The Milkweed

Dairy's best information and insights

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"Float like a butterfly, sting like a bee."
— Muhammad Ali

"New York-itis" (Dairy Producers Losing Markets) Comes to Wisconsin

by Pete Hardin

During the past month, nearly 100 Wisconsin dairy farmers have received market termination notices from private dairy plants. The "lost milk marketing disease" so prevalent in the Northeast is spreading to "America's Dairyland."

Around March 17, about a dozen and a half dairy producers shipping to Nasonville Dairy (Marshfield) were notified that firm would no longer buy their milk, effective April 1. Most of those producers have since found alternate markets.

On April 1, about 75 independent dairy producers shipping milk to Grassland Dairy Products received termination letters. Those producers will be able to sell their milk to Grassland until May 1. Grassland, one of Wisconsin's largest dairy processors, is based near Greenwood, Wisconsin. The impacted producers primarily reside in southern Wisconsin – roughly stretching from near the lower half of Lake Winnebago down towards Madison.

Multiple factors have combined to glut the market for farm milk in Wisconsin, disrupting normal operations from farm milk procurement to cheese marketing. Factors helping to disrupt overall supply/demand balances include:

• Continued strong growth in Wisconsin's milk output.

• Large quantities of readily available, cheap, distressed milk from Michigan.

• Recent refusal by Canada to accept imports of U.S.-produced ultra-filtered milk, or Milk Protein Concentrates (MPCs — in liquid form). Grassland produces MPCs and Canadian buyers had been purchasing the equivalent of nearly one million lbs. of farm milk in concentrated form per day.

• Price-cutting to buyers by cheese marketers that leads to "losers" seeing their cheese inventories grow as commodity prices erode.

• Slowdown in purchases of U.S. cheese by Mexico.

When combined, these muliple factors translate into lower demand and prices for farm milk. Declined commodity prices for Cheddar at the Chicago Mercantile Exchange (CME) during the past two months and nonfat dry milk – reflect overall supply/demand conditions. The critical price measure for cheese – pricing – 40-lb. block prices at the CME – have fallen about 30¢/lb. in a little over two months.

Bottom line: Wisconsin's dairy industry operates in a multi-regional, multinational dairy arena. When other states make too much milk, that milk frequently slops over into and dampens Wisconsin's dairy supply-demand picture. And when export outlets for cheese and dairy proteins scale back, the economics of Wisconsin's dairy industry go South.

Wisconsin's milk growth …

For more than a decade, Wisconsin state officials and industry groups have pushed for far greater milk output. Nearly 90% of Wisconsin's milk goes into cheese vats, but that's not always enough protein. Wisconsin's cheese plants operate under a "protein deficit" – particularly cheese plants producing fat-reduced Mozzarella and Mozzarella's substandard cousin, "Pizza Cheese."

Nelson-Jameson is the major supplier to cheese plants in the United States. The Marshfield, Wisconsin firm serves customers out of its home base, plus four satellite locations. Food safety products are an important emphasis at Nelson-Jameson. (L to R) Adam Nelson, Jerry Lippert, Carl Hamann, and Mat Bartkowiak pictured in the Marshfield facility's newest warehouse addition.

One year ago, a Wisconsin daily newspaper article estimated the state's cheese plants faced a protein shortfall at about 15%. Adding supplemental proteins to milk in cheese vats is an opportunity for cheese makers to boost yields of those lower-fat, Italian-style varieties.

Curiously, Wisconsin's milk production in recent months has noticeably slowed, compared to monthly gains during most of the past two years. In January 2017, Wisconsin's milk output rose only 1.0% — compared to January 2016's total. And for February 2017, Wisconsin's milk output rose 1.5% on

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China's Biggest Dairy's Stock Plunges by 90%!

In late March, the stock value of China's largest dairy processor – Huishan Dairy Holdings – nose-dived by 90% on March 21. Right around that time, the firm's top financial official disappeared, citing work stress. Trading of the firm's stock was halted at the Hong Kong stock exchange on March 24.

In late 2017, a U.S.-based firm that specializes in short-selling stocks, reported its analysis that Huishan Dairy Holdings was basically worth nothing. That analysis festered for about three months, until the stock market's confidence in Huishan Dairy Holdings collapsed dramatically in late March.

