The Milkweed

Dairy's best information and insights

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

Butter Leading Tighter Dairy Marketing Picture

byPete Hardin

The Alexandre family –Blake, Stephanie and their five adult children –operate several organic, grass-based dairies on the beautiful Pacific coastal plain in California's northwestern corner. Read about the Alexandre family's unique dairy and egg businesses on pages 6-7.

By several measures, dairy's supply-demand climate is tightening. Here in early August, signals are that in the Northeast and Upper Midwest markets, burdensome supplies of farm milk that plagued the industry have eased back.

August is commonly a month when dairy marketers are searching for supply-demand signals for the upcoming fall and winter months. Starting in early August, schools open in the Deep South – a time when heat and humidity make Southern dairy farmers hard-pressed to meet growing demands for Class I (fluid) milk to fill school meal program orders. Past Labor Day, schools are in session nation-wide, –a fact during fluid milk demand. And pizza consumption correlates positively when students are in school.

International demand is strong – particularly in western Europe, where difficult weather conditions have surprisingly helped slow the anticipated "bounce-back" from the March 31, 2017 termination of the European Union's scheme that contracted willing producers to reduce their milk output. Those payments extended from 2016's fourth quarter through the end of 2017's first quarter. European butter supplies are scarce, amid growing consumer demand. According to USDA's Dairy Market News' InternationalMarkets report (8/14/17), range of butter prices in western Europe was $3.2668 to $3.4823 per pound. **Those prices have jumped, respectively, $.16 to $.30 in just the past month!!!** Currently, U.S. commodity butter prices are at $.50 to $.70 cents per pound below western European prices. European demand is boosting U.S. butter exports to that region. Important to note that European butter preferences are for 82-score (i.e., 82% butterfat) product. In the U.S., commodity butter is 80-score (80% butterfat).

Looking ahead, *The Milkweed* projects that impaired crop conditions will slow anticipated U.S. milk production. In New York and New England, many dairy farmers are facing a second year of tough crops. The Northeast's prolonged cold, wet spring has transitioned into a cold, often wet summer. Those weather conditions have thrown off schedule both harvest of forage as well as planting corn. In general, the Northeast hay situation means two consecutive years of tough hay yields (following last year's drought that hammered much of New York State west of Interstate 81.) In general, a variety of adverse crop challenges face many dairy farmers, from the Dakotas clear over to New England.

Less distressed milk "invading" Wisconsin

Another sign of relief comes from reports that significantly less distressed milk from Michigan is entering Wisconsin. Local milk truck drivers report reduced waiting times to off-load at Wisconsin plants, with far fewer tankers bearing Michigan license plates.

Incoming loads of distressed (i.e., "homeless") milk have severely screwed up milk marketing in Wisconsin. Cheaper, distressed milk has been a major factor paring marketing margins for raw milk sellers in the Upper Midwest for the past two-plus years. Also, cheap, out-of-state milk was a factor in Wisconsin dairy farmers losing their markets earlier this year.

USDA's Dairy Market News reported in its July 31-August 4 edition that prices for "spot" milk delivered to Wisconsin manufacturing plants were ranging from minus $2.00/cwt. to Class price, delivered. That's an improvement from the late spring, when distressed milk was bringing minus $3.00/cwt. to minus $6.00/cwt. at Wisconsin plants.

A good question in "America's Dairyland" ought to be, "*WHAT SURPLUS???"* USDA reported Wisconsin's milk production in June climbed only 0.2%, compared to June 2016's level. For 2017's second quarter, Wisconsin's milk output registered only a 0.1% gain above 2016's second quarter. Again we ask, what surplus???

For June 2017, USDA reported that the nation's milk production in the top 23 states rose 1.7%. Among major dairy states showing increases were: Arizona (+3.8%), Colorado (+8.1%), Idaho (+1.9), Indiana (+2.7%), Iowa (1.7%), Kansas (+4.1%), Michigan (+2.8%), Minnesota (+1.4%), New Mexico (9.8%%), New York (0.4%), Ohio (+0.4%), South Dakota (+2.9%), Texas (+15.0%), and Wisconsin (+0.2%).

