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WHERE'S THE COMPETITION?

New York's mailbox price doesn't reflect surging demand

By SHERRY BUNTING
Special for Farmshine

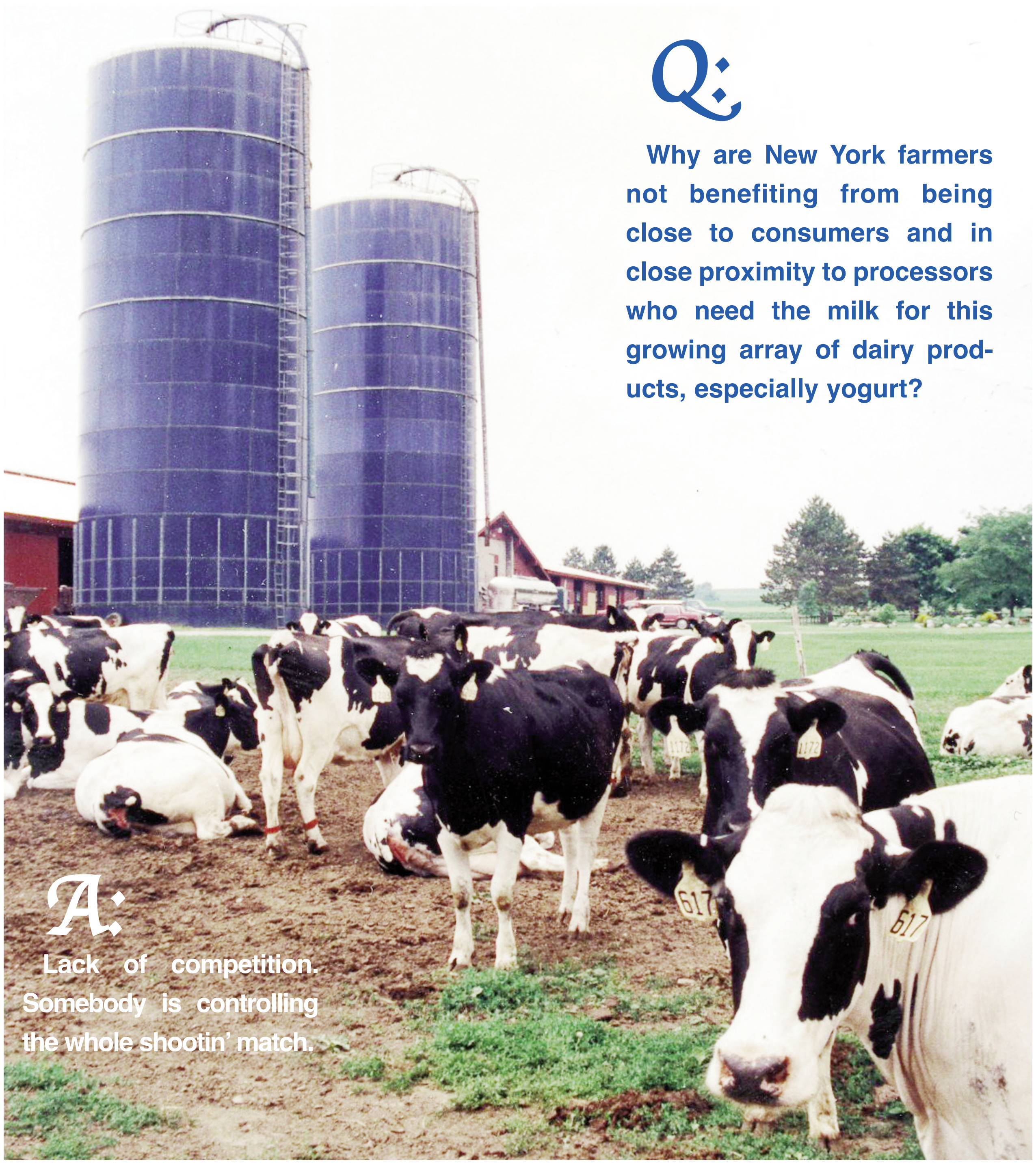
BROWNSTOWN, Pa. -- Chobani Greek Yogurt is delicious, nutritious, and has gained rave reviews from consumers – as have the Fage brand and Greek-style yogurts in general. While the New York-based Chobani now tops the yogurt category, according to market research published last week, many question whether the surge in demand for milk at New York plants is bringing a "renaissance" for dairy growth to the state's farmers.

On April 14, New York's *Observer-Dispatch* reported the Chobani plant in Chenango County requires about 3 million pounds of milk per day. Company officials said their demand for milk is so high that it comes from every corner of the state: And they need more.

