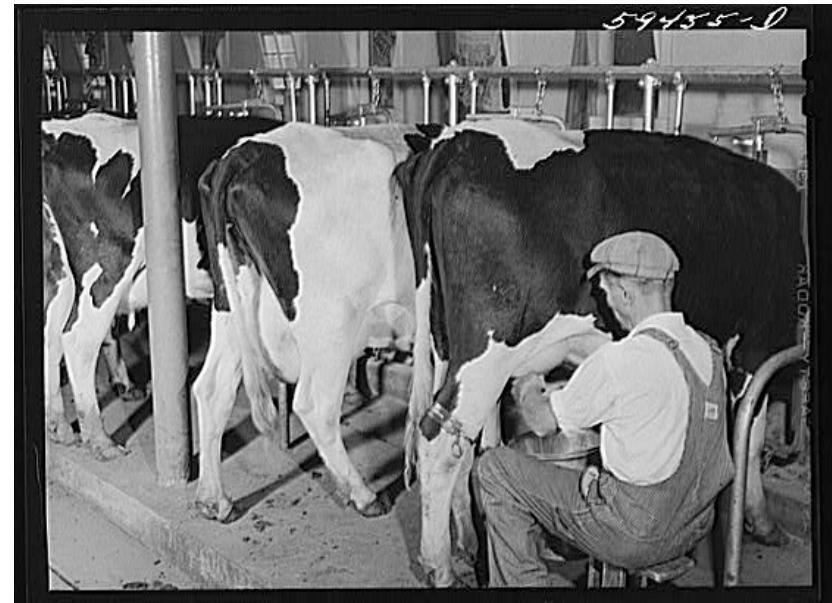


Learning about Agriculture takes a while and issues like the *Dairy Crisis* need interpretation. The Greenhorns has begun this Literacy Project-*the Greenhorns Spotlight*-with intent to interpret and translate a wide range of topics relevant to all you Greenhorns out there.

We've chosen to start with Dairy because it's an industry slammed with many of the meta-factors of our larger agricultural crisis: concentration, corruption, corporatization. The victims: dairy farmers with a 10% loss of Northeast dairies in 2009 and a 25% loss of New York dairies in the last 5 years alone.

Empty barns, bankrupted farmers. Land and barns without stewardship. It's a big, important sector in agriculture-especially in these parts. Therein lies a very practical motivation to learn about dairy: here, it's dairy farms that are up for sale.

The Struggle of America's Dairies



Snapshot of U.S. Dairy

- Approx. 9,117 thousand head
- 62,500 dairy operations
- 1/3 of dairies have 1-29 cows
- 760 have 2,000+
- Black & white Holsteins comprise 90% of the U.S. dairy herd
- Jerseys make up 7% of the U.S. dairy herd
- 71% of milk produced is from CA, WI, NY, PA, ID, MN, NM, MI, TX, and WA

Abstract: The dairy crisis that began in late 2008 and hit hardest in 2009 was caused by market manipulation and unregulated trade resulting in the loss of thousands of dairy farms, devastating farm families, depressing rural economies, and further centralizing the food supply.

What happened?

In the six month period between December 2008 and June 2009, milk prices on the commodities market fell 50%--the single largest drop since the Great Depression. According to the USDA, the average cost of milk production during this time was \$24.08 cwt (cwt, or “hundred weight”, is the standard measurement for dairy and equates to one hundred pounds). Dairy farmers were paid \$10.78 cwt. This is the lowest dairy farmers have been paid since 1970.

How does this affect the dairy sector?

The trend in such market downturns is consolidation. Consolidation means fewer farms with farmers unable to compete, and those that win out are often larger factory farms owned by agribusiness corporations. When there are fewer players in the market it creates an uncompetitive marketplace and this results in limiting competitive pricing. As they consolidate, they grab more market power enabling them to set unfair prices. The small to mid size family farms can't make enough money from milk sales to stay in business.

What does the dairy market look like?

In the dairy industry, there are dairy farmers, dairy cooperatives, and dairy processors. Dairy cooperatives serve as a market for dairy farmers to sell their product. According to

New England Farmers Union, “agricultural cooperatives are organized around four basic principles:

1. Ownership and democratic control by those who use the co-op;
2. Net income is returned to members on the basis of their use of the co-op;
3. Members provide the primary source of financing;
4. There is a limited return on any external investment.

Dairy cooperatives today, range in scale, mission, and member services, from the well-known 1,600 member “Organic Valley” to the 18,000 member “Dairy Farmers of America” (DFA).

The flow of transactions is from farmer to co-operative to processor. In the dairy sector at large, DFA buys from dairy farmers and sells to dairy processors, such as Dean Foods. The dairy processors that dominate the marketplace only buy from dairy cooperatives, which limits the choices dairy farmers have when they look to sell their product. The dairy cooperative DFA controls 40% of milk produced in the U.S. Contrary to the positive connotation of the word “cooperative”, the DFA does not have the interests of the dairy farmers in mind nor do they play by the rules. In fact, DFA has a history of illegal market manipulation. Even more disturbing, DFA has a 100% full supply agreement with Dean Foods, which owns 50 different brands, so that any dairy farmer who wanted to sell to any of Dean's 50 brands has to sell through DFA.

