

The Milkweed

Dairy's best information and insights

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“Float like a butterfly,
sting like a bee.”

— Muhammad Ali

Weather Events/Posilac Bans: 2017 Looking Like a Better Year

by Pete Hardin

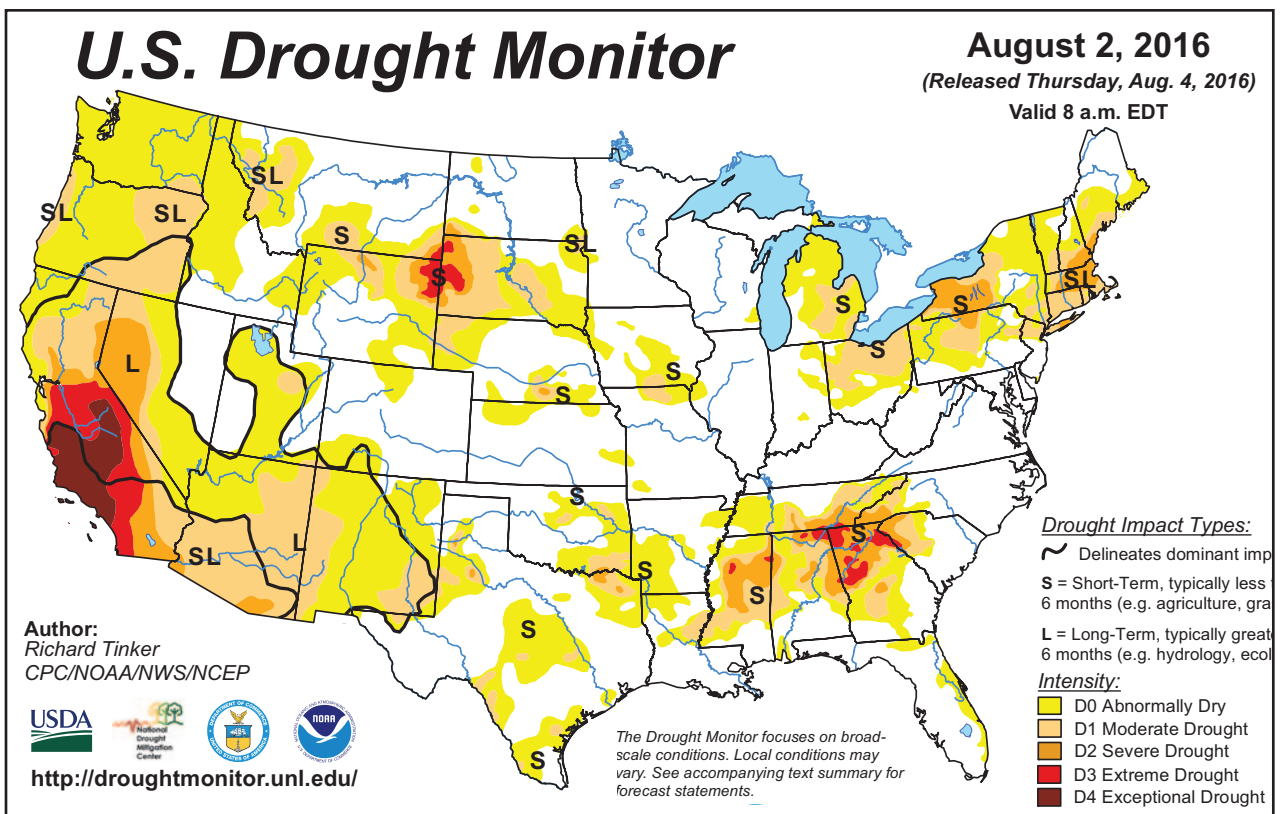
Dairy's “experts” usually cannot see significantly improving commodity and farm milk prices. The “experts” rely too much on what their computer screens tell them has happened. Forward vision, thus, is impaired.

Did the “experts” see barrel Cheddar hitting \$1.88/lb. a few months ago? (Neither did this writer!)

“Expert” logic is that U.S. milk prices are stuck in the low doldrums and probably won't recover significantly until mid-2017. That illogic is born out by very recent Class III milk futures trading at the Chicago Mercantile Exchange (CME). The peak price for Class III (cheese milk) futures, at the close of trading on August 4, 2016, was the August 2016 price at \$16.99. Thus, “expert opinion” foresees no Class III milk prices improvement beyond August thru next spring. Bull...oney. CME's package of futures is just as unable to see upcoming price trends as the “experts.” Maybe that's because the “experts” put too much stock in CME futures mechanisms ... resulting in a future-blind echo chamber.

