Focus on the '90s

Proceedings of the
1990
Northeastern Dairy Conference
Annual Meeting
This Conference is organized for the purpose of:

1. Creating better marketing conditions and, hence improvement in the conditions of milk producers in the various northeastern milksheds by encouraging and strengthening the various milk producers' cooperative organizations, and by better production and marketing methods with the cooperation of the various state and federal agencies, to the end that the industry may insure, as far as possible, a permanent and satisfactory milk market stability.

2. Assisting in the coordination of the activities between groups of producers within a market, between state and federal milk agencies, and between milksheds within the northeastern states.

3. Providing an agency of contact between the dairy industry in the northeast and national programs for the industry.

4. Suggesting and encouraging educational programs and research to assist in the solution to the problems facing the industry.

—from Constitution and Bylaws of the Northeastern Dairy Conference
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1990
NORTHEASTERN DAIRY CONFERENCE

Stouffer Rochester Plaza Hotel
April 2 & 3, 1990

Executive Committee Meeting: April 2, 1990
Chaired by: William Zuber, President

1. Treasurer’s report read and accepted.
3. Voted to recommend acceptance of Agri-Mark’s invitation to host the 1991 Conference in New England.
4. Voted to recommend publication of this year’s Conference Proceedings.
5. Discussion on:
   A) Coordinating East-West and Northeastern Conference
   B) Expanding industry participation through more extensive publicity.

Business Meeting: April 2, 1990
Chaired by: William Zuber, President

1. Secretary’s report accepted as printed in 1989 Proceedings.
2. Treasurer’s report showing balance of $15,845.57 accepted.
3. Officers nominated and elected as follows:

   President                Norman Harvey, Agri-Mark
   Vice President           Myron Wilhide, Dairymen
   Secretary                Walter Wasserman, Cornell
   Treasurer                Paul Hand, Atlantic Dairy

   Executive Committee:
   Lew Gardner, Eastern  1991
   Robert McSparran, Atlantic  1991
   James Putnam II, Farm Credit  1991
   Clyde Rutherford, Dairylea  1992
   Robert Vaughn, MD-VA  1992
   Darwin Braund, Agway  1993
   Lloyd Patterson, Cabot  1993
   William Zuber, Upstate  1993

   Program Committee for 1991:
   Officers
   Executive Committee
   Host Representatives

4. Accepted Agri-Mark’s invitation for 1991 Conference.
5. Voted to continue to publish Proceedings and to make available to Conference attendees.
### ANNUAL MEETINGS OF THE NORTHEASTERN DAIRY CONFERENCE

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\(^1\)No annual meeting. Constitution and Bylaws Committee appointed.

\(^2\)No annual meeting. Conference met jointly with Northeastern State Farm Bureau Federations.

\(^3\)No annual meeting. Only committee meetings.

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The General Economy: Situation and Prospects

R. M. Monaco
ERS-USDA

For the third consecutive year, it is my honor to be the opening speaker at the Northeastern Dairy Conference. As I have done in the previous two years, I would like to review the macroeconomic developments that have occurred in the last year or so, and try to explain how I think those developments will affect this year's macroeconomic environment and the environment of the more distant future. Macroeconomic developments do not appear as immediate as the prices you will receive, say, today or tomorrow, or the quantity of dairy products that you will produce, say, over the next year. But they may sometimes be the reason that you make a profit or don't, and you have very little control over those factors. The inflation rates you face when you purchase inputs, the interest rates you pay, and the consumer income from which purchases of dairy products come are all largely determined by events only very remotely related to the dairy sector. And monetary and fiscal policy changes are seldom influenced by developments in dairy. My hope is that I can provide some useful information about the macroeconomic environment, which will allow you to exercise your knowledge of your own market more effectively.

Where Are We Now?

The good news is that it is likely that the worst of the current slowdown that has been afflicting the economy, particularly manufacturing, is probably over. While a boom is not likely in the next 6-12 months, neither is a recession. The expansion, which is already the longest peacetime expansion on record, will probably celebrate its eighth birthday this December. A major reason for this expansion's longevity is that we have encountered several growth slowdowns throughout it, and so the economy as a whole has not put undue demand pressure on overall supply. In other words, for most of this expansion, inflation caused by too much demand chasing too few goods has not been so severe as to convince the Federal Reserve to tighten money and credit flows substantially. In the past, substantial tightening has usually driven the economy into recession.

For the past 18 months or so, however, the potential for rising inflation has been the dominant concern of the Federal Reserve, and they have responded to this concern by gradually slowing money and credit supply growth. Tighter money has been the primary reason for the slowdown in manufacturing. The roots of the tight monetary policy go back at least 2 years. Two years ago, the stock market crash of October 1987 was about 4 months behind us, and we were just beginning to realize the export gain from the nearly 40 percent decline in the value of the dollar from its peak in 1985 to the end of 1987.

The economy, rather than sagging as many analysts had predicted after the crash, actually sped up. Real GNP in 1988 grew 4.4 percent, up from 3.7 percent growth in 1987.

Exports of goods and services in real terms jumped nearly 18 percent in 1988, cutting our net export deficit with other countries to $75 billion, the lowest level since 1983. Industrial production growth accelerated, spurred by export sales and orders by domestic manufacturers for tools and machines needed to meet expanding overseas demand. Overall capacity utilization reached 84.3 percent, a high for the expansion.