How does the market function?

The Chicago Mercantile Exchange (CME), a private trading clearinghouse, is the hub of commodities exchange on the U.S.

market. The CME determines pricing on commodities such as dairy.

Cheddar cash prices at the CME has an almost perfect correlation to farm milk price. This means that the price of cheddar is the single best determinant for U.S. dairy farmers' milk prices. Trading of cheddar cheese blocks on the CME is controlled by a small number of mega-dairies.

In 2008, DFA unfairly bought and sold cheddar cheese blocks at strategic moments on the CME in their favor, which amounted to price rigging. An anti-trust investigation ensued and they were fined by the Commodity Futures Trading Commission, which regulates the commodities futures market, for trying to inflate cheddar cheese prices.

How are dairy farmers affected?

Operating costs for dairies are high due to the expense of equipment, energy, and infrastructure. Grain cost is the single biggest expense for most milk produced on U.S. dairy farms. (Although mega-dairies have the advantage of buying feed at below production costs.) When milk prices drop, dairy farmers have a difficult time recouping costs.

As with any business, a dairy farmers' profit must exceed the the cost of production to simply break even. On average, dairy farmers are paid less than half the price of production. Farmers can't keep farming under these conditions.

Over the last 16 years, we've lost half of our dairy farmers in this country. The Hudson Valley alone has lost 48% of its dairy

farms since 2002. In the past five years, New York state has lost 23% of its dairies. Across the nation, 52,000 dairies have been lost in the last decade.

Why haven't consumers felt the loss of these dairies?

The loss of all of these farms has not meant the loss of production because of the trend in consolidation favoring factory farms. Now we have fewer dairy farms, but more cows are congested into factory farms. Most dairy farms have 300 more cows than they did ten years ago. This means more concentration of animal waste which subjects the food supply to contamination and contaminates the water supply through run off.

While dairy prices may have risen some in grocery stores, for every dollar that consumers spend on milk, dairy farmers receive only \$0.27. So, while the cost of dairy for the consumer has remained relatively stable, the farmers has been left to absorb the price drop on the market.

Is supply and demand to blame?

The often touted headline for the cause of falling dairy prices was a simple economic reality of over production and decreased demand. This was easily supported by the logical assumption that with the downturn in the economy, Americans were simply not buying as much dairy meanwhile dairy cows must be milked daily regardless of economic shifts.

Why was supply and demand *not* the primary cause? A deeper look reveals that demand for dairy products didn't diminish and therefore wasn't to blame. If there was a lack in demand, dairy

imports ought to have fallen and exports increased. In fact, in 2008 188.8 billion pounds of raw milk was sold yet total commercial consumption was 193 billion pounds meaning that 4.2 billion pounds were imported. In 2009, the import of milk protein concentrates (MPCs) actually increased and dairy exports declined. Even with MPCs often being excluded in dairy import calculations. An analysis of dairy imports over the past ten years shows an increase from \$80 million dollars to \$3 billion dollars. If there is such great demand for dairy that American dairies can't fulfill then why are we importing dairy?

A central feature of U.S. dairy policy is trade barriers. Prior to 1995 and the Uruguay Round trade agreement, the U.S. had absolute import quotas, regulating how much dairy could be imported as a protective measure for domestic dairy. With the Uruguay Round, a system of tariff-rate quotas (TRQ) was instituted setting a tariff (tax) on imports-which essentially allows access for more imports with a price. The federal government also provides a direct financial subsidy for U.S. exporters-- note that this is not necessarily paid to farmers-of dairy products. Subsidized exports are used to dispose of "excess" dairy product.

The federal government maintains a Dairy Price Support Program which assures a minimum price for milk. This price is set by the Farm Bill and is intended as a safety measure for farmers who must produce despite fluctuating markets. It

allows the Secretary of Agriculture (USDA) to purchase dairy products at the set price. However, this has created the opportunity for dairy processors to profit from dairy farmers forced to accept a low price, whereby the processor sells U.S. dairy to USDA's Commodity Credit Corporation (CCC), receiving a monetary sum known as a "make allowance" and then are free to import dairy products, some of which are poorly regulated, from the global market. This profit scheme essentially marginalizes U.S. dairy farmers and keeps fresh, local, nutritious dairy from consumers and replaces them with imported and less nutritious products. International trade of dairy products has had significant negative impact on U.S. dairy farmers.