To heck with the “experts.” If one accepts as wisdom the current Class III futures contracts at below \$17.00/cwt., as far out as they're traded, one wouldn't imagine that U.S. dairy product demand is excellent. Retail cheese sales in 2016 are humming along at almost a 3% growth rate. Consumer demand for butter is excellent. Even sales of beverage milk – at least whole milk – are improving, compared to last year's figures. In summary, domestic demand for U.S. dairy products is very, very good. That's helpful, because U.S. dairy exports are lagging due to the strength of the U.S. dollar.

2017 is shaping up, for several reasons, for what looks like a better climate for dairy commodity supply-demand and farm milk prices. (One critical, wild-card caveat in the whole works, we must acknowledge, is the potential impact of reduced exports/increased imports.) Why, in the analysis of *The Milkweed*, is 2017 looking like a much better year for farm milk prices?



Western states' drought conditions continue. Drought conditions in the Northeast and many portions of the Mid-East have spread and worsened in recent weeks. The Milkweed projects that these drought conditions will restrict milk output in 2017. Meanwhile, the Upper Midwest – particularly Wisconsin and Minnesota – are seeing some of their greatest crops ever, here in early August.

Drought severe in California, Northeast & Mid-East. California, this nation's leading milk production state, has been hammered by severe Drought for so long – nearly six years – that outsiders are starting to think of those conditions as normal background noise. California dairy producers have struggled mightily in recent years, coping with high forage costs, low milk prices in 2015 and so far in 2016, and a state-run milk pricing system that seriously minimized producers' cheese milk prices when whey values were high. For several years, California dairy producers kept doing what they do best – making more milk. But now the accumulated pressures of two years' of low farm milk prices are taking a toll. Spring 2016 data for California

milk production is starting to “compare negatives” – i.e., monthly declines in 2016 (vs. 2015) following monthly declines in 2015 (vs. 2014.)

Stated another way, California's June 2016 milk production was 1.0% below June 2015's figure. And June 2015 milk output in the Golden State was -4.3% below June 2014's volume. Thus, June 2016 milk flow in California was about 5.3% below June 2014's figure. That's significant and what we mean by following negatives with negatives. What's ahead for the Golden State? It's hard to imagine growing milk output in the coming year. California dairy producers are a stubborn, resourceful lot. But after nearly six years of the worst Drought since the middle

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— USDA opening doors for beef from Brazil (a Foot-And-Mouth Disease infected nation)

USDA Finalizing Brazilian Beef Imports

by Jan Shepel

Cattle and farm groups – even those that don't normally see eye-to-eye – blasted the USDA the first week of August for taking the final steps to open the U.S. marketplace to Brazilian beef. Meanwhile, USDA Secretary Tom Vilsack is creating a smoke-screen — touting his agency's success at opening Brazil's market to U.S. beef imports!

(Editor's note: Brazil's economy is in chaos, and that nation produces far more beef than it consumes. Vilsack is dangerously delusional.)

Opponents of sanctioning Brazil beef imports into the United States don't believe Brazil's food safety and animal health requirements are adequate to protect the U.S. livestock industry from serious foreign animal diseases like Foot-and-Mouth Disease (FMD).

Vilsack's agency used the headline “USDA Announces Reopening of Brazilian Market to U.S. Beef Exports” at the top of its August 1 press release, which was (oddly?) timed to coincide with the opening week of Brazil's Summer Olympic Games. That event that has seen many world-class athletes decline to participate because of fears of Zika virus

and polluted water venues.

In what the agency called a “separate decision,” but which was announced simultaneously, the USDA's Food Safety and Inspection Service (FSIS) also recently determined that Brazil's food safety system governing meat products is “equivalent to that of the United States” and that fresh (chilled or frozen) beef can be safely imported from Brazil.

In the press release U.S. Agriculture Secretary Tom Vilsack stated that the Brazilian market offers “excellent long-term potential for U.S. beef exporters” — an opinion that was questioned by many in the cattle industry. “The United States looks forward to providing Brazil's 200-million-plus consumers, and growing middle class, with high-quality American beef and beef products,” Vilsack said.

Opponents of USDA's move cried foul, countering that opening Brazil as a market to our domestically produced beef is no bargain, if it increases our risk of serious animal disease threats. Bill Bullard, CEO of the Montana-based cattle group R-CALF USA called Vilsack's assertion “absurd” and noted

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Weather Events/Posilac Bans: 2017 Looking Like a Better Year, con't

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1500s, the stresses on California milk production are significant. Relatively high prices for soybeans don't help either.

Drought nailing the Northeast & Mid-East.