Bruce Krupke, executive vice president of the Northeast Dairy Foods Association (NEDFA) based in Syracuse was quoted as saying the company's impact on the Empire State's dairy industry is "huge."

Chobani officials state the company's rapid growth has outpaced the ability of New York dairy farmers to grow their herds to meet the demand. NEDFA's Krupke said further: "The important thing for dairy farmers is that the demand helps keep them in business."

But a revealing look at the mailbox milk prices graphed here show a different story. The net price paid to New York farmers has fared poorly, especially since 2008, compared with neighboring states and compared to the U.S. average. From Jan. 2006 through Jan. 2011, the average price for 61 months was $13.40 for the U.S. and $13.39 for New York. Pennsylvania's was $13.76; Ohio $13.79; and New England $14.14. But what is even more interesting is how the gap has widened in the most recent years.



For more than a year now, industry sources have said Northeastern states need 7% more milk to keep up with new demand. New York is in the heart of that "new demand," and yet, New York dairy farmers still struggle to see the benefit in their milk checks.

While the *Observer-Dispatch* story mentions the Chobani plant in Chenango County, the Fage plant in Fulton County and plans for Alpina Foods to open a yogurt manufacturing plant in Genessee County, as well as the long list of other New York dairy processing interests, the mailbox prices paid to New York farmers – when compared to other states – have not lived up to the billing.

For an 18-month period in 2009-10, milk prices paid to farmers – nationwide – were well below breakeven. But even as those prices have been higher for the last half of 2010 into 2011, costs for feed, fertilizer and fuel on the farm have risen to unprecedented levels.

But there is something even more difficult to wrestle with … lack of competition. A lawsuit in Burlington, Vermont, is revealing one of the reasons why: New growth and competition in the market is eclipsed by the fact that the nation's largest milk cooperative Dairy Farmers of America (DFA) – and its marketing arm Dairy Marketing Services (DMS) – controls the whole shootin' match. Full-supply contracts set DMS and DFA up as the "gatekeeper." The 800-pound gorilla.

As has been the case in the Southeast – where there is also antitrust litigation and millions of

turn to page 5

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Inside this issue:

THE WEEKLY DAIRY FARM FAMILY MAGAZINE

Where's the competition? from page 1

pages of depositions expected to head to trial this summer – regional interests are trumped by centralized, one-size-fits-all approaches to milk marketing.

In the Southeast, the premiums are still higher than the rest of the country, but the farmers there indirectly pay to bring outside milk into their region to fulfill the high fluid demand, which outstrips the local supply. The current pooling provisions have allowed diverted milk to erode the Class I utilization percentage and the Southeastern farmers' mailbox milk prices as well. While the Class I processors pay these transportation credits, the credits are pooled and then drawn from to pay the freight for the outside milk. Without the so-called T-credits, would that flood of milk continue to erode the Southeastern states Class I utilization percentage? Probably not.

Lookout Northeast: The T-credits disaster in the Southeastern states is headed to a milk check near you.

For starters, National Milk Producers Federation has an elaborate centralized, one-size-fits-all plan called "Foundation for the Future." Part of this plan is to have USDA implement "intramarket credits" and "balancing credits" for the cooperatives as soon as they can get the other four pieces of this "nationalized" package of policy proposals introduced and passed into law.

Back to New York: One would think these burgeoning dairy markets would fan the flames of competition. Think again.

Among Northeastern states, New York's mailbox price is lowest. In 2006 and 2007, it ran close (within two to 41 cents) with its various neighbors and was 13 to 18 cents per hundredweight (cwt) higher than the U.S. average.

But in 2008, New York's mailbox price took a nosedive to levels 33 cents below the U.S. average. Some of that gap was recovered in 2009, but New York was still eight cents below the nationwide average. Then in 2010, New York's mailbox price was equal to the U.S. average, but has not yet regained its prior advantage.

Furthermore, the gap has continued to widen with New York's neighbors. In 2010, for example, New York's mailbox price ran 64 cents/cwt below Pennsylvania's; 84 cents/cwt below Ohio's; and $1.17/cwt below New England's. This compares poorly with 2006 when New York's mailbox price was 17 cents/cwt below Pennsylvania's; two cents/cwt above Ohio's; and 41 cents/cwt below New England's.

The loss of mailbox revenue has been so severe since 2008 that the entire Jan. 2006 through Jan. 2011 five-year average mailbox price for New York is one cent per hundredweight below the U.S. average mailbox price. One would think that should be impossible with the "competition" of processing interests and local fluid milk drinkers in the backyards of Empire State dairy farmers.