Employment continued to grow and the average unemployment rate for 1988 slipped to 5.3, a low for the decade. After stagnating in 1985, 1986 and part of 1987, manufacturing employment rose consistently throughout 1988. This had a noticeable impact on disposable income, which rose
4.4 percent in 1988 compared to a 1.6 percent gain in 1987. On average, manufacturing jobs paid about $234 a week more in 1988 than a job in retail trade, so that the expanding manufacturing work force helped accelerate disposable income growth.

**The Catch**

Too much of a good thing usually isn't. Too-rapid demand growth combined with tight capacity tends to make prices rise. Inflation did begin to accelerate in 1988. Excluding food and energy prices, which are extremely volatile and affected by uncontrollable events (like droughts and OPEC production meetings), consumer prices rose 4.1 percent in 1988, up from 3.6 in 1987. Interest rates began to rise as expectations of higher future inflation began to surface. And in mid-1988, the Federal Reserve began slowing the rate of money and credit supply growth to force a slower, but more maintainable rate of real economic activity.

From mid-1988 to March 1989, interest rates rose almost continuously. The rate on 3 month Treasury bills rose from 6.5 to 8.7 percent, the highest level since 1984. Bank prime rates rose with the general level of interest rates, reaching 11.5 percent in March 1989, after being as low as 7.5 in 1986.

It's fairly clear that rising interest rates slow the general economy. But most of the effect of rising rates seems to be centered in goods-producing rather than service-producing industries. There are several reasons for this. First, service producing industries typically are less capital intensive than are manufacturing industries. Money is usually borrowed to finance equipment purchases or plant building, so rising rates affect manufacturing more. You can get some idea of how much more capital intensive manufacturing is by comparing the total employment shares of manufacturing and nonmanufacturing industries with their shares of purchases of new plant and equipment. In 1988, a good growth year, manufacturing industries accounted for only about 18 percent of total nonagricultural jobs, but nearly 40 percent of new plant and equipment spending.

Interest rates also affect manufacturing through inventories. Inventory holdings are sometimes financed with credit, so, in that case, interest rates are a direct cost. They can also be an indirect cost, since one choice often available to inventory holders is to sell their inventories (perhaps at a lower price) and invest the proceeds in an interest-bearing asset. That choice is more often made at high interest rates than at low rates, suggesting that as interest rates rise, inventory holdings fall. By definition, there are very few ways to hold an inventory of services, so the impact of higher interest rates on inventories is largely absent in service-producing industries.

Finally, the ultimate consumers of manufactured goods tend to borrow to finance their purchases. Autos and new houses spring immediately to mind. A rise in interest rates, especially if it is perceived to be temporary, will usually cause consumers to defer buying a new car or a new house, reducing demand and forcing those two industries (and their major suppliers) to reduce activity.

While rising interest rates affect the manufacturing sector through several direct channels, rising interest rates slow the manufacturing sector through a somewhat indirect channel too, namely through the foreign exchange value of the dollar. A rising U.S. interest rate increases the attractiveness of U.S. financial assets, and foreigners demand more of them. That increase in the demand for U.S. securities drives up the exchange value of the dollar, which slows down export growth—reducing foreign demand for manufactured goods.

By the Spring of 1989, there were many signs that the economy was slowing in response to higher interest rates, and some analysts were openly predicting the onset of recession by the end of the year. A then brand-new indicator of future overall economic health developed by Mark Watson and James Stock of the National Bureau of Economic Research, the recession probability index, was sending clear warnings of too-slow growth. According to the new index, the probability of
being in a recession in 6 months grew to 27 percent in March 1989, up from only 7 percent in September of 1988.

Faced with mounting evidence that the economy was slowing and would continue to do so, the Federal Reserve began to ease credit and money supply growth and interest rates began to fall. By the end of the year, the rate on 3 month Treasury bills had fallen back to 7.6 percent. Slowing demand created an environment for subsiding inflation, which began to slide in mid-year. In the first half of 1989, producer prices for finished goods rose at an 8 percent annual rate. In the second half prices rose only 1.9 percent at an annual rate. Most of the first-half jump was due to a nearly 50 percent increase in crude oil prices. Likewise, subsequent declines in crude prices were responsible for some of the second-half slowdown. But falling crude oil prices were not the only reason inflation fell. The underlying inflation rate slowed in the second half of 1989. Excluding food and energy goods, producer prices for finished goods rose 5.1 percent in the first half and slowed to 3.3 in the second.

The manufacturing sector continued to slow throughout the autumn, however, even as interest rates eased. This is largely because it takes some time for interest rate changes to work their way through the economy. Some analysts estimate that the biggest effect on demand occurs six months after the interest rate increase, and is probably a major reason the NBER recession probability index, which gives interest rates an important role, looks ahead 6 months. If that timing is about right, and interest rates peaked in May or June, then November or December might have reasonably been forecast as the slowest growing months for manufacturing and the overall economy.

Right on schedule, or at least as much on schedule as any economic event can be said to be right on schedule, the fourth quarter was extremely slow. According to the Department of Commerce, real GNP grew 1.1 percent at an annual rate in the fourth quarter, as a 14 percent decline in consumer durable spending and a 5.4 percent decline in business spending on new plant and equipment pulled down overall growth. The unemployment rate remained at 5.3 percent, and by the end of the year, capacity utilization in manufacturing had fallen to 82.9, 2 full percentage points below the January peak.