Media reports told that the week prior to the stock collapse, Huishan Dairy Holdings had attempted to seek financial aid from the regional government, as well as a consortium of about two dozen banks that had extended Huishan credit. The firm apparently confirmed that it was in arrears on some loan repayments.

Unknown at this time — what ripple-effects will spill through China's investment community. Media reports list several banks that have invested heavily in Huishan Dairy Holding. One Chinese dairy firm – Inner Mongolia Yili Industrial Group – had a subsidiary invest $50 million in Huishan about four years ago. The Dutch firm, Friesland/Campina, invested 46 million Euros in a joint venture with Huishan Dairy Holdings two years ago.

According to incisive analysis of the Huishan Dairy Holdings situation in the excellent, twice-monthly *Barry Wilson's Dairy Industry Newsletter* (based in England), 70% of Huishan Dairy Holdings' stock is owned by a firm titled Champ Harvest. And Champ Harvest is 90% owned by Huishan board chairman Yank Kai and his wife. That pair has reportedly pledged virtually all their shares to secure loans. *Barry Wilson's Dairy Industry Newsletter* reported in its April 4, 2017 issue that Yank Kai and his wife had pledged over 9,000,000,000 shares of Huishan Dairy Holdings to secure loans and margin financing. Oops.

From an international standpoint, Huishan has obviously been a buyer of imported dairy products and ingredients. The firm's eroded financial condition raises many questions about its future viability, including the question of whether or not it will honor current and future obligations for purchases. Further, Huishan Dairy Holdings' collapse raises questions about the Chinese economy, the integrity of Chinese corporations' indebtedness, and the nation's banking system. Too big to fail? Huishan Dairy Holdings may offer a prime test of whether a suddenly devalued, struggling Chinese industrial giant gains enough emergency props under it to stay upright.

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an adjusted, daily-average basis (due to February 2016 having 29 days). More milk production inside Wisconsin may not be the biggest factor causing supply/demand disruptions. Rather, distressed milk from out-of-state sources is helping to bust markets and prices in “America’s Dairyland.”

Filling the state’s cheese plant vats with enough dairy proteins is a long-running challenge for Wisconsin. About a dozen years ago, Wisconsin’s legislature passed liberal tax subsidies for dairy farm construction and expansion. Word spread throughout the nation’s dairy industry that those tax subsidies were too liberal for out-of-state producers to ignore. That taxpayer-funded largesse was later expanded to cover similar investments by dairy processing plants. Thus, Wisconsin’s milk production and processing growth over the past decade has been the intentional result of state efforts.

Wisconsin dairy producers’ have dramatically expanded the state’s milk output. Much of the increased farm milk output flows from mega-dairies – farms milking upwards of 700 dairy cows. Unfortunately, state Department of Natural Resources officials have turned a blind eye to burgeoning environmental problems, such as manure-related pollution of surface and ground water, as well as depletion of ground water supplies.

Homeless Michigan milk screwing up distant markets …

Undisciplined milk production in Michigan is totally screwing up both local and distant dairy markets, including Wisconsin. Currently, reports are that excess milk coming out of Michigan is being trucked to out-of-state manufacturing plants extending by a radius of nearly 400-500 miles – to points as far away as northern New York and west-central Wisconsin. Examples:

• Industry sources report that Michigan marketers are offering condensed skim solids at a price of 40¢/lb. of solids **delivered**. Condensed solids are about 50% moisture.

• Sources report that Michigan-based marketers are offering annual contracts for milk at $2.00/cwt. below the monthly Class III price delivered.

Unusually warm weather in February over the Upper Midwest and the Mid-East has perhaps helped dairy’s seasonal “spring flush” get off to an early start … although Michigan’s surplus milk has become a year-round headache.

Michigan milk is coming into Wisconsin at distressed prices, far below what Wisconsin cheese plants are paying for local producers’ milk. While quotes for so-called “distressed” milk vary from weekdays to weekends, chatter in Wisconsin’s dairy industry indicates that in late March and early April, surplus milk from Michigan is being offered to local cheese plants at bargain-basement prices. Those low-ball prices for distressed milk may range from $2-3/cwt. under Class III (cheese milk) price on weekdays, all the way down to as little as $6/cwt. below Class III on weekends. In all instances, distressed milk is priced at the buyer’s milk plant, delivered free.

