The Future for a National and Modern Dairy Industry

by

Congressman Steve Gunderson

June 2, 1989
A NEW ROLE — A NEW DIRECTION

As I contemplate dairy policy in this Congress, I find that my thoughts are a bit different than before. This occurs, not by indecision, but rather by the fact that I am now in a new and different position — that of ranking Republican on the Livestock, Dairy, and Poultry Subcommittee. What is the proper job description of a ranking member? - an advocate for the nation’s dairy industry? - a bridge between Administration and Congressional concerns? - a futurist trying to direct the industry into the 1990’s?

Actually, I would suggest all of the above. Representing one of the nation’s leading dairy producing regions, my support for my dairy industry is not disguised, nor should it be. Yet, I do now share both the opportunity and the responsibility to try to achieve a national dairy policy. But, I would suggest the interests of the dairy industry nation-wide and of my home state of Wisconsin are not mutually exclusive. This becomes especially important when everyone understands the essential need of creating a modern dairy policy for a modern dairy industry.

We have to develop an agenda for dairy, both in 1989 and, more importantly, in 1990 when we write a farm bill. But perhaps this is too short-sighted. Maybe we should develop an agenda for the next ten years as we approach the century mark.

As we develop the agenda, we should ask the following questions: Where do we want Wisconsin; where do we want the Midwest; and where do we want the American dairy industry to be in the year 2000?

Also, I want to be a part of bringing the whole animal industry together. Because whether you are a cattleman or dairyman, with the possible exception over the debate on production control, voluntary or mandatory, we seem to agree on everything else — from animal welfare, to promotion, to food safety, to marketing issues at home and abroad. Regarding international trade issues, we have to unify our efforts and be more aggressive.

We must all become futurists. We have to sit down and look at where we would like long-term dairy policy to be and then determine how we get there.

For western Wisconsin, for all of Wisconsin, for the Midwest, and for all of America, I think there are some exciting things we can look at in that regard.

THE EARLY DAYS OF THE DAIRY INDUSTRY

To enter into the discussion of developing a consensus on a modern, national dairy industry, one must take a step back in history to see how yesterday’s federal dairy policies have transformed into today’s dairy programs.

The federal government became involved in dairy policy in 1924. The government’s first role was that of establishing a voluntary federal standard for milk quality by the Public Health Service. People did not like the federal govern-
ment any more back then than they do now because eight years after those voluntary standards were developed, only five states, 86 counties, and 482 municipalities had adopted the standard.

During the 1920's, federal policy was clarified to allow the growth of agricultural marketing cooperatives. And by 1926, the Cooperative Marketing Act specifically included clarification of the status of agriculture cooperatives. It actually went one step further, creating a program within the USDA to assist the issue of such cooperatives.

In 1933, the federal government addressed the issue of milk supply by creating the concept of federal milk marketing orders. These orders were given permanent statutory authority in 1937 under the Agricultural Marketing Agreement Act. The purpose of establishing the milk marketing order system was threefold: To promote orderly market conditions in fluid milk markets; to assure consumers of an adequate supply of quality milk; and to stabilize milk prices, resulting in improved income for farmers.

Finally, it was the shortage of food during World War II that resulted in the famous legislation of 1949, the price support and dairy purchase program. The Commodity Credit Corporation, or CCC, was organized to support the price of milk through purchases of butter, cheese, and nonfat dry milk.

There were some other interesting elements about dairy agriculture then. Herd size in the nation averaged between six and 20 cows. Today, that national average is 65 cows, with Wisconsin's farms averaging 47 cows.

Also, in the twenties and thirties, milk production was generally a small-scale, hand-labor enterprise. During this time, a substantial number of American farmers still kept one or more milk cows to provide milk for family consumption. Only 13 percent of the dairy farms sold milk, to be used either for fluid use or manufactured products.

Today, dairy farming is the principle business of 175,000 commercial dairy farmers. The dominance of fluid milk processing and distribution by processors that characterized the industry of the early thirties has been changed radically. Now, supermarket groups set the pace for prices and competition in the marketing of fluid milk products, with processors much less powerful as a group than they had been.

It is indicative of the challenges we face today to better understand the simple and basic workings of such. Fluid milk is distributed through private channels. The surplus product is manufactured, for the most part generically. Some is sold for merchandising activities with the remainder sold to the government.