Several unusual events also aggravated the economic slowdown in the fourth quarter. Early October brought the Loma Prieta (San Francisco) earthquake. The Boeing Corporation suffered a nearly two-month strike. The Department of Commerce estimates that the strike alone slowed real GNP growth by half a percentage point, and the earthquake destroyed about $13 billion in structures and equipment. But while these events hurt GNP growth and affected income growth, they do not explain all of the slowdown.

This brings us to the present, and back to the good news. Using our simple rule about how long it takes for the interest rate to affect the economy, declining interest rates in the second half of 1989 should have been providing some stimulus for renewed growth in early 1990. What little evidence we have about the first quarter suggests our rule is still a good one.

Both auto sales and housing starts have partially recovered from their depressed fourth-quarter levels. Retail sales excluding autos have been growing at a reasonable 0.5 percent monthly rate through February. Employment has continued to grow, although most of the employment gains in the last three months have been in service-producing industries, while the number of jobs in goods-producing industries has fluctuated. January's merchandise exports were up nearly 3 percent from December. And finally, rebuilding and production resumption after the fourth quarter's unusual events are helping to support overall production and employment.

The recent inflation and interest rate picture is less rosy. For the first two months of the year, consumer prices jumped almost 10 percent at an annual rate—although much of that increase was
due to January's jump in energy and fresh fruit and vegetable costs. But even overall prices excluding food and energy have increased at a 7 percent annual rate. In January, transportation costs jumped. In February 40 percent of the increase in overall prices was due to an increase in new clothing prices. Apparently clothing manufacturers introduced their spring lines a little early, and, as is usual, increased prices at the same time.

On interest rates, short term rates have moved very little since the first of the year. Long term rates have risen about half a percentage point. Should longer term rates continue to rise, growth later in 1990 could be lower than we currently anticipate.

**What's Likely To Happen**

Despite recent inflation and interest rate movements, the odds still are that real GNP growth will accelerate throughout 1990, and that the underlying inflation will slow somewhat. Lower underlying inflation will largely be due to slower overall demand growth, but additions to manufacturing capacity over the last few years, and increases in labor productivity especially in manufacturing will help to keep overall supply growing. After the one-time price increases in non-food, non-energy goods in the first two months of the year, underlying inflation, in the next 2 months especially, could look unusually low.

Another influence on the U.S. inflation rate, though of lesser importance than domestic demand growth, is the change in the exchange value of the dollar. Some analysts suggest that a falling dollar puts upward pressure on inflation because it puts upward pressure on imported goods prices, which translates into higher U.S. consumer and producer prices. The dollar is not likely to have sustained movements against all currencies, although volatility is likely to be important. Recently the dollar has appreciated rapidly against the yen, gaining about 6 percent in 6 weeks. At the same time the dollar has depreciated against the deutsche mark, although not nearly by the same amount as it has appreciated against the yen. The net result of these currency movements is probably mildly "disinflationary"—meaning that recent exchange rate movements will help hold inflation down.

Slower real growth and a lower underlying inflation rate will take some of the upward pressure off interest rates. Recent policy statements by the Federal Reserve suggest that they are satisfied with current money and credit growth, and, since real overall economic growth seems to be rising, little change in monetary policy is expected. In the short term, that leaves us with 2 factors likely to ease pressure on interest rates (slower real growth and lower underlying inflation) and one factor that is essentially neutral with respect to interest rates (monetary policy), suggesting a conclusion that interest rates are likely to slide somewhat in the near term.

**Risks Remain Large**

All in all, the most likely scenario for the overall economy over the next several months is mildly optimistic, with real growth slowly accelerating, inflation dropping a little and interest rates sliding. But the risks surrounding that scenario are rather large. Another way to say this is that while the scenario I've talked about is still the single most probable one, there are other scenarios that, although less probable, are still worth serious consideration.

The linchpin of the forecast is inflation. A higher-than-expected inflation rate will cause interest rates to be higher than we currently anticipate, and tend to stifle real growth. What could cause a higher inflation rate? Crude oil prices for one. Over the last 12 months or so, using West Texas Intermediate crude prices as a benchmark, the price per barrel has been as high as $25, as low as $17, and now stand at about $20. Many analysts suggest that in the short run, say, over the next 6 months or so, oil prices are more likely to fall than rise. They argue that prices rose too quickly in the last part of 1989 for very temporary reasons: oil spills, extremely cold temperatures which boosted demand, and some cohesion in OPEC in adhering to production quotas. As 1990
progresses, some of the factors are reversing themselves. Falling, or even constant, oil prices in the short run will alleviate some pressure on inflation.

January's Consumer Price Index release shows how pervasive the effects of energy prices are. The biggest increase in nonfood, nonenergy consumer prices in January was in transportation (mostly airline, bus, train fares), which rose more than 28 percent at an annual rate. Much of this increase came from the pass-through of rising fuel prices on the transportation sector. In other words, consumer transportation costs rose in response to higher energy prices. Even though we as analysts attempt to exclude the direct effect of energy price changes on the overall price level to get a better handle on the overall demand and supply fundamentals, their indirect effects continue to show up.