In the past two years, states such as Wisconsin, Michigan and New York have posted huge increases in milk production – offsetting California's declines. But careful inspection of weather events in the Northeast and Mid-East regions finds key dairy states such as New York, Pennsylvania, Michigan and the northern half of Ohio in the grips of serious, worsening drought. Lifelong dairy persons in both central and western New York are shaking their heads, saying they've never seen it so dry, the late spring/early summer grasses go brown and dormant, like they're seeing in 2016.

Recent years' milk growth in Michigan and New York has been driven by expansions of mega-dairies. Those firms have grown aggressively, through period of high milk prices and low milk prices. That growth ... indeed, many of those large farms' business models ... are seriously threatened by drought conditions in 2016. These large, expanding dairies have generally not stockpiled significant volumes of feed materials as a buffer against adverse crop shortfalls. By early August, much of the damage to 2016 crops has already occurred in the Northeast to Mid-East drought. Adequate rains might salvage soybean crops and spur a little more hay production. But on the whole, dairy states such as New York, Pennsylvania and Michigan are looking at seriously constricted feed supplies – particularly supplies of quality corn silage.

Corn silage is THE critical feed material for large dairy operations. Corn silage packs energy density with modest amounts of protein. Problems arise, however, when a large dairy farm falls critically short of corn silage inventories. That's because corn silage does not pack well and is highly inefficient to transport any distance. So when

widespread drought impacts corn crops in mega-dairy country ... absence of stockpiled reserves of feed materials can become a huge headache.

Bob Filhart, owner of Michigan's biggest dairy livestock auction (at Rosebush) tells how in his younger days, buying and selling dairy cattle in Plains states, he asked farmers in those states why they regularly carried such large inventories of hay. They explained that he'd never seen a serious drought and those huge hay piles were "drought insurance." Filhart notes that many of today's producers in Michigan are ill-prepared, in terms of feed inventories, to cope with serious shortfalls of feed materials that 2016 is apparently promising. How bad are things in central Michigan? Filhart tells of finishing second cutting of hay during the first weekend of August, with yields at half a 1,000-lb. round bale per acre. In his area, there's virtually no re-growth of forages.

They've gone dormant.

Conditions in New York State's key dairy regions are much the same. Much of the western two-thirds of Pennsylvania is hit with drought. In Ohio, they're calling it an "I-70 Drought." That's because the drought seems to be primarily settled across the northern half of the Buckeye State as it's bisected by Interstate 70.

Wis.: Great crops, but Posilac ban looms

No worries about feed shortages in Wisconsin for 2016. By almost all accounts, Wisconsin farmers are looking at what could be their greatest crop year in many decades. Corn stands tall and dark green, the soybeans are looking vigorous (but still want rain in August.) The forage harvest has been plentiful and good quality.

Wisconsin dairy farms, despite low milk prices, are ready to make milk! But there's one problem.

A growing list of Wisconsin dairy processors have announced bans on accepting farm milk from

farms that inject their herds with Posilac. (See page 5 of this issue.) Posilac is the controversial, but legal, biotech cow hormone that's injected into dairy cows to boost milk production by 5 to 15%. Posilac, the first major biotech food technology approved by the federal government, has been caught up in the swirl of negative consumer trends against genetically modified organisms (GMOs.)

Five of Wisconsin's largest farm milk processors (Grassland, Grande, Mullins, Land O'Lakes, and Foremost) are committing to ban acceptance of milk from Posilac-injected herds in 2017. That fact is going to pull down per-cow production in Wisconsin in 2017 – FACT OF LIFE!

In early 2015, a Wisconsin farm weekly – *The Country Today* – reported an analysts contention that 90% of the successful mega-dairies were using milk-enhancing technologies (Posilac). Loss of ability to honestly use Posilac will impair those dairies' milk making momentum.

Resistance to Posilac-derived milk extends well beyond domestic dairy customers. U.S. firms are handicapped in exporting dairy products, because most other major dairy exporting nations do not allow Posilac use. (Competing dairy exporters, such as those from New Zealand, regularly remind offshore dairy product buyers that the U.S. allows synthetic hormones in farm milk production.)

Making sense of it all???

At this time, we see:

- Solid, growing demand for many dairy products, especially cheese and butter.
- Important dairy states – California, New York, Pennsylvania, and Michigan struggling with serious drought conditions that are impairing crop yields and quality.
- Diminished loss, at least in Wisconsin, of a controversial milk production enhancing technology.

F.A.R.M. Program Enforcement Getting Ugly

by Pete Hardin

The Milkweed has long been suspicious of the F.A.R.M. program. (F.A.R.M. is the acronym for "Farmers Assuring Responsible Management.") The program is bankrolled by Dairy Management, Inc. – the national milk promotion bozos.