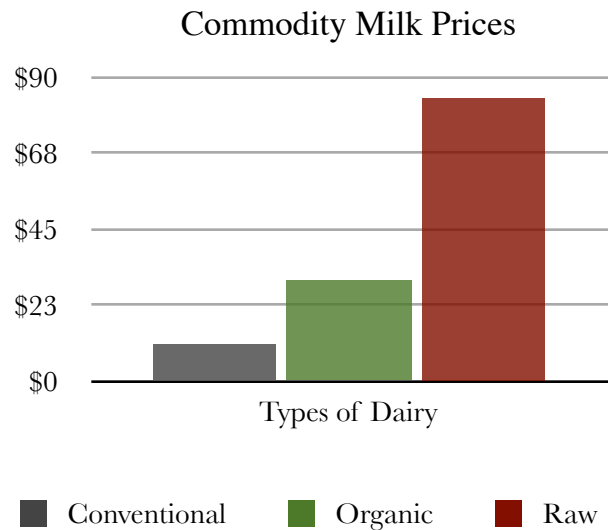
How were the dairy cooperatives and processors coping?

While dairy farmers across the country were selling their herds, going deeper into debt, and taking their own lives, dairy cooperatives and processors' earnings during this period remained constant and even increased. They shifted the loss in milk prices completely to dairy farmers, paying them lower and lower prices for the milk they produced.

How have small farmers managed?

For the small dairies that have managed to survive, innovation has been critical. Some dairy farmers are asking customers to invest in a dairy cow in exchange for a gallon of milk a week. Some are investing in on-farm bottling plants to reduce costs. Many are emphasizing their premium products in marketing labels such as grass-fed, cream line, single dairy yogurt. Value-added products, such as farmstead cheeses, has saved many family dairies.

Others choose the most profitable route: it pays to be illegal. Presently, commodity prices for raw milk are upwards of \$84 dollars cwt, compared to \$30 for organic and \$11 for conventional. Small dairies can make more money from selling raw milk and many are lobbying for the legalization of raw milk.



The legalities of selling raw milk vary by state. Ten states now allow retail sale of raw milk and in fifteen states it is legal for dairy farmers to sell raw milk to consumers as an on-farm transaction.

Why are dairies a critical sector of agriculture?

Dairies are the largest economic multiplier of any segment in agriculture. Businesses-and especially agriculture businesses-

make business for other businesses. Each cow generating \$17,000 per year in economic development in jobs and the exchange of goods and services. The loss of one 85-head dairy farm can drain a local economy of \$1.5 million dollars. That's one compelling statistic.

What can be done?

- Start a dairy!
- Buy direct from your local dairy-drink more milk, eat more cheese!
- Buy a dairy and put it under easement-a legally binding conservation measure which protects the land from development and insures it stays conducive to agriculture in the future.
- For those of you with capital: Invest and provide financial support to a local dairy.
- Demand that Secretary of Agriculture, Tom Vilsack mandate a higher floor price for milk. The floor price is a federally set minimum price for dairy. The floor price needs to be increased based on production costs in order to account for the difference in operating costs based on scale. This would be one step in leveling the playing field for small and mid sized dairies. In fact, the Secretary of Agriculture is required by law to adjust the price of milk paid to farmers to “reflect the price of feeds, the available supplies of feeds, and other economic conditions which affect market supply and demand

- for milk and its products” under Section 608c(18) of the Agricultural Marketing Agreement Act of 1937.
- Support New York Senator Schumer’s proposal to tighten restrictions on imported MPCs so that imported dairy can’t be favored over domestic dairy. New tariffs, or taxes levied on imports, have also been proposed to limit the amount of imports. At present, companies like Kraft and Dean Foods import in unlimited amounts. Not surprisingly, these proposals have faced opposition to food processors. According to Pete Hardin of *The Milkweed*, DFA holds twelve import licenses, allowing imports of dairy products at low tariff rates. DFA imports butter substitutes (i.e. margarine) at the same time it owns a butter manufacturing company in America.
 - Reject the “Foundation for the Future” proposal, developed by the National Milk Producers Federation, which would actually extend dairy farmers’ hardship and benefit processors. They propose that the cost of operating a plant that manufactures dairy products be deducted from the milk pricing formula before dairy farmers are paid which cuts all dairy farmers pay price by \$2.00 cwt. This is the unfair milk pricing practice called “make allowances”. Make allowances guarantee to the processor costs of production plus a return on investment, or profit. So when farm milk price is determined by the National Agricultural Statistics Service and the California Department of Food and Agriculture, a make allowance is subtracted from the wholesale price. This is an obvious benefit to the processor and not the farmer.

- Advocate for the re-introduction of the “Federal Milk Marketing Improvement Act” (S. 1645 in the 11th Congress) which enables dairy farmers to receive a milk price based on the National Average Cost of Production.
- Demand that The Department of Justice investigation be released the results of dairy industry investigations to the public. Agriculture must be transparent.
- Support the measure to reinstate parity pricing for dairy farmers, which was eliminated in 1981. Parity pricing is the purchasing power of a particular commodity relative to a farmer’s expense. Thus, parity pricing keeps the price of farm milk moving at the general rate of inflation and acts as an important economic safeguard for milk pricing.

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Credit Where Credit’s Due

The research for this brief was culled from:

Civil Eats
National Family Farm Coalition
Food Democracy Now
The Milkweed
US Food Policy Blog
Slow Food Hudson Valley
Food & Water Watch

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