**A CHANGING INDUSTRY FORCES GOVERNMENT REACTION**

Increases in the price support during the late 1970's, combined with low feed prices resulted in a major expansion of the dairy industry and production, forcing the government to respond.
In 1981, Congress first moved to eliminate the semi-annual adjustment for dairy price supports. Later, in the farm bill, Congress froze the price — thus moving away from a percent of parity to a specific level of support.

With government purchases continuing to increase, in 1982 Congress imposed unpopular assessments. In 1983, trying to find an alternative for assessments, Congress enacted the voluntary diversion program.

As part of the 1985 Farm Bill, Congress realized the diversion program worked only until the second it was over — when milk production took off again. So Congress tried to enact a more permanent form of the diversion program — the whole herd buyout. As part of the political compromise to the buyout, differentials were increased at the same time.

In 1986, and again in 1987, we went to the floor of Congress to modify Gramm-Rudman for dairy, allowing an assessment on all milk marketed rather than a drastic cut in support price on the manufactured product.

In 1988, as part of the Drought Assistance Act, we enacted a 50-cent, three-month increase in the support price from April 1 to June 30 of 1989, when feed shortages should be at their most severe level. And this year, Congress directed the Secretary of Agriculture as to where the increase should be placed.

Can there by any clearer evidence that the present dairy policy is not working well? The reason is obvious: We are trying to blend a 1990's dairy industry with laws and programs passed in the 1930's and 1940's, and it just does not work.

A NATIONAL AND MODERN DAIRY POLICY

I have laid out three general goals for the dairy industry. While sounding simple, the implementation of a program to achieve these goals is monumental, indeed. They are:

1) A national dairy policy that unifies all dairy producers under one set of consistent dairy programs.

2) A modern dairy policy responding to a modern dairy industry.

3) A new era of cooperation among all in the animal industry, especially the bovine sector.

In doing so, I have been accused of advocating regionalism. I must point out, however, that I have been advocating the elimination of regionalism by eliminating those barriers to a national dairy policy that exists today.

I have suggested that we need a modern dairy program and a national dairy program. They are very different concepts.
Congress can, and should develop laws that respond to the needs of the 1990's dairy industry — not the '30's or '40's or even the '80's, but the 1990's and beyond. Also, we must be a national dairy industry; level the playing field and everybody participates in the game equally.

The real purpose of our efforts in 1989 is to establish the agenda for the 1990 Farm Bill. Progress has already been made in that area. The Chairman of the Dairy Subcommittee, Representative Charles Stenholm from Texas, where there has been a 22 percent increase in production since 1985, has told his own farmers that everything is on the table for 1990.

I have been pursuing efforts which begin to focus, from a marketing perspective, on where we are going with long-term dairy policy. In doing so, I have made statements to Secretary Block, Secretary Lyng and now Secretary Yeutter, suggesting that if we are going to have a market-oriented philosophy on the price support side (where based on government purchases we lower the price every January 1) then it's only fair we have a market-oriented philosophy on the marketing side!

That obviously means creating a level playing field and the opportunity to sell both fluid milk and manufactured product anywhere in this country.

MOVING TOWARD ONE NATIONAL PROGRAM

Grade A Differentials

To start this discussion, one must recognize that those artificial elements of the market put in place way back in the 1930's and heightened in the 1985 farm bill, can't be justified today.

The General Accounting Office study released in March, 1988, said the grade A differential cannot be justified. A $1.04 grade A differential, when the real difference in producing grade A or grade B milk is 15 cents, is out of line. Currently, 88 percent of this country's milk is grade A, which simply means you don't need a government incentive to produce grade A over grade B.