The supposed purpose of F.A.R.M. is to codify animal treatment standards on dairy farms. Sounds innocuous, eh? But like any bureaucracy, the devil is in the details. And some of the F.A.R.M. program's emerging details are downright diabolical ...

- Numerous dairy farmers have been threatened with loss of their milk markets if they do not sign up for and adhere to the F.A.R.M. protocols. In these times of diminished competition for farm milk, threats of losing milk marketers must be taken seriously.

- Some F.A.R.M. inspectors are offering little guidance – before or after inspections take place – on compliance. Items such as algae in water-drinking troughs and even burn barrels are items cooked up as demerits on these inspections.

- In Wisconsin, we hear that a farmer who scored high on his milk quality inspection was flunked on his F.A.R.M. inspection. The co-op took away three months' of milk quality premiums because the farmer flunked his F.A.R.M. inspection.

- Also in Wisconsin, a handful of producers have been informed they will lose their milk markets because of failed F.A.R.M. inspections.

All about C-O-N-T-R-O-L ...

What's really going on with enforcement of F.A.R.M. dictates? In the analysis of *The Milkweed*, it's all about control. DFA – which is the driving force behind Dairy Management, Inc – wants to exert even more control over the dairy farm community.

It's not enough for DFA to control access of raw milk into many dairy processing plants around the country... DFA wants even more control over the destiny of dairy farmers – the power to go "thumbs up" or "thumbs down" ... just like the ancient Roman emperors gave the signal to kill, or spare vanquished gladiators in the Coliseum.

Is NMPF kow-towing to animal rights activists???

DFA is also the single biggest cooperative member of the National Milk Producers Federation (NMPF – the dairy co-op lobby). Randy Mooney – DFA's corporate board chairman – is also president of NMPF. The theory here is that NMPF is prodding its member co-ops to enforce F.A.R.M. because of a deal cooked up with animal rights activists.

Several years ago, NMPF was sued by an West Coast vegan and animal rights group – Compassion Over Killing. Named in the suit were NMPF, DFA, Land O'Lakes and Agri-Mark, Inc. The basis of the lawsuit was that the "Cooperatives Working Together" program (CWT) was an illegally structured cooperative common marketing agency. The federal Capper-Volstead Act – literally the *Magna Carta* for agricultural cooperatives – allows co-ops to form common marketing agencies under exemptions from certain antitrust behaviors.

In CWT's early days – dating back to 2003-2004 and continuing through about 2010-2011 – CWT was engaged in paying dairy farmers to kill entire milking herds. But animal rights activists, who were appalled at the notion of entire herds of milk cows meeting a premature fate, sued NMPF. The animal rights group claimed that CWT was illegally structured, since NMPF's executive committee was the board of directors for CWT. And at the time, less than half of the NMPF executive committee belonged to cooperatives that were participating in CWT (killing cows). (Note: Today, CWT continues operating by offering export subsidies to U.S. dairy co-ops.)

According to a dairy farmer who followed the lawsuit's proceedings on line, NMPF/CWT were repeatedly drubbed in preliminary decisions leading up to a scheduled February 2016 trial. The volume of documents and estimated legal costs to NMPF were jaw-dropping, that source related. But the lawsuit has not yet gone to trial. The specific case in Matthew Edwards, *et. al. vs National Milk Producers Federation et. al.*

The case number is: 11-DV-04766-JSW. The case is being adjudicated in the united States District Court's Northern District of California. Jeffrey S. White is the presiding federal judge.

The Milkweed's best guess is that NMPF is kow-towing to the animal rights group, and part of that behavior was the promise to go all-out against the practice of tail-docking dairy cows. "Tail-docking" entails cutting off the lower portion of the cow's tail. Some in the industry contend that animals without tails are cleaner and less dangerous than animals whose switches (long tail hairs) may be caked with mud and manure.

Curiously, NMPF has taken an absolute, anti-tail-docking stance. At NMPF's fall 2015 annual meeting, the dairy co-op lobby moved up the date by which the F.A.R.M. program would disallow all new incidents of tail-docking. That date for banning tail-docking had been something like January 2021, but was moved up to January 2017 at last year's NMPF annual meeting. In fact, the "big news" coming out of NMPF's meeting was the tail-docking decision. (With milk prices low and the NMPF-sired government "safety net" program not paying out any money to dairy farmers last fall, NMPF's 2015 annual meeting was obviously short on news.)

Long story short ...the F.A.R.M. program is a device dictated by the co-ops to exert even more control over dairy farmers ... with the side-benefit of catering to the animal rights agenda. What's next???