Pennsylvania's mailbox price has also lost its advantage compared with Ohio and New England despite the state-mandated premium. The Keystone State has a mandated over-order premium paid by consumers on every gallon of packaged fluid milk, which is intended, by law, for the dairy farmers. But even Pennsylvania's mailbox milk price has gone from being 20 cents above Ohio in 2006 and 2007 to being 20 cents below Ohio in 2008, 2009 and 2010.

Unfortunately, the rate of consolidation in the dairy industry has evolved to an increasingly centralized control that puts the decision-making into the hands of boards that no longer reflect regional concerns. The one-size-fits-all control by large nationwide cooperatives and marketing agencies allow for the collection of premiums from various markets by moving the milk around.

In Pennsylvania, for example, milk comes to the Carlisle butter/powder plant from Florida and that same site is the staging area for Pennsylvania milk headed to the Southeastern states. The situation of trucks waving to each other down the road has evolved to elaborate backhaul advantages to pick up premiums and credits along the way. That would be okay... if the farmer saw some benefit in his mailbox.

Market observers simply scratch their heads and wonder: Why aren't Pennsylvania farmers benefiting more from having a state-mandated over-order premium?

Why are New York farmers not benefiting from being close to consumers and in close proximity to processors who need the milk for this growing array of dairy products, especially yogurt?

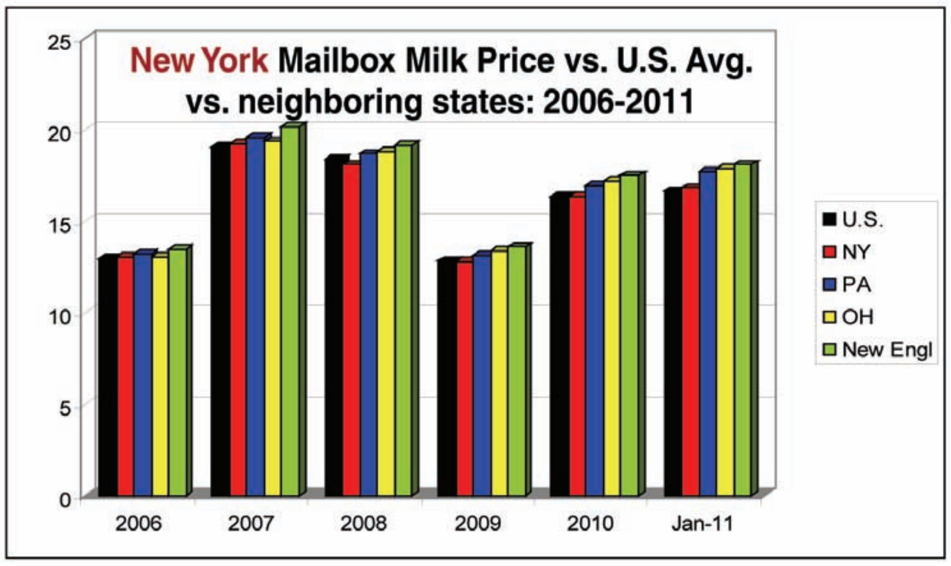
Why aren't the Southeastern farmers benefiting from being close to consumers and having a local supply of fresh fluid milk?

In a logical world, those regional benefits would make sense, especially given the price of diesel fuel since 2008. They also make sense because living and farming among consumers is more expensive than living and farming a thousand miles away from consumers. But is it really in the consumers' best interests to flatline the milk price to where the local milksheds lose their ability to recover a local competitive premium?

The problem is lack of competition. The farmers know it. The lawsuits are uncovering it. The USDA and DOJ have drawers full of files detailing the problem as it has gotten worse since 2002. Members of Congress bemoan the issue in letters and meetings.

But nothing changes. The increasingly concentrated and centralized grip on the dairy industry keeps getting tighter and tighter. The consolidation of Federal Orders in 2000 paved the way for it.

Author's Note: Chobani's Greek-style yogurt finally came to my local grocer in southeastern Pennsylvania. It is delicious. My family loves it, and I'm buying a lot of it. But because I'm involved in dairy reporting, I'm not buying the hype that New York farmers are benefiting ... until I see their mailbox milk price recover the ground it has lost ... and then some.



The "mailbox price" is defined by USDA as the net price received by dairy farmers for milk, including all payments received for milk sold and deducting costs associated with marketing the milk. Data reported by USDA. Graphic compiled by Sherry Bunting.