



April 2009

Dairy conference delves into global financial crisis, other issues

The annual Dairy Policy and Dairy Directors' Leadership Conference was held in Rochester, Minn. on April 8 and 9.

The first day kicked off with attendees hearing about the effects of the world economic situation on the dairy industry. Toby Madden of the Federal Reserve Bank in Minneapolis explained the current situation and the pitfalls of some of the actions being taken by government. Madden told attendees that there is a risk to bailing out the big companies and as the real economy adjusts itself people in the real economy get left behind. The financial crisis will have an impact on land values, according to Joe Edefel of AgStar Financial Services. Edefel projects cropland values will retreat possibly 10-15 percent during 2009 from the peak levels noted in 2008. Values are expected to then gradually recover through the year 2017.

Farm inputs also did not escape the financial crisis, according to Glen Luttke

of Progressive Ag Center, LLC. Luttke explained to attendees the different parts of input costs and how they have fared in recent months. According to Luttke, because of more stringent regulations and permitting requirements, no new phosphate mines have been developed in the U.S. since 1995. It takes 77 days for fertilizer to get from Kuwait to the field in Minnesota or Wisconsin. The lack of U.S. production and the time and shipping costs have made it very difficult to price inputs, Luttke said.

With low prices on dairy producers' minds Tom Wegner of Land O' Lakes and John Umhoefer of Wisconsin Cheesemakers Association reviewed domestic and export trends and their impact on dairy prices. Wegner explained that in 2008 U.S. dairy exports totaled 20.7 billion pounds. In 2009 the U.S. is projected to export 10.4 billion pounds. Umhoefer told attendees that people are eating out less often in an effort to save money. The

decline in people eating away from home has contributed to decreased cheese sales in the U.S. The decline in exports and domestic demand for dairy products are big reasons why farm prices are so low.

After lunch the conference focused on finding solutions to combat the low prices caused in part by the global financial crisis. Victor Cabrera, Extension dairy specialist at the University of Wisconsin, explained a new price risk management tool available to Minnesota and Wisconsin dairy producers called Live-stock Gross Margin for Dairy (LGM-Dairy). The management tool is designed to protect dairy producers against unexpected declines in gross margins.

Paul Kyurz, market administrator for the Upper Midwest Milk Marketing Order, Steve Etko of the Midwest Dairy Coalition, and Andy Novakovic of Cornell University talked about the advantages, disadvantages, and who benefits from Federal Milk Marketing Orders. Etko, who represents Minnesota and Wisconsin dairy cooperatives in Washington, D.C., feels programs that artificially enhance Class 1 milk at the expense of the price of milk used in manufacturing discriminate against producers in regions like Minnesota and Wisconsin where manufacturing milk is dominant. He feels dairy policy should focus on safety-net policies that do not discriminate based on end use of milk. The MILC program that Cooperative Network advocated for is just such a program.

Dr. Robert Cropp, professor emeritus, University of Wisconsin, forecasts that milk prices will start to slowly rebound in the 4th quarter of 2009. He cautioned that the average price in 2009 will be \$4 to \$5 lower than in 2008.

The conference is co-sponsored by Cooperative Network, the University of Minnesota, and the University of Wisconsin.



Dairy cooperative directors attending the Dairy Policy and Dairy Directors' Leadership Conference discuss new issues for Cooperative Network to work on. Clockwise from lower left: Randall Geiger of Manitowoc Milk Producers, David Cooper, Randy Peterson, and Susan Schultz of Family Dairies USA, John Funk of Land O' Lakes, and Wayne Hansen and Francis Cherry of Manitowoc Milk Producers.

Advanced Renewable Tariffs and the dairy industry

Renewable energy presents great opportunities but also some concerns for agriculture and the cooperative system. Wisconsin and Minnesota utilities, including electric cooperatives, will have to meet a Renewable Portfolio Standard (RPS) in the near future. The RPS will require a set percentage of energy to be generated from renewable sources.

This will provide opportunities for agriculture, including dairy, to provide feedstocks like corn stover and switch grass to be burned in the place of coal. Large dairies could benefit by using methane digesters to generate electricity that will help meet the RPS. Yet, agriculture must proceed with caution so that the race to meet the RPS doesn't create a win-lose situation for dairy producers and their cooperatives.