In the longer run, the oil price picture seems to point mostly in one direction—up. Projections of nominal oil prices through the year 2000 by the Department of Energy point to a 7-8 percent annual average increase. Those kind of increases suggest that there will be an upward tilt over time in inflation. And they also suggest that the import bill for oil will continue to rise as well.

Recent Congressional hearings about a bill to commit the Federal Reserve to a zero inflation target over the next five years provides another area of forecast uncertainty related to inflation rates. Should the Federal Reserve commit to such a target, in the short run we could reasonably expect higher inflation-adjusted (or real) interest rates and lower real growth. Over the longer run, real interest rates could be lower, as hitting and maintaining a nearly zero inflation rate would reduce financial uncertainty and lower risk premiums that lenders demand because they are not sure what inflation rates will be. While in the longer term this might reduce real interest rates, the risk question is: how long does it take to get to the long run?

The Dollar

Another negative risk scenario points to Eastern Europe. The argument is that a considerable amount of financial capital is needed to rebuild a now-liberalizing Eastern Bloc. The overall demand for credit world-wide will increase, forcing up U.S. interest rates. Higher U.S. interest rates will be necessary to attract foreign capital to finance our still high Federal budget deficit. Unless U.S. interest rates rise, it is argued, foreigners will sell their dollars, the exchange value of the dollar will plummet, and domestic interest rates will have to soar to attract enough domestic savings to finance our budget deficit. The result of this is apparently a recession, brought on by rising interest rates, and possibly with rapidly rising import prices (hence inflation).

While one cannot rule out that possibility, it seems to focus only on the short term financing aspects of recent Eastern European developments, forgetting that they represent markets largely untapped by U.S. exporters. Exploiting those export opportunities may turn a short-term negative risk into a longer term benefit. Just how much opportunity there is can be roughly gauged by looking at per-capita imports of U.S. products by various countries. France imported $181 of U.S. merchandise goods per person in 1988, the United Kingdom $323, and Japan $308. In stark contrast, the average Eastern European country imports about $10 per person. Letting the average Eastern European country rise only to $100 per person increases U.S. exports by about $37 billion (in 1988 dollars)—roughly the same size of the expected real net export deficit in 1990.

A Modestly Optimistic Outlook

To sum up, the most likely scenario for the general economy over the next 6-12 months is for slowly rising real GNP, a sliding underlying inflation rate, and stable to slightly falling interest rates. There are, however, major risks in the outlook which could easily reduce the probability associated with the most likely outcome. Chief among these are unexpected inflation developments, or an even tighter monetary policy than we currently anticipate. To better judge
which scenario is coming about over the next few months, here are two major signs to watch for to confirm the mildly optimistic scenario.

First, 3 or 4 months of industrial production growth between 0.2 and 0.4 percent a month is a very good sign. Monthly rates around 0.1 percent are about neutral, but continued declines or widely fluctuating monthly growth rates suggest either a slow slide into recession or a manufacturing sector that it proceeding in fits and starts, neither of which is a sign of healthy, sustainable growth.

Second, underlying inflation, measured by the consumer price index excluding food and energy should average about 0.3 percent per month for the next 3 or 4 months. Monthly inflation rates in that range will certainly confirm that the underlying inflation rate has slipped and ease pressure on interest rates. Further, it would reduce the likelihood that the Federal Reserve will tighten money and credit growth later in the year to reduce inflation.
It's good to be with you.

Ten years ago I was a student of Charlie Shaw's and Charlie was working on analyzing a Farm Bill and he said, "Cliff, I'm supposed to be speaking to the Northeast Dairy Conference in Rochester hosted by Upstate. 1980, this was. He said, "Why don't you go up there and give my speech for me." Guess what? What goes around, comes around. Charlie's working on another Farm Bill, and I'm doing the speech again.

I want to talk about some outlook in terms of how I see things going for 1990, and on into 1991. There are some handouts in the back of the room that have some of my forecasts. And then as we finish off, I'm going to talk about the base line that is being used by USDA and also by Congressional Budget Office and looking at or scoring the farm bills and try to prepare some ground work for the speakers later this morning.

First of all, I want to show you what happens when you get in a hurry and you try to do some slides. Now they're all right there, if you can figure them out I'm all done.

Let's talk about what's going on in the commodity markets (butter, cheese, nonfat dry milk). USDA, as you remember, lowered the support price on January 1, 1990, and at the same time that announcement was made the commodity market in butter came down the 11\% cents. Butter prices, I would expect for the rest of this spring and on until about July, to remain near that $1.07-1.08 that it is right now. As we move toward the time period of higher cream demand, ice cream demand if you will, we will see some prices coming above support, probably I would suggest 5 cents—what it takes to move butter from the west coast to the east. I do not expect the 10% increase that we had back in the second half of 1987, the 10 cents, if you will. Instead I expect about the nickel that we had in the second half of 1988 and part the second half of 1989.

Nonfat dry milk prices. Historically, whatever the government was willing to pay for nonfat milk prices, was the price. But in the second half of 1988 we got some improvement in the nonfat dry milk as we started exporting some profit. We thought we had some tremendous prices in the second half of 1988, at around 91, 92, 93 cents per pound. But look at what happened in 1989 when we had a dramatic, self inflicted shortage in the nonfat dry milk products. That is that we had over commitment for exports and couldn't produce enough and everyone was out trying to find a load of powder. In fact, there was some rumor that here on the East Coast candy manufacturers were willing to pay as much as $2.00 per pound for nonfat dry milk so that they could get their candy production out for the holidays.