Distance Differentials

According to the GAO report, the distance differentials are no longer appropriate either. I contend they produce a regional price structure that bears no consistent relationship to regional variations in the cost of production. The distance differential is simply a compensation to dairy producers, based on their distance away from Eau Claire, Wisconsin, the basing point for the dairy industry.
<table>
<thead>
<tr>
<th>Region</th>
<th>1987 Blend</th>
<th>Prod. Cost</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appalachia</td>
<td>$13.21</td>
<td>$11.62</td>
<td>$1.59</td>
</tr>
<tr>
<td>Southern Plains</td>
<td>$13.45</td>
<td>$12.01</td>
<td>$1.44</td>
</tr>
<tr>
<td>Southeast</td>
<td>$14.49</td>
<td>$13.16</td>
<td>$1.33</td>
</tr>
<tr>
<td>Northeast</td>
<td>$12.78</td>
<td>$12.01</td>
<td>$0.77</td>
</tr>
<tr>
<td>UPPER MIDWEST</td>
<td>$11.70</td>
<td>$11.83</td>
<td>$-0.13</td>
</tr>
<tr>
<td>Corn Belt</td>
<td>$12.24</td>
<td>$12.39</td>
<td>$-0.15</td>
</tr>
</tbody>
</table>

Source: USDA

Some conclusions are obvious. The distortions of present dairy policy have created similar drastic distortions in profitability for farmers, based simply on where they live! Can any of us defend a structure that allows a profit of $1.59 in one region of the country and a loss of over 15-cents per hundred-weight in another region? Perhaps such numbers would be justified if new regions, trying to get into the dairy, were just not succeeding. But as the numbers show, the reality is that the traditional dairy areas are the ones losing money!

In discussing this disparity with dairy groups nationwide, I’ve challenged them to respond to this question: How can you justify to your own members a federal program that pays a farmer in Wisconsin $2.50 less than a farmer in Texas? The Class I price (base Minnesota-Wisconsin price plus differential) demonstrates this inequity.

**CLASS I PRICE (MAY 1989)**

<table>
<thead>
<tr>
<th></th>
<th>$/cwt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeastern Florida</td>
<td>$15.16</td>
</tr>
<tr>
<td>New Orleans/Miss.</td>
<td>14.83</td>
</tr>
<tr>
<td>Texas (Dallas)</td>
<td>14.26</td>
</tr>
<tr>
<td>New England</td>
<td>14.22</td>
</tr>
<tr>
<td>New York/New Jersey</td>
<td>14.12</td>
</tr>
<tr>
<td>UPPER MIDWEST</td>
<td>12.18</td>
</tr>
</tbody>
</table>

Source: Dairy Market News

Why should the same hundred pounds of milk sell for as much as $3.00 more in some regions of the country than in the Upper Midwest? It is certainly not an incentive for shortage areas to produce milk, for they are building manufacturing plants to handle excess capacity.

It is the contention of producers in the Upper Midwest that these distance differentials have contributed greatly to surplus production. As such, it is the fear the federal policy is encouraging systematic regional transfer of the dairy industry, not due to efficiencies, but rather antiquated government pricing and marketing policy.
**Regional Shifts — Regional Profits**

The regions with the greatest rate of increase in milk production over the last decade, and over the years of the 1985 Farm Bill, tend to also be the areas with the highest differentials. Comparing the Class I differential changes with milk production will show why some regions of the dairy industry have been given an incentive to produce and profit.

### REGIONAL CHANGE IN MILK PRODUCTION

(pounds in millions)

<table>
<thead>
<tr>
<th>Region</th>
<th>1977-79</th>
<th>1984-86</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northwest</td>
<td>5,389</td>
<td>7,411</td>
<td>38</td>
</tr>
<tr>
<td>Southwest</td>
<td>14,179</td>
<td>19,120</td>
<td>35</td>
</tr>
<tr>
<td>Southern Plains</td>
<td>4,971</td>
<td>6,195</td>
<td>25</td>
</tr>
<tr>
<td>Northeast</td>
<td>5,389</td>
<td>7,411</td>
<td>15</td>
</tr>
<tr>
<td>UPPER MIDWEST</td>
<td>35,448</td>
<td>40,503</td>
<td>14</td>
</tr>
<tr>
<td>Western Plains</td>
<td>6,501</td>
<td>6,940</td>
<td>7</td>
</tr>
<tr>
<td>Corn Belt</td>
<td>15,759</td>
<td>16,672</td>
<td>6</td>
</tr>
<tr>
<td>Southeast</td>
<td>16,998</td>
<td>17,251</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>122,485</td>
<td>140,721</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Dairy Situation and Outlook Report USDA, April 1987

As this Class I Differential chart illustrates, these artificial mechanisms were heightened in the 1985 Farm Bill. I supported the '85 Farm Bill because at that time we achieved a compromise. The Upper Midwest had the whole-herd buyout, the South and elsewhere got increased differentials.