Some Wisconsin legislators have indicated interest in proposals to require utilities to pay higher rates for electricity generated from renewable sources. These higher rates, called Advanced Renewable Tariffs (ART), are designed to make the smaller-scale renewable projects profitable. In some states where ART proposals have been adopted, government subsidies have been used to make up the additional cost of the ART. However, Wisconsin ART proposals lean on utility ratepayers to provide the incentives for investment

Dairy cooperatives poised to modernize in Wis. and Minn.

Cooperative Network has advocated to legislators in Minnesota and Wisconsin that the dairy industry is more than milking cows.

"Everybody thinks the dairy industry is all about milking cows," said Bill Oemichen, Cooperative Network president and CEO. "To rural Minnesota and Wisconsin the dairy industry is big business."

Cooperative Network along with other organizations developed a legislative agenda to reinvigorate the dairy industry

and to bear the cost of the ART. This is where the win-lose situation could be created.

The ART proposal could be divisive because it may require cooperatives to pay rates higher than their own retail rates for power purchased from producers with manure digesters. According to a report prepared for Wisconsin Focus on Energy by Joe Kramer of the Energy Center of Wisconsin, the minimum number of cattle in a herd for successful use of a digester is 500 cows. If Wisconsin were to adopt an ART proposal, it could force small dairy producers to pay a higher rate for their electricity to subsidize large dairy farms with digesters. This could have a very negative impact on the 80 percent of Wisconsin dairy farms that have 100 or fewer cows. It could set one cooperative member against another cooperative member.

The Agriculture and Forestry Working Group of Wisconsin Governor Jim Doyle's Global Warming Task Force recognized these potential conflicts and, instead, recommended direct public funding for subsidized rates paid to owners of manure digesters.

This is a complex issue and will require all parties involved to help reach the RPS goals without creating winners and losers.

in these two states.

"The first step is to stop the decline in production in this region," said Oemichen. "Once that is accomplished we need to get the infrastructure updated to handle the increase in production."

In Wisconsin, Cooperative Network helped pass the Dairy Plant Modernization Tax Credit in the 2007 session and the Dairy Cooperative Tax Credit in the 2009 budget repair bill. Both were designed to give dairy processors tax incentives to modernize their plants. In Minnesota, Cooperative Network made sure there was enough money in the bonding bill to help communities modernize and expand their wastewater treatment plants. This was needed before dairy processors could expand their plants. At Minnesota's recent Co-op Day at the Capitol, First District Association Director Kathy Skiba thanked the legislators and gave them an update on First District Association's expansion project.

Co-op leaders discuss new challenges for dairy industry

Dairy cooperative directors used the second day of the Dairy Policy and Dairy Directors' Leadership Conference to revise the dairy agenda for Cooperative Network.

"Cooperative Network has been successful with its dairy agenda in the Legislature: the Dairy Investment Tax Credit, Livestock Investment Grant program in Minnesota, Livestock Siting, and recently some incentives for cooperatives to modernize," said John Manske, Cooperative Network's director of government relations. "We felt this conference was a good time to identify new issues for Cooperative Network to advocate."

With the assistance of Anne Reynolds from the UW Center for Cooperatives, dairy cooperative directors from Minnesota and Wisconsin looked at labor issues extending beyond immigration to attracting the best and brightest farm kids back to rural Minnesota and Wisconsin, getting more large animal vets, and recruiting qualified people to fill positions in agri-business. Transferring farm assets from one generation to the next was identified as an issue affecting growth of the dairy industry. Consumer issues ranged from how to tell consumers production agriculture's story to getting a better understanding of the anti-animal-agriculture crowd that is becoming a growing concern for the dairy industry.

Matt Joyce from the Wisconsin Milk Marketing Board and Donna Moening from the Midwest Dairy Association addressed many of these consumer-related topics and how our check-off dollars are helping.

Brent Wilson, a director of Michigan Milk Producers Association, and his fellow directors developed an Equity Capital Retained Earning program to help their co-op build manufacturing capacity to accommodate its members' growing milk production. Michigan Milk is a member-owned and operated dairy cooperative serving more than 2,300 dairy farmers in Michigan, Ohio, Indiana, and Wisconsin.

Cooperative
Network

Dairy Update

Dairy Update is a quarterly newsletter to provide timely information on matters pertaining to Cooperative Network's dairy member-owned cooperatives.

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