When we look at what's going on this year, I am surprised that the powder prices have continued to improve from the January level. Last Friday we had another increase in the powder prices as reported by Dairy Market News. I am not sure that we are going to see that continued strength, but if we do see it, I expect to see the strength more like in 1988 and not like in 1989.

The average, in blocks and barrels, because plants sell both of them; in general they don't sell one or the other. So what I'm doing is trying to take a simple average; it's probably not correct for any one plant, but on the population of plants out there it is probably representative of what's going on in the cheese market. Cheese price came down dramatically, but remember the powder
prices started coming down in December. Cheese prices did not come down until January this year. They have stabilized and have trended up some. Last Friday cheese prices of both blocks and barrels was up a penny on the Cheese Exchange. I would expect, given what's going on right now, continued strength in the cheese market, at about this level. I don't anticipate, at this point, cheese prices to come down from where they are. But, on the other side of the coin, I don't expect them to trend up too far, either. I'm looking for cheese prices to stay fairly stable until we get into the August and September period, and then see some improvements. Now, if you had asked me two months ago, I would have said that I expected cheese prices to come down another nickel to a dime. So if you go back and look at my price forecasts that were made a month ago, I have a level of about $10.60 and that's what's in the forecasts that you have now. I would anticipate that the milk prices are going to stabilize a little bit higher than that now.

Let's take a look at a computed farm value. What I've done is taken butter-powder, using some standard yield factors, to get at a derived value of milk at the farm being used to make butter powder. Same thing for cheese and whey. And then weighted those two together using the same weighing pattern that the USDA has in the survey for the Minnesota-Wisconsin price (20% butter powder, 80% cheese) in that survey of plants. Historically then, as that computed farm value went, so did the Minnesota-Wisconsin price; that is as the economists say with a high degree of correlation between those two series. As the prices of powder and cheese have come down, so has the underlying Minnesota-Wisconsin price. Remember, we have had a dramatic two month decline, record 99-cent decline in January, and another record set in February of $1.72. The Minnesota-Wisconsin price given, the cheese price is going to stay steady, we'll come down around 60 to 80 cents, rather than the forecast that you have before you. But I think the bottom line is that it looks like the M-W has got maybe a dollar, maximum, to come at this point.

Historically, we have not seen the kind of price swings that we saw in 1988 and 1989 in the M-W. If you look at where the price forecasts will go in 1990 and 1991, I am looking at relatively large, year-to-year changes in the M-W price series, but no where near the kind of pattern that showed up in 1989. That is, I expect the M-W to stay above support, to be in a relatively free market operation, with price swings plus and minus as indicated. If you take that kind of pattern and you move it into the blend prices, remember that the Minnesota-Wisconsin price is the mover of the prices in the blend market. That is, class I prices are a function of the M-W, class II prices in the northeast are a function of the M-W. If you go to the Class III market they're all some functions of the Minnesota-Wisconsin price. So as goes the price series on M-W, so goes the price series on your blend. Yes, there are some impacts of changes in fluid utilization, but they are relatively minor.

All right. Let's talk about some production numbers, then. Milk production numbers in the 21 states moved below year earlier levels in May, given the revisions that occurred in the Milk Production numbers that were published in February. Before the revisions had indicated that they'd move below in the June and July period. Milk production has recovered in early 1990. The January numbers were reported to be up .3 of a percent and February up 1.1% from a year ago.

What I've pulled, is those 21 states out of that Milk Production report, ranking them in terms of states that produced the most amount of milk in 1989, down to the least amount in those 21 states. We can see the pattern of Wisconsin, which was down in 1989, is now starting to show an increase in 1990. California continuing to pull substantial increases. Well, let's take a closer look at that, but first, before we do, I want to take a look at the year over year changes in milk production for those same 21 states, but in this case, I've changed the order. The state with the highest increase in milk production—California, to the state with the largest decrease in milk production—Wisconsin. Given the revisions that showed up for 1989 vs. 1988, Wisconsin is now reported to have been down a billion pounds in 1989. California was up about 750 million pounds, Minnesota was off, along with New York, about 300 million pounds. And Pennsylvania was off less. If we went back and looked at the prior data, in that case, Pennsylvania was off
more. So some of the revisions look a little unusual. In particular, if you look at some of the revisions of what's going on, from 1982 to 1987 in terms of the revisions of the data, there were no changes in Pennsylvania, New York got changed. That seems a little strange that you change one nearby state, but you don't change one of the others. The first two months of 1990, compared to 1989, notice what has happened for Wisconsin. Wisconsin which was the anchor, down a billion pounds, is now up, in terms of ranking, as the third state of increase. In terms of absolute pounds of milk production. If that kind of pattern continues, we start to have downward pressure on the Minnesota-Wisconsin price series this fall. That kind of recovery going on in the Wisconsin area is going to slow down changes in the M-W this fall.

Milk cow numbers in January and February were down from where they finished the year for 1989. It's change from January to February was down about 5,000 head. The February is now about 35,000 head below a year ago. The pattern would imply that by mid-summer, milk cow numbers will be even with or maybe slightly above year earlier levels.