### CLASS I DIFFERENTIALS

Changes from Food Security Act

<table>
<thead>
<tr>
<th>Region</th>
<th>Pre-FSA</th>
<th>Post-FSA</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>UPPER MIDWEST</td>
<td>$1.12</td>
<td>$1.20</td>
<td>0.08</td>
</tr>
<tr>
<td>Nebraska/W. Iowa</td>
<td>1.60</td>
<td>1.75</td>
<td>0.15</td>
</tr>
<tr>
<td>Central Illinois</td>
<td>1.39</td>
<td>1.61</td>
<td>0.22</td>
</tr>
<tr>
<td>New England</td>
<td>3.00</td>
<td>3.24</td>
<td>0.24</td>
</tr>
<tr>
<td>Georgia</td>
<td>2.30</td>
<td>3.08</td>
<td>0.78</td>
</tr>
<tr>
<td>Texas</td>
<td>2.32</td>
<td>3.28</td>
<td>0.96</td>
</tr>
<tr>
<td>S.E. Florida</td>
<td>3.15</td>
<td>4.18</td>
<td>1.03</td>
</tr>
</tbody>
</table>

Source: USDA-AMS
But unfortunately nobody's reading the law! Those differentials had to be in place only as long as the 18 months of the whole-herd buyout. Now we are beginning to recognize part of the problem. USDA is saying, that in terms of market order changes, those requests have to be made by the market order affected. If this kind of standard is to be adopted, the needed market order changes will never be made!

We quickly get a couple of signals: 1) The issue of marketing orders and differentials has to be on the table for the 1990 Farm Bill; 2) in the process, we must talk rolling back those '85 differentials which were meant to be temporary; and, 3) we must change the standard by which the USDA considers requests for market order changes.

**Multiple Basing Points**

The establishment of additional basing points would create a series of regional bases for setting the Class I price similar to the basing points in Eau Claire and California. Each base would be in a surplus milk-producing area, where prices at the basing points would be lower than elsewhere.

This system would recognize the economic reality that efficient milk producers have more uniform costs of production regardless of geographic location. This system would also recognize that several surplus areas exist from which deficit areas could obtain a supply of milk.

Careful economic evaluation, of course, would be needed in order to set the basing points. Costs of production, trends in costs, and regional and local supply and demand conditions must be analyzed.

**Transportation Roadblocks**

Another issue raised by the General Accounting Office study is that of marketing order provisions (both down allocations and compensatory payments). These are designed to economically discourage the shipment of surplus milk from one market to another unless there is a deficit, effectively prohibiting the use of technology for more efficient production and distribution of milk between distant locations. One must ask what relevance such prohibitions have to a national or modern dairy industry.

Down allocations place milk from distant milk market areas into a lower class price, while compensatory payments place a charge on milk shipped into a market area except in instances of shortage. These provisions eliminate any financial incentive for shipping milk into another market.

An example of how these provisions discourage the movement of milk from market to market is the shipment of reconstituted milk. To remove the water from milk, ship the concentrated milk solids, and then reconstitute it, would result in lower transportation costs and sensible shipment of milk to distant markets. But this is not feasible because of the addition of down allocations and compensatory payments.
The GAO Report stated: "The need for down allocation provisions simply suggests that the price of milk in the receiving market is too high relative to alternative sources of supply."

I support the contention that if milk can be produced and also transported to the receiving area at a lower cost than local milk supplies, that competition should be allowed to take place.

**Progress for Changes**

There exists reasonable step-by-step options for modernizing such a dairy policy. They include: Establishing more basing points; eliminating the Grade A and distance differentials; reducing down allocations and compensatory payments; and, other order pricing provisions while retaining order supervision.

Specifically, the steps taken for policy changes should follow this sequence over a period of time to allow the dairy industry to adjust and for the government to monitor those adjustments.

The sequence of steps to change the system include:

1. Establishment of multiple basing points to minimize the influence on regional production patterns;
2. Removal of down allocations and compensatory payment provisions to make reconstituted milk competitive; and,
3. Elimination of the Grade A and distance pricing differentials in federal orders.