Significantly, California – the nation's leading milk-producing state, witnessed a 2.1% decline in June, compared to June 2016's figure. Other West Coast states featured declines during June. Oregon was down 3.2%, while Washington dropped 1.3%. The West Coast declines can be attributed to tough weather/crop situations over the past year. California dairy producers are still recovering from more than five years of drought, which ended with heavy precipitation last fall and winter.

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Kraft-Heinz: 90-Day Payment Terms for Milk at Lowville, NY

byPete Hardin

Industry sources have informed *The Milkweed* that Kraft-Heinz's requests for price quotes for upcoming contracts to supply milk and cream to its expanded plant at Lowville, New York stipulate 90-day payment terms by the food industry giant. 90 DAYS!!!

Those buyer-friendly, one-sided payment terms are parallel to payment terms that other businesses jointly owned by Brazil's 3G Capital and Warren Buffett's Berkshire Hathaway have dictated to other suppliers in the food and beverage industries. Example: Anheuser-Busch – owned by 3G Capital – has put many suppliers on similar, extended terms. Ironically, industry sources have told *The Milkweed* that Anheuser-Busch, as well as Kraft-Heinz, require payments owed to them on a 30-day basis.

This summer, dairy co-ops in upstate New York State have been requested to submit bids to Kraft-Heinz to meet a future milk supply contract, believed to take effect in early 2018. Basically, the Kraft-Heinz communication is a request for quotations (of price). **90 DAYS!**

Kraft-Heinz' demand for 90-day payment terms will demolish the ability of most raw milk suppliers to sell to that outlet. Tying up a quarter of a year's receivables from raw milk sales would strain virtually every raw milk seller's credit limits. In the Lowville area, two nearby dairy cooperatives have been historic providers of milk to the local Kraft-Heinz plant — the Lowville Milk Producers Co-op and the Jefferson Bulk Milk Co-op. In recent years, those two co-ops have been forced to go through Dairy Marketing Services (DMS) to sell milk to Kraft-Heinz. DMS is a subsidiary of Dairy Farmers of America (DFA).

Regarding Kraft-Heinz' 90-day milk payments proposal, critics quickly point out that only DFA has the borrowing power to wait out those 90-day payments. If that's the case, then DFA would own –lock, stock and crock –the ability to control milk flow into the Kraft-Heinz plant at Lowville. In turn, it's highly conceivable that DFA could coerce those two local cooperatives to disband and become full members of DFA. That's exactly what DFA is currently dictating to the South New Berlin dairy co-op in Central New York.

Continued on page 3

Straight Talk

by Pete Hardin

90-day milk payments = naked greed There ought be a law!

At some point in the modern era, certain global corporations' naked greed ought not to shock us. But now comes news from northern New York that Kraft-Heinz has issued specifications for 2018 farm milk purchases which dictate 90-day payment terms to firms supplying raw milk to the giant cheese plant at Lowville. 90 day payments!

The core question that arises is why should Kraft-Heinz, one of the world's largest food processors, expect dairy farmers (and their cooperatives) to wait an additional 60 days for payments for milk? Kraft-Heinz is primarily owned by the Brazilian food giant 3G Capital, along with Berkshire Hathaway's Warren Buffett (the so-called "Oracle of Omaha"). 90 days for payments for milk? Why should struggling Northeast dairy farmers be expected to wait an extra two months for payments for milk, simply to boost the profits of Kraft-Heinz. In the case of Dairy Farmers of America, I suspect that co-op's leaders are plenty happy to play Kraft-Heinz' 90-day payments games, so DFA will be one of the few firms, if not the only firm, to be able to borrow enough money to supply several million lbs. of milk per day to the Lowville plant. Big sharks like to swim with big sharks.