I don't think that the strong cull cow prices that we had in the second half 1989 vis-a-vis earlier years is going to be repeated this year. I think we are looking at some cull cow markets that are strong right now, but it looks like they are going to start to slow down as we move through the rest of 1990. So, I think, we are going to have some cows backing up for a month or two into the herd. They're not going to move through the herd quite as fast. That's why I am looking for the milk cow inventories to move above year earlier levels. But why do I see that? Part of what's going on in the milk complex. We are having substantial increases in both broilers and in turkey production. Hog production seems to be fairly flat, and yes, beef is going to be down some, but it looks like the whole meat complex is going to get a little too heavy and we are going to have some collapse in meat prices, in particular I think it's going to come on the cull cow side.

Now, we were talking earlier about milk cow numbers in the 21 states. USDA also surveys through all 50 states, they did that with the cattle inventory report on or about July 1. That inventory indicated that the cow numbers were down on January 1, 1990 compared to January 1, 1989, by about 63,000 head and that's off almost a million head from back in 1986. At the same time under that cattle inventory report, USDA also surveys for the number milk cow replacements. Now these are animals that are 500 pounds or more in weight, not of breeding age in terms of Holsteins or Brown Swiss, they are probably only about 9 months of age, but that's the data we got. The inventory numbers for January 1 were up about 86,000 head from where they were on January 1, 1989, which was up about 83,000 head from where they were on January 1988. So We've had two years of increase of replacement animals that come into the milk cow inventory. Two years, even though they weren't of breeding age, implies that there are more replacement animals out there to work into the herd.

When we look at the ratio of milk cow replacements to cows, in terms of about 39 or 40 replacement animals per 100 cows, is about what it needs to expand the herd. On January 1, 1990, we had 42.3 replacement animals per 100 cows. So we can expand the herd.

Let's look at yield per cow. We are having a recovery in output per cow. It moved below year earlier levels in June, and continued to be down throughout the rest of 1989, except for November which was up 2 pounds. The other months from July through December were down from year earlier from 1990. January is up .8 of 1%, while February is up 1.5%. Remember, production is up 1.1%, so you have cow numbers down about four tenths of a percent. Part of that reason for recovery in output per cow is what's going in the feed market. In particular, feed prices relative to milk prices, milk feed price ratio—historically about 1.4; and you ought to look at feeding some more grain, and I think they have. As we moved through the latter half of 1989, that ratio became very conducive to heavier rates of concentrate feeding. The quarterly reports, coming out of Washington and the survey have indicated they are feeding more grain.
Let's briefly talk about the commercial use side. Commercial disappearance of milk and dairy products is a residual calculation. Commercial disappearance is not a direct measurement of what's going on in the retail counter. So, what has happened is, with the revisions in 1989, they lowered production by a billion pounds, they lowered demand, the estimate of demand by about a billion pounds, with those revisions. Commercial disappearance in the fourth quarter of 1989 was positive. We are getting a little concerned, though, that retail price movements like what is happening late in 1989 and early in 1990, are going to start to slow down from what looked like a very nice recovery in the demand sector for dairy at the end of 1989. Well, if we take a look at the two milk production numbers that we have for January and February, then USDA dairy product purchases for January and February, that implies that commercial disappearance is up about 4 percent for the January - March quarter. Now, we still have another month to go yet, we still have some possible revisions of inventory numbers. But, it looks like the higher retail prices have not slowed the demand for dairy products down, yet.

Well, let's put it together, then, and look at the forecast. Milk marketings, they were off in 1989, I do expect them to be up in 1990 and on into 1991. When you look at the demand sector, yes, it was down in 1989. Again, about that 1 billion pound level. I do expect a recovery in 1990 and 1991. Provided Ralph can keep the general economy straight.

What's that imply then? Bottom line. USDA product removals are going to be above the 5 billion pound trigger. So if we have the '85 Farm Bill extended, which I am assuming for 1991 forecast, that would give us a 50 cent cut on January 1, 1991. My set of numbers would imply that the removals are going to continue to track up from about the 9 billion pound level that we had for 1989 to around 10 for 1990, approaching 11 for 1991.

This is where I'm supposed to put on my USDA hat. One thing that I want to caution you, is in Washington they don't do numbers on a calendar year basis. They talk fiscal years or marketing years. So you can't make a direct, one-for-one, comparison for these numbers (with the numbers that I was just working through). But, USDA is looking for 1990-1991 an increase in milk production and an increase in commercial demand over that slow period that occurred in 1989. They continue to see a track up in production through the period of 1991 and 1992 and then relatively flat on milk production. They continue to see commercial disappearance trending up, so the difference closes as you see the five-year projection period. USDA is assuming that Bovine Somatotropin is available on October 1, 1990, the beginning fiscal year 1991. They are assuming that 10 percent of the animals use it, and that the average increase in output per cow is 1,800 pounds—180 pounds in terms of improvement in yield per cow across the US for the 10 percent use rate. They are not assuming any significant return of buyout participants.