**California Make Allowance**

In its report to Congress, the National Commission on Dairy Policy evaluated the California make allowance in the following manner:

"The California make allowance determines the minimum price California producers are paid for the milk used for manufacturing purposes and ensures that the minimum price will be below the federal minimum price.

In the rest of the country, through the federal order classified pricing policy, the Minnesota-Wisconsin price is the minimum price that must be paid to milk producers. By contrast, in California, final product prices are determined and the returns to milk producers in California are computed as a residual in marketing transactions.

Because the CCC purchase price for butter, cheese, and nonfat dry milk is identical in all parts of the nation, this practice provides a subsidy to California processors by allowing them to purchase the primary ingredient — milk — used in the production of cheese or butter at a cheaper price than must be paid by processors in other states."
Summary

In summary then, what steps should be taken to achieve a "national dairy policy?"

1. Roll back distance differential increases provided in 1985 Farm Bill;
2. Eliminate Grade A differential;
3. Establish multiple basing points;
4. Eliminate down allocations and compensatory payments;
5. Establish one national pricing system which must be used by all participating in the government's support program.

A MODERN DAIRY PROGRAM

If there is ever a time for "zero-based" policy-making, it exists today in the dairy industry. Are we going to be regional advocates? Are we going to have a national dairy program? Do we make major changes or continue business as usual? What's going to be the policy for the 90's?

There exists today, a very modern dairy industry in America. From the modern efficient family dairy farms to a competitive, diverse processing chain, the dairy industry today is very different than even ten years ago. Today, we are already participating in an international market.

Biotechnology is changing the picture of milk production and product development. Consumer demands are vastly different than ever before. The question we must answer is this: "Has our dairy policy kept pace with the industry?" Let's assess some of these new challenges.

International Trade

Trade is becoming more and more a part of our dairy discussions. Today there is an international economy, international finance and more and more international trade. Almost all of agriculture is part of it. How long before America's dairy industry joins in, and does so aggressively?

What does all of this mean as we move down the road, what does it mean for GATT? It is clear from the Secretary and others, we in the United States are putting a great deal of reliance on those GATT negotiations.

What does this mean for dairy? It is interesting that there are probably no elements of agriculture that have more domestic trade protection than the red meat and dairy industries. We obviously want to do what we can to protect our industry in the short-term and in these negotiations.
But, if we make progress on the whole discussion of moving toward an international market in agriculture, where will dairy and the red meat industry be? My guess is we are in jeopardy of the Europeans and other countries who are saying “wait a minute America, isn’t it time you open your doors as well?”

We should pursue not only a market-oriented policy at home, but we have got to prepare ourselves for a possible market-oriented policy in a high-technology dairy industry both home and abroad. In dairy, like in football, a good offense may be our best defense!

Other countries are looking toward the United States' dairy industry to be in the best position to capitalize on a solid share of the world dairy market. The New Zealand Dairy Board is just one of those countries. Remarkable, coming from a country where they export roughly 85% of their dairy products.

The United States over the last couple of years, has made major strides in our dairy product exports. We are now looking at the possibility of some 200,000 tons of nonfat dry milk exported on an annual basis, most of that from our commercial stocks.

We are competitive in the world market with nonfat dry milk today. The New Zealanders indicated to me that in the very near future, the U.S. will be setting the price internationally not only for nonfat dry milk but also for cheese. Of course, we have not been close to the international cheese market in the past. But through our efficiencies and other mechanisms, we are now within 20% of the world price. The New Zealanders really believe that in the decade of the 90's, we’re going to take over the cheese market.

Why such observations? For one point, Japanese consumption of milk is roughly one-sixth that of New Zealand, but it is increasing. Some trade barriers are being dropped in Japan. And interestingly enough, Japan has raised the fat content of their milk, totally opposite of what's going on everywhere else in the world. But what has happened is their consumption with that increased fat content for whole milk has actually increased! And this is despite the very high price for a gallon of milk, about twice the price in the U.S.

Point number two: Europe, through the 12-nation European Community, has of course, placed some very strict production controls on all of its dairy farmers. The reality of this is, believe it or not, the EC has half of the world dairy market. That is going to continue to dwindle with their production controls. They do not have any opportunity to expand that market.

The international dairy market has been dominated for the last 20 years by the EC. But that stronghold was projected to loosen dramatically this year with exports outside of the 12-nation trade group for butter, cheese and nonfat dry milk.

