are wise to DFA’s thin’em ways … maybe Kansas Statute 17-1642 will pay out as intended.

DFA/Verton’s St. Albans Co-op Mulling Merger

by Pete Hardin

Dairy Farmers of America (DFA) is on the verge of picking off one of the few remaining dairy cooperatives in the Northeast – the St. Albans Cooperative, based in St. Albans, Vermont. St. Albans is the last remnant of indigenous dairy cooperative in Northern New England.

St. Albans operates an aging butter-powder plant in St. Albans. The cooperative faces significant costs to modernize its milk powder production facilities. Several years ago, the St. Albans co-op bit off a huge chunk of debt to buy the McDermott’s milk transportation firm – a purchase that did not turn out roxy.

If those two cooperatives’ respective boards (and/or members) agree to approve the merger proposal (by vote of the members), it will conclude an long-running chapter that pushed St. Albans Co-op into DFA’s clutches. In the early 2000’s, Dean Foods (once a large, top one in a large number of companies with a DFA in a fluid processing enterprise) paid $50 million to the major New England food retailer, Stop & Shop, to halt fluid milk processing at the Reedsdale, Massachussetts plant. Instead, Stop & Shop acquired its’ packaged milk facilities from Dean Foods. Trouble was, St. Albans was the long-term supplier of farm milk to that Class I plant in Southern New England. And DFA was locking down access to many other fluid milk plants in New England. So the St. Albans co-op was left out in the cold, unable to meet Class I (fluid milk sales) obligations under the rules of the Northeast federal milk order.

Enter Patrick Leahy, Vermont’s long-serving United States Senator (and bosom buddy with the St. Albans’ Co-op). Leahy then, as now (nearly 20 years later) served on both the Senate Judiciary Committee and Agriculture Committee. Leahy threatened to raise an antitrust stink about the Dean Foods’ pay-off to St. Albans’ Co-op. Those threats were easily extracted by the co-op, but hard to recover for those threatened with antitrust stink about the Dean Foods’ pay-off to St. Albans’ Co-op.

When such factual calculations didn’t work, DFA sued the several hundred claimants. Those claimants were scattered across the nation and few, if any, had the resources to go against DFA in court.

Today? DFA’s financial condition is still tenuous – marred by bogus assets, in the analysis of The Milkweed. Will DFA contest ex-members’ claims for re-payment of their equity? The USDA has decided to modern communications and a significant number of lawyers who are wise to DFA’s thin’em ways … maybe Kansas Statute 17-1642 will pay out as intended.

Leahy went back into his woodchuck hole. As a long-serving Senator on those respective committees, no politician merits more responsibility for the demised cooperatives in New England. Today? DFA is still pocketing the proceeds that Senator Leahy, in the analysis of The Milkweed.

St. Albans ultimately affiliated with DFA, marketed its milk through DFA’s Dairy Marketing Services affiliate (complete with excessive deductions from members’ milk checks), and ultimately has become so enmeshed in DFA’s clutches that it’s only logical that the two cooperatives merge. The combination of declining dairy farm numbers in St. Albans’ area of operations – along with the co-op’s outdated milk powder facilities – signals a change.

Another recent challenge: Ben & Jerry’s – the famous, Vermont-based ice cream maker – is buying dairy farmers in the area. Such acquisitions are coming from out-of-state sources (New York and Michigan).

Sources report that at a recent meeting of St. Albans co-op members, the question was asked about whether it would be a smart move for co-op to accept any cash, including $50 million for the cow and $50 million for the replacing the aged milk powder facilities. Co-op leaders could not answer that highly relevant question. St. Albans members should beware of DFA’s financial condition and rejection of ex-members’ proposal within DFA to dramatically increase the co-op’s equity requirements for members. In the works, a rumored doubling of DFA’s member equity requirements – from $.175/cwt to $.50/cwt. on all milk produced within a year’s time. Why does DFA need more “equity” from members? To expand its operations (like据说 spend $95 million on a business that primarily makes plant-based “milk” beverages) and patch over bogus assets in its financial sheets.

Rather than be pushed into DFA and get hit with a $5.30/cwt equity requirement, it’s logical that St. Albans could replace its milk powder facilities (or some other variation of dairy manufacturing) for that amount or less.