

Coming up with a viable dairy policy ain't easy

From our perspective, one of the intractable challenges in agricultural policy is dairy policy. Over the years we have looked at the challenges of developing a rational dairy policy only to find that we had little to add to the discussion. But time and time again, farm friends in the dairy industry have asked us to look at various proposals that they have developed only to find that most of the proposals lack the kind of characteristics and economic rationale that we see in supply management programs for crop agriculture.

One of the challenges of dairy marketing is that milk is a perishable product with a short life and thus a shortened marketing period compared to grains and oilseeds which can be stored for a year or more with no loss in quality and can be marketed any time during that period if the producer sees a favorable price bounce.

In addition, dairy has seen considerable consolidation in the processing industry, leaving many dairy farmers with a single buyer, though today even the processors are in trouble with two out of the four largest dairy processors filing for bankruptcy in the last several months. If the trends continue one or both of the firms in bankruptcy could be bought by one or the other of the two remaining large processors, leaving the processing industry even more concentrated. For the most part farmers who are selling milk are not in a competitive market where they can seek out the highest price. They are in a take-it-or-leave-it situation.

Unlike crop agriculture where the maximum acreage in the US is relatively fixed, for dairy increasing capacity is as easy as keeping older cows a little longer and increasing the number of heifers that are not sent out for growth and meat processing. It is relatively easy to flood a local milk-market area with the construction of a 5,000-or-greater-cow dairy or two in that area. As is obvious each 5,000-cow dairy supplants 25 200-cow dairies.

At present, smaller milk producers at the end of a milk truck route are vulnerable to being cut off and unable to find a market for their milk as producers closer to the plant increase their production. Over time, smaller milk producers are losing their access to milk markets because it is more expensive for the milk processor to obtain and transport their milk.

Having looked at the problems, let us turn our attention to possible solutions to the price/income problems faced by smaller dairy producers. The first option for dairy farmers would be to establish marketing quotas for each farmer in a given milkshed that would allow all farmers to receive a price that covers their full costs of production. This would have been much easier to implement when the largest dairies were in the 200-cow range than it will be today, but it is still a possibility.

The milk section of the farm bill could establish a supply management program for milk that would establish production quotas for each dairy, allowing the CCC to convert any excess supply into cheese, making milk into a storable commodity. For this to work we would have to find a better system than we have used in the past when the CCC ended up owning large amounts of cheese.

Taking a page out of more recent crop programs, we could supplement dairy farmer income with payments differing according to the size of the operation and with the goal providing the highest levels of support to the smallest farmers. Alternately, we could guarantee a flat per hundredweight price for the first 500,000 or million pounds of annual production for each farm, with the open market setting the price for all milk sold above that level. This kind of

program could also have two or three tiers with reducing levels of support and no support for the highest tier.

Given its failure under the Reagan Administration, it seems obvious that a dairy buyout would not work any better today than then. Again, we are back to the lack of finite limits on the number of dairy cows that can be kept.

The recent dairy insurance programs have not worked, and it is difficult to see how an economic tool designed for random occurrences can be adapted to a system in which the risk is systemic at the extreme.

Next, we turn to the area where some attempts at segmentation of the market has been successful in allowing dairy farmers to gain higher prices. Some farmers have obtained certification as organic producers and have developed local markets to support their operations. Others have organized into groups like Organic Valley, but the organic market is not large enough to support all of the small farmers in the country. Other farmers have gone into the development of larger on-farm and direct markets like Mill-King in Crawford and McGregor, Texas (<https://mill-king.com/>).

We have also been in conversations about the development of smaller vertically integrated operations built around a combination of a producer cooperative, a processor cooperative, and a consumer cooperative. Under such a configuration, producers, workers in the processing plant, and consumers would earn shares in their respective cooperative in relationship to the amount of product they purchase/hours they work/milk they deliver. In addition, each of the cooperatives would earn shares in each other—thus the vertical integration—much like local cooperatives today earn shares in their regional cooperatives. The goal would be for dairy operators, workers at the processing plant, and consumers to sit down, learn from each other, and develop a plan that works well for all of them.

At this point, we do not have a clear idea about the best path or set of paths forward for dairy farmers, but what we know is if we don't sit down and talk to one another we will continue to lose dairy farms by the droves until only the mega-dairies are left to fight among themselves. If the present situation two of the four largest processors find themselves in is any indication, bankruptcy is the end even for those who survive the mega-dairy development unless we find an agreed upon path forward.

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