Exports in 1988 outside the EC trade group were 1.291 million metric tons. In 1989, the early projection estimated EC exports dropping to 923,000 metric tons.
This can be seen directly in the EC's stocks. For butter, stocks have decreased 45% since 1987. Cheese stocks increased 5%. While nonfat dry milk declined a remarkable 75% in the last year.

New Zealand would love to expand into this vacated market, but they do not have the land. Instead, they are looking at roughly 5% a year increase over the next 10 years and that will not have a major increase in their ability to pick up part of an expanding world market.

Recently, the Soviet Union approached the United States with an offer to negotiate a deal to purchase up to 30,000 metric tons of butter from our own CCC stocks. Last year, the Soviet Union purchased 150,000 metric tons of butter, mostly from the EC, but this year, the U.S. has the available product to meet some of their needs. This is a hot, new market worth aggressively pursuing.

In this regard, I would also suggest that perhaps a price support trigger should be based on stocks, not purchases. Simply because the government purchases dairy products, no longer means a surplus exists.

Technology

It is no secret that the bovine growth hormone (bST) is something we are going to have to deal with in the next year. Indications are that the United States, not Europe, is going to be the leader in making the decision on bST.

The Food and Drug Administration, not the House or Senate Agriculture Committee is going to make the decision based on health and safety standards. The debate in the U.S. on bST is very different than over the hormone standards in Europe where it will really become a consumer confidence issue. My guess is, even if bST is approved, it is going to be implemented in a gradual fashion because as an industry, we're not going to risk consumer confidence on this.

I also suspect that by the time we write the 1990 Farm Bill, we will be doing so with bST commercially available. Such events will likely merit a response from the Congress to assure bST does not impose a negative impact on farmers or their product.

If I had to make one statement about the use of bST it would be this: I hope those in the Upper Midwest, whether it be Wisconsin, Minnesota or elsewhere don't try to be unique, and by ourselves establish a dairy policy that takes us out of the norm for the national dairy industry in this regard. We should not send the signal that our milk is inferior to milk produced elsewhere.

Consumption

One of the biggest items of good news forgotten over the last few years, is that in the decade of the 80's, we have increased commercial consumption of milk in this country by 20 billion pounds, from 119 to 139 billion.
It is estimated domestic consumption will increase at approximately 1% a year for the near future. According to the USDA, consumption between 1983-1987 demonstrates that point even clearer.

**DAIRY CONSUMPTION**

**1983-1987**

<table>
<thead>
<tr>
<th>Product</th>
<th>1983-1987 Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Milk</td>
<td>+ 10.7%</td>
</tr>
<tr>
<td>Total Cheese</td>
<td>+ 25.6%</td>
</tr>
<tr>
<td>Other Cheese</td>
<td>+ 32.5%</td>
</tr>
<tr>
<td>American Cheese</td>
<td>+ 18.5%</td>
</tr>
<tr>
<td>Frozen Desserts</td>
<td>+ 7.1%</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>+ 5.7%</td>
</tr>
<tr>
<td>Fluid Milk</td>
<td>+ 4.0%</td>
</tr>
<tr>
<td>Butter</td>
<td>+ 3.4%</td>
</tr>
<tr>
<td>Nonfat Dry Milk</td>
<td>+ 3.3%</td>
</tr>
</tbody>
</table>

Source: National Dairy Promotion and Research Board

It's encouraging that, as a whole, Americans are eating and drinking more dairy products, while individually, we are also consuming more.

**DAIRY PRODUCTS USE**

**Per Capita In Pounds**

<table>
<thead>
<tr>
<th>Year</th>
<th>Pounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>525</td>
</tr>
<tr>
<td>1981</td>
<td>523</td>
</tr>
<tr>
<td>1982</td>
<td>525</td>
</tr>
<tr>
<td>1983</td>
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</tr>
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<td>1984</td>
<td>536</td>
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<td>1985</td>
<td>546</td>
</tr>
<tr>
<td>1986</td>
<td>553</td>
</tr>
<tr>
<td>1987</td>
<td>557</td>
</tr>
</tbody>
</table>

Source: National Dairy Promotion and Research Board

In 1988, the National Dairy Promotion and Research Board spent $60.9 million in advertising and marketing with targeted emphasis on different consumer groups, stressing the strong health benefits derived from dairy products.