Congressional Budget Office projections of marketings and use, one thing that I forgot to point out, back here, was the scale on the left runs from 134 billion pounds to 158 billion pounds. I got the same scale. I had to trick the computer to do it, but I got it—134 to 158 billion, in terms. So, if you will, the Congressional Budget Office is looking for milk production numbers that are tracking higher, and in fact, they don't even have a decline in milk production in 1989. When we've already had one posted, so I'm not sure that they are up with the current numbers yet. But, the other point is that they are obviously looking for a much smaller difference between marketings and use. Now let's put those two differences on the same graph. Historically, removals match up, so I don't understand why you can't have production and commercial use the same, in a historical sense, but you can have removals the same. Congressional Budget Office, I think, they need to look a little at the numbers. But the CBO is looking for lower levels of removals throughout the time period, and they are looking for them to trend down and approach that five billion pound trigger level by the end of the five year congressional period. Probably reaching it in the fiscal year 1993 and maybe fiscal year 1994 time period. USDA, counter to that, has, you can obviously see the impact of the Somatotropin assumption, an increase in removals in 1991, fiscal year 91, and relatively the same level in 1992 as what we are going to have this year.
Last chart. USDA and the Congressional Budget Office, in their paper work, put out some price forecasts. USDA's price forecasts are for the all milk price delivered to plants, and so I was able to get from CBO the same kind of price forecast, not directly comparable to price forecasts that I gave you, which were federal order prices, but you can get the pattern. They are all looking for significant declines in prices. The USDA is looking for a price that bottoms out in fiscal year 1993 and then trends up. While the Congressional Budget Office also looks for it to bottom out, but to stay flat. Bottom line is that both CBO and USDA, by the end of the five year projection period, come out the same place, on both prices and removals and pretty much in terms of the costs of the dairy price support program. The Congressional Budget Office has a fiscal year 1995 cost of 211 million dollars, in terms of their projections. The USDA is about 270 million dollars. We are going to spend around 800 to 900 million dollars this year, to give you some perspective on that.

My time is up. I'll answer some quick questions before break.
The outlook for the Northeast Dairy Industry is unclear. The industry has changed dramatically during the past decade and probably the only certainty during the next decade is that it will continue to change.

As we begin the 1990s, it's helpful to look back and see where we are coming from. In January, 1980, there were more than 33,000 dairy farmers in the Federal and state orders of the Northeast (see Chart 1). This past January that number was below 25,000. One out of four dairymen stopped milking cows this past decade. Supplies, on the other hand, actually increased by over 100 million pounds or 6 percent (Chart 2).

CHART 1

NUMBER OF PRODUCERS IN NORTHEAST MARKETING ORDERS

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1980</td>
<td>33,437</td>
</tr>
<tr>
<td>January 1990</td>
<td>24,729</td>
</tr>
</tbody>
</table>

Where did this increase in production come from? We in New England know it wasn't from our area. Chart 3 shows the change in milk production by state between calendar year 1980 and 1989. Pennsylvania accounted for a 1.5 billion pound increase. This increase was greater than the rest of the Northeast combined and occurred despite depressed production levels in the latter half of 1989. New York, Vermont and Delaware were up slightly but the remainder of the Northeast was down substantially. These volume figures do not truly reflect the impact of production changes in individual states however.
CHART 2
MILK RECEIPTS IN NORTHEAST MARKETING ORDERS

CHART 3
CHANGE IN MILK PRODUCTION BY STATE 1980-1989
When looked at from a percentage basis in Chart 4, the severity of the situation becomes clear. Once again, Pennsylvania was up substantially (18 percent), causing the Northeast region as a whole to be up 4 percent. Delaware, Vermont, and New York were each up about 2 percent but all the remaining states were down at least eight percent with Connecticut and New Hampshire off about 15 percent and Massachusetts, New Jersey, and Rhode Island down more than 20 percent.

**Chart 4**

**Change in Milk Production by State 1980-1989**

When you get to the point of having fewer than 500 dairy farms in Massachusetts, New Jersey, Connecticut, and New Hampshire, the industry has to be concerned with maintaining the critical mass needed to keep in business the machinery dealers, feed dealers, large animal veterinarians and others that are supported by dairy farmers. Once that critical mass is lost, the outlook for remaining farmers is dim. As a former New Jersey resident, I’ve seen it happen on a county by county basis in that state.

When compared with 1988, most Northeast states experienced declines of from 2 to 5 percent in 1989. January, 1990 reflected a similar picture except for Pennsylvania which was down 8 percent from year earlier levels. Production is coming back seasonally and maybe even a little more so in some areas, but I don’t see Northeast production reaching even year earlier levels until late spring at best. Supplies by this fall are expected to be somewhat greater than last year but no great surge is anticipated.

Even with weather on our side and much improved forage quality, many cows in the milking herd that survived the 1988 drought as heifers consumed poorer quality feed in 1989. These cows may not reach their genetic potential despite improved rations. This may particularly be the case in some of the worst hit areas of Pennsylvania. In all areas of the regions, the 1988 drought delayed breeding back cows and altered the seasonality of their production. This could have an impact this fall.
Northeast milk prices are on everybody's minds. Projecting prices has never been so difficult. Prior to 1989, changes in the M-W of 60 cents or more were almost unheard of. Yet we have experienced such unheard of movements in six of the past seven months and another is expected in 3 days. In recent months, the price range among the "experts" has often exceeded sixty cents.

Once again, a perspective on price is useful. In January, 1980, the support price was $11.22 but was to rise to its effective peak of $12.80 by October. The M-W price was only 15 cents higher than the $11.22 support level. The Order 2 price added another 88 cents for an Order No. 2 blend price of $12.25 (see chart 5). Over-order premiums were unheard of in this area of the county and in fact, some cooperatives were reblending below the blend price in 1980.