Solution? Look to the rules governing livestock auction markets, under the federal Grain Inspection Packers & Stockyards Administration (GIPSA). GIPSA requires custodial accounts for sales of beef animals and that buyers (or auction houses) must issue checks to sellers. USDA has no such rules specifying payment times for farm milk, other than Class I (fluid).

Credit my writer and friend Nate Wilson with the following idea: Insert a provision in the 2018 federal farm bill that specifies all purchases of milk must be cleared within 30 days. If any buyer of raw milk were to fail to pay obligations within 30 days, then that buyer would lose the right to receive additional farm milk, until payments became current (30 days).

Goodness knows, dairy farming – especially in the Northeast – is difficult enough, without Kraft-Heinz and the Brazilian food/beverage thugs dictating inequitable terms of purchases for milk. We've heard a lot of rhetoric from New York State politicians about helping dairy farmers. Well, with all the subsidies thrown at dairy processors (like Kraft-Heinz), maybe it's time for NY politicos to do something to protect dairy farmers from international corporate greed. Note: New York State is covering roughly half the costs for expanding Kraft-Heinz' massive cheese plant at Lowville – in the name of "creating" about 100 "new" jobs (after Kraft was shuttering three other plants in that state with a net loss of several hundred jobs.)

I view the extortionate, 90-day payments proposal as a cancer that will spread throughout dairy, unless it is excised. Anheuser-Busch (Budweiser beer) was taken over by 3G Capital several years ago and instituted 90-day payments to suppliers. Thus, 90-day payment schemes are expanding, from the same source.

Is the dairy industry so naïve as to imagine that if Kraft-Heinz gets away with 90-day farm milk payments scheme at Lowville, New York, that Kraft-Heinz will not spread that cancer far and wide?

Is the U.S. cheese industry so naïve as to imagine that if Kraft-Heinz gets away with the 90-day payments scheme with farm milk suppliers, that it won't spread such dirty dealings to purchases of cheese?

And, if Kraft-Heinz can get away with such extortion, who's to say that the likes of Leprino Foods, Dannon, Saputo Cheese and giant dairy processors won't eventually follow suit. Venal monkey see, venal monkey do.

A bigger question I'd pose goes like this: Who the heck is 3G Capital and what is that firm doing to the integrity of our nation's food system and agricultural producers??? In the past several months, we've learned how the owners of Brazilian-based JBS, *SA* – perhaps the biggest meat processor in the world – bribed officials at Brazil's national bank to lend them the money to buy U.S. meat processing businesses. We've also learned that JBS officials have been caught bribing meat plant inspectors in Brazil to look the other way when tainted meat went into the human food system. And very recently, we've

Pete Hardin

learned that 11.1% of fresh beef samples imported from Brazil were contaminated to be considered sub-human consumption grade. Does anybody else think this picture starts to stink, and that stink is dangerous to both U.S. consumers and agricultural producers?

Control of major portions of this nation's food processing and marketing systems is now held by foreign owners. Their interests are obviously not intended to sustainably feeding this nation's citizens.

Help Haars Petition Supreme Court

Dairy farmers Jonathan and Claudia Haar are asking concerned individuals to join in their petition to the United States Supreme Court in their continued efforts to appeal the settlement of the Northeast dairy antitrust case (*Allen et al vs. Dairy Farmers of America, Inc., et al*).

The Haars object to terms of the $50 million settlement crafted by plaintiffs' and defendants' attorneys. Two appeals to the Second Circuit Court of Appeals were turned down. Obviously, turning to the United States Supreme Court is a last-ditch, low-odds shot. But the Haars recognize those facts and push ahead.

Individuals interested in learning more information should contact Jonathan Haar by email at:

harvest@frontier.com

The deadline for submitting supportive petitions to the U.S. Supreme Court is October 1, 2017.

MMP-Dairy "improvements" are a farce

(See Jan Shepel's article on page 2 of this issue regarding proposed changes in the dairy "safety net" program.)