What’s wrong in Michigan? That state has seen major, uninhibited growth in farm milk production. Michigan Milk Producers Assn. (MMPA, the state’s largest indigenous dairy cooperative) continues struggling to get rid of unbridled members’ milk production. For approximately the past 20 months, MMPA has deducted an average of more than $1.00/cwt. from members’ monthly milk checks to cover marketing losses. MMPA’s common trick is to bleed the ever-confusing “Producer Price Differential” (PPD). Many dairy farmers do not understand the PPD line item in their monthly final milk check. As a measure of blatant stupidity by its board of directors, MMPA continues to pay “volume premiums” to large producers, while giving no signal to member producers to rein in milk output. (A disproportionate percentage of MMPA directors are very large producers who received volume premiums.

In tandem with two other dairy co-ops – Dairy Farmers of America and Foremost Farms – MMPA is planning to build a massive new cheese plant with the Irish firm, Glanbia. However, that plant would be at least two years away from operations, in the best estimate of *The Milkweed* … whenever the owners eventually decide on a location. At that point, whenever the Michigan cheese plant is up and running, output may bust Wisconsin plants’ cheese prices.)

As dairy’s spring flush intensifies, look for even more distressed milk coming from Michigan and going in all directions.

Canada doesn’t want Ultra-filtered MPCs …

During the past year, a sticky dairy trade issue has evolved between Canada and the United States: That old bugaboo, Milk Protein Concentrates (MPCs), or ultra-filtered milk. Canada’s highly-regulated, farm milk quota system has failed to grow that nation’s milk supply with its population. Since farm milk quotas were instituted following a period of surplus milk/chaos in the late 1960s, Canada’s population has nearly doubled. But its milk supply has increased very little. Canada is already a major importer of dairy products from the United States. But this nation’s dairy leaders lust after an even greater share of Canada’s dairy markets, to sustain unrestrained farm milk output in the United States.

The past year has been a period of dairy trade policy wrangling. Major dairy trade groups in the United States – particularly the National Milk Producers Federation (the dairy co-ops’ lobby) – thought that it could shaft Canada’s dairy industry during the concluding negotiations of the Trans Pacific Partnership (TPP). In fact, U.S. dairy leaders privately confided that gaining greater access to Canada was their primary goal in the TPP talks. But the TPP negotiations ended in failure in fall 2016. And incoming President Donald Trump ended U.S. participation in further TPP talks by executive order in January 2017.

MPCs??? Following completion of the General Agreement on Trade and Tariffs negotiations in the mid-1990s, New Zealand dairy interests found a convenient “hole” in the U.S. wall “protecting” the domestic dairy industry. Likely by design (a New Zealander headed the GATT talks), New Zealand-sourced dry MPCs started pouring into the United States shortly after the mid-1990s trade negotiations were completed. Kraft Foods was a major beneficiary of heavy MPC imports. *The Milkweed* located three to four dozen consumer food products bearing Kraft Foods’ label that contained MPCs. Brazenly, a patent for making “cheese” awarded to Kraft by the U.S. Patent Office stated the beauty of using such dry dairy protein ingredients in vats because cheese-making facilities would not need to be located near dairy farms!

MPC use by Kraft Foods almost immediately followed the mid-1990s GATT talks’ conclusion. Kraft Foods used MPCs to knock down domestic dairy farmers’ milk prices, once Kraft’s cheese price manipulations at the old National Cheese Exchange in Green Bay, Wisconsin were exposed … by Wisconsin investigators. Kraft Foods used imported MPCs to bust domestic dairy farmers’ prices. In 2012, research by *The Milkweed* linked the so-called, “low milk price years every three years” (2000, 2003, 2006, and 2009) to heavy imports of MPCs during January-February of those years. In late 2002, the federal Food and Drug Administration called out Kraft Foods for illegally using MPCs in products that had federal standard of identity. No financial penalties were assessed.