Compare this with January, 1990. The support price of $9.88 was about $1.50 below 1980 yet the M-W was $13.94 or more than $1.50 above the 1980 M-W price. The Order No. 2 blend price added $1.23 this past January. Over order prices ranged from 50 cents to $1.50. I am assuming a premium of about 83 cents on average to bring the pay price up to around $16.00 per hundredweight.
in Order No. 2 at the 201-210 mile zone. This is $3.75 above its 1980 counterpart. However, the thirty percent increase losses its attractiveness when you recall that January 1989's price was only about $1.00 above January 1980 and the January 1988 price was below 1980. In addition, the consumer price index, to which dairy farmers also are subject to, rose more than 50 percent in the past decade.

The price composition comparison does point out two crucial factors: the value of the M-W price and the free market in determining our price in the Northeast. The M-W price was worth more than $4 to Northeast farmers this past January. This was twice the value of the blend price and the average over order price combined. Whereas the Northeast industry does have substantial say in setting over-order prices and a small amount of influence on Order blend prices, it has virtually no day to day influence in the M-W price. It also shows how sensitive the question of replacing the M-W price series is to the Northeast outlook.

The free market did not do farmers wrong in January nor this past fall. However, the free market can be far more cruel than friendly if supplies in the northeast and more importantly, the upper midwest, begin to come back. The secret is to keep supplies tight. As can be seen from this chart, that is worth even more than an $11.22 support price.

There is no denying that prices in the past eight months are better than their previous year counterparts. Prices since last July have been more than $1.00 above year earlier levels. Even prices for this March are expected to be at least $1.00 above March 1989. However, the good news then stops. I expect blend prices throughout the Northeast to be above year earlier until June. Starting in the summer, blend prices will be below last year. The difference will increase each month. By the time we reach December, I expect blend prices to be at least $1.50 below December, 1989. I don't expect the news to get much better in the beginning of 1991 either.

The Northeast Outlook beyond 1990 is dependent on so many unknowns that detailed speculation is almost meaningless.

Milk price is probably the single largest issue on everyone's mind. Prices beyond 1990 will be heavily influenced by the 1990 Farm Bill and its ability to balance supply and demand. Increasing the support price to $10.60 and flooring it at $10.10 are worthy goals but neither action will keep milk prices above $11.00 if national supplies come storming back. We must have effective supply control or face the possibility of support and farm prices being below even $10.00.

Price may not be the only force driving dairy farmers out of business in the Northeast. Environmental restrictions may restrict farmers actions and increase costs to such a degree that they are forced out of business. A farmer who is told he cannot spread manure in the winter will have a difficult time affording a $60,000 manure storage tank even with $13.00 milk.

Availability of labor is certainly a limiting factor in the expansion of farms. It is increasingly a factor in whether a farm stays in business as the farmer population ages and children leave the farm. There are some encouraging signs regarding labor at least in parts of New England. Land values have fallen and substantial over construction has taken place. The construction industry is depressed and that may force some workers who had left the farm to return.
The role of Northeast manufacturing plants is crucial to over-order premiums in the Northeast. If two or three large plants close, over-order premiums would certainly be depressed if not eliminated throughout much of the year. For those who think over-order premiums can compensate for lower M-W prices, consider that previous diagram showing the value of the M-W being 15 cents in January, 1980 but more than $4.00 in 1990. It would cost a million pound a day plant operator around a million dollars per month more than his midwest competitors to compensate for that M-W difference. Most cheese plants would be long gone before premiums even approached that level. We may have already reached the financial breaking point for some cheese manufacturers; one or two may even leave the Northeast before year’s end.

Consumer demand for dairy products remains strong. Northeast dairy farmers clearly have a strong advantage in Class I sales due to their proximity to the Northeast corridor - that mass of population stretching from the suburbs of Washington, DC to the suburbs of Boston. The industry has a much lesser advantage in hard product sales due to the low cost of moving those products across the country. However, even with those products, we do have some advantage and can probably expand that advantage through campaigns to promote local, “home-grown” dairy products.

Milk quality will be a very sensitive issue in the 1990s and can have drastic consequences on consumer demand. The sulfamethazine scare earlier this year was a prime example—Class I sales in the New York-New Jersey marketing area were down about 2 1/2 percent in January and February. It is unlikely that higher fluid milk prices caused the decline since the New England market faced similar price increases without any decline in sales. That decline has already cost those producers almost $1 million dollars in lower blend prices and was a factor in freeing up available supplies which allowed handlers to lower over-order premiums throughout much of the Northeast.

The blessing of having the largest population center in the country may be offset by the cynics and publicity hounds in New York city who would like nothing better than to destroy the wholesome and pure image of milk. How do you counteract television and newspaper ads and articles implying that parents are unknowingly giving their children drugs in their milk? You can’t. In NYC, consumer perception is everything and fact often becomes meaningless. The only way to correct the situation is not to let it happen again.

The Northeast needs to embrace new products. Simplesse may be such a product. At first glance, it appears to be a threat to the dairy industry—replacing butterfat sales in a butterfat surplus world. However, Simplesse replaces that butterfat with another dairy-type product.

I doubt if Ben & Jerry addicts are going to switch to simple pleasure frozen desserts. Such consumers