Even with consumption estimated to increase, the National Dairy Promotion and Research Board, like other large commercial organizations, is aggressively expanding and promoting its market. The fact still is $60 million goes for dairy promotion, compared to Coca-Cola's $364 million advertising budget in 1987.

It is easy to take for granted the supply of milk and milk products because they are so readily available. The U.S. dairy farmer has provided consumers with a steady supply of milk and stands ready to meet growing demands at home and abroad.

**Consumer Preferences:**

With the increased health awareness among Americans, has come a change in their preferences of dairy products that they bought in grocery stores and consumed at home. More and more Americans are turning to lowfat milk, and...
now, reduced-fat cheese. For the American dairy industry and dairy farmer to survive, they, along with government policies, need to adjust to meet those consumer demands.

Responding to these market changes also requires a change in pricing of milk. The CCC bases its purchases on 3.67% butterfat content, but consumption has shifted to a lower fat content product of roughly 2.6%, taking into consideration total consumption of whole, 2%, and skim milk.

The National Milk Industry Foundation notes that in 1987, fluid milk, cream, and specialty dairy products totaled 26.4 billion quarts, up from 26.3 billion quarts the year before. Increased sales of lowfat, skim, cream, and specialty items offset the decline in whole milk and buttermilk.

For instance, lowfat milk continued its upward trend with an increase of 4%. Skim milk was up 6%, while whole milk was down 4%, showing a shift of consumer preferences of lower fat dairy products.

On the other side of the coin, CCC purchases of dairy commodities illustrate how shifting consumer preferences have affected the movement of total dairy products. More butter is being purchased by CCC because of the strong market demands for nonfat dry milk and lower fat dairy commodities.

Through mid-May, CCC purchases of butter was 339 million pounds, compared to 270 million pounds purchased at the same time last year. For nonfat dry milk, no purchases have been made since October 1988, compared to 310 million pounds this time last year. And for cheese, purchases have also declined from 238 million pounds to 37 million pounds.

This is an obvious “red flag” that tells us the government purchase pricing mechanism is not in line with consumer preference. Several options of dealing with the government butterfat problem include changing the pricing mechanism and/or developing new markets in the form of new products for export.

The federal government has recognized this problem and actually took some action this year toward preventing incentives for increased butter purchases. The Drought Assistance Act of 1988 provided for a three-month, 50-cent price support increase on April 1. When that price increase took effect, the USDA did not increase the support price for butter, but rather for nonfat dry milk.

Reduced-fat dairy products represent both good health and good marketing directions. Government programs should respond and assist such movement.

Summary

What then constitutes a modern dairy policy? It is our continuation of increasing consumption here at home, retaining and strengthening consumer confidence, expanding our product line, and adjusting to those consumer preferences.
In summary:
1. Responding to bST and other technology;
2. Enhancing our export infrastructure;
3. Developing lower fat products; and,
4. Developing a lower fat or fat solids pricing policy.
5. Continuing focus on increased market consumption through research, promotion, and product development.
6. Considering changing the support price trigger away from purchases toward stocks.

CONCLUSION

One might quickly question why a paper of this magnitude is silent on the support price level or the means of achieving price supports in the 1990 Farm Bill. Certainly, to a farmer’s income, such issue is priority. However, it is essential we begin by setting the overall framework for writing the dairy section of the farm bill. A resolution of the issues brought forth in this paper will impact upon the support program.

And to be honest, within some basic guidelines, many different support mechanisms can fit into these goals. Most of these changes can be accomplished under the present purchase program, under target prices, or a two-tier pricing system.

My purpose is to establish the vision, the broad goals and guidelines of a modern national dairy policy then get into specifics. I think that is most important.

These are the real challenges for a modern dairy industry seeking profit for its farmers and growth for its industry. Are we willing to keep the focus forward? We would all make a major mistake to pretend controversial and emotional issues do not confront us when they do.

We must be willing to sit down with each other and seek solutions. In the end though, we all must agree that a national dairy industry involves change and a focus on the future. In many ways, the success of whether we achieve a national consensus and a modern dairy policy rests on the dairy farmers.

I am convinced we are going to have an exciting 10 years as we enter the 21st century!