Over time, some U.S. dairy plants started processing both dry and liquid MPCs. MPC production in this nation grew. Canada evolved as a handy, nearby outlet for these dairy protein materials – both in dry and liquid form. However, in recent times, dairy farmer interests have prevailed upon Canadian officials to clamp down on use of imported MPCs in cheese vats and in processed food products. And those constrictions have evolved into a cross-border trade brouhaha.

Over the past half-year or so, U.S. dairy interests have intensified political focus against Canada’s restrictions on MPC use. The governors of both New York State and Wisconsin have recently lambasted Canada’s policies. Dairy groups are currently trying to light a fire under the Trump administration to prioritize challenges to those MPC restrictions. One way or another, U.S. dairy interests want to knock down alleged dairy trade barriers to Canada. Increased exports to Canada are viewed as vital to accommodate expanded U.S. milk production and dairy processing investments.

To conclude this somewhat long-winded background, Grassland Dairy Products has been selling major quantities of liquid MPCs across the border to Canada – as much as one million lbs. per day (farm milk equivalent)! But within the past month or so, Canadian customers have shut down orders for Grassland’s MPCs and those exports have shriveled. Grassland personnel are now blaming Canada’s policies on MPCs for the firm’s decision to terminate about 75 Wisconsin producers’s market, effective May 1. It’s estimated that Grassland Dairy Products purchases farm milk from 600 or more dairy producers.

(There has been no mention in news reports about “dumping” dairy producers by Grassland Dairy Products, about the number of mega-dairies now operating — with more intended on the way — that are associated with Grassland’s principals. Grassland is vertically integrating, producing milk from thousands of cows on mega-dairies and intent on expanding its in-house dairy cow numbers.)

Desperation: cheese marketers cutting prices …

While less publicly acknowledged, the ups and downs of cash Cheddar markets at the Chicago Mercantile Exchange (CME) so far in 2017 are providing a bumpy, financially dangerous ride for some cheese plants. Early February, block Cheddar prices at CME soared to a peak of $1.74/lb. But by late March, that same commodity’s value had eroded down to below $1.40 per pound – a decline of over 30¢/lb. in a short, two-month span. That erosion of inventory values is cause for panic, especially when competitors start engaging in price-cutting to maintain or pirate sales.

Squeezed by painful inventory cheese losses, some Wisconsin cheese plants may recover some losses by purchasing distressed, lowball-priced out-of-state milk. And carrying additional producers, beyond short-term needs, is becoming a problem. Given these financial pressures, price-cutting by competing cheese marketers has ensued. And buyers are holding back, waiting to see when and where CME cash Cheddar markets may bounce off bottom. The jury is still out on that one …

Mexico’s dairy purchases scaled back …

Mexico is the United States’ single largest export outlet for cheese and nonfat dry milk/SMP. Mexico’s purchases of dairy commodities from all sources were significantly higher than same-month, year-ago totals for 2016’s first half. But Mexico’s dairy imports declined sharply, when compared to same-month, year-ago totals during 2016’s second half. For all of 2016, Mexico’s dairy import totals were modestly above 2015’s.

Hard to get a read on events in Mexico. Through mid-March, the Mexican *peso* had appreciated by 15%, compared to the U.S. dollar. But Mexico also reported a sharp decline in foreign investment in that nation during 2016, with an even bigger such decline projected for 2017.

On one hand, Mexico’s people are severely irritated at the Trump administration for intemperate comments made about the Mexican people, not to mention a threat to send U.S. troops into Mexico shortly after Trump was inaugurated. However, as one dairy marketer notes, at the end of the day, the Mexican people have to eat. Lowball milk powder offers are being made to Mexico.

In conclusion …

Dairy is a dynamic industry, and right now, in several parts of the country, those dynamics are in response to too much farm milk and slowed export demand. News that dairy farmers in Wisconsin are losing their markets is a wake-up call to a new set of realities. The bedrock assumption, in Wisconsin, that there would always be a market for dairy farms’ quality raw product, is waning. Little is sacred when times get tough, particularly in light of simultaneous constricting demand by our neighbors for U.S. dairy commodities and materials … and with nearby Michigan’s undisciplined, hell-bent-for-destruction milk output. Are we witnessing the “chickenization” of dairy production?