Good News: Key Senators have moved proposals to amend the Margin Protection Program – Dairy (MPP-Dairy) through the Senate Appropriations Committee. They seek to amend this program before the current farm law expires.

Bad News: Those proposed changes DO NOTHING to address two of the worst aspects of MPP-Dairy: Inappropriate measures for both producers' milk income and expenses.

MPP-Dairy is generally regarded by producers as a complete waste and fiasco. Why? The premiums have not been justified by the supposed "safety net" pay-outs during the difficult years of 2015 and 2016. In 2015, for example, margin protection premiums totaled a hair more than one percent of the $770 million (or so) in premiums paid by dairy farmers! Some insurance! The other problem, many complain, is that USDA's measure of feed costs (corn, soybeans, and alfalfa) bears little resemblance to actual costs, particularly on the coasts.

What's wrong with MPP-Dairy's measure of milk prices? Problem is, MPP-Dairy uses USDA's "All-Milk Price" as the income measure. The "All-Milk Price" simply measures **gross milk income**. The "All-Milk Price" does not deduct any expenses for marketing or hauling from dairy farmers. Since early 2015, it's fair to say that marketing deductions from dairy farmers' milk checks have easily totaled $2.00/cwt. Thus, the "All-Milk Price" overstates actual net dairy farmer income by about $2.00/cwt., in *The Milkweed's* estimate.

Meanwhile, USDA's measures of feed costs for corn, soybeans and alfalfa have also been criticized as too low. Those costs are based upon sellers' prices in states such as Nebraska and Iowa. But what sellers of those commodities receive in major producing states can be a far cry from what dairy farmers pay for those commodities, particularly on the coasts.

MPP-D – A complete failure

As is, the MPP-Dairy program must be regarded as a complete failure. Full credit must go to NMPF, which crafted the program and sold it to Congress. In fall 2015, NMPF CEO Jim Mulhern claimed that MPP-Dairy was working exactly as intended. NMPF's subsequent criticisms have focused only on the inadequate measure of grain costs. NMPF hasn't breathed a word of criticism about the "All-Milk Price" problems. Why? NMPF – the dairy co-op lobby – would have to admit that the huge deductions from dairy farmers' milk checks are a result of cooperatives' failure to wisely manage dairy marketing.

Solving a problem must begin with honestly recognizing the problem. The recent proposals by the Senate Appropriations Committee are meaningless, when viewed in terms of MPP-Dairy's major problems.

Managing the rest of the corn-growing season

byParis Reidhead

In the July 2017 issue of *The Milkweed*, I addressedthe two different energy peaks "enjoyed" by forage corn fed to milk cows. The first energy peak occurs at tassel/silk time and the second one is achieved at kernel physiological maturity (commonly associated with black layer). Last month's article showed that most of the Northeast and Upper Midwest had effectively lost at least three weeks of functional growing season for corn so far in 2017. Both May and June were deficient in warmth, as measured in growing-degree-days (GDDs)… as well as solar radiation. In the Northeast, there has been no "catch-up" of corn maturity during the past month.

An anecdotal, though significant, assessment of July's functional growing performance came with my electric bill for that month: stated average temperature for July 2017 in my part of Central New York was 68 degrees Fahrenheit, compared to July 2016 average of 71 degrees. July 2016 seemed relatively normal, as that time block contributed to a wide-spread successful corn crop year. Taken one step further, locally July 2017 yielded 93 GDDs *less* than July 2016. Most corn scientists believe that the length of time between tasseling for any given variety and its physiological maturity is 45 days. These days are presumed to average 70 degrees, thus yielding 20 GDDs/day. What's the likelihood of the next 45 days (regardless of what starting point one uses) averaging 70 degrees? Expressed another way, most corn varieties (whether they're short-season or long-season) need about 900 GDDs to make it from tasseling to black layer, before a killing frost strikes. Should a killing frost come before corn hits physiological maturity, my recommendation will be to get corn harvested as silage ASAP… then get winter rye, wheat, or their hybrid triticale planted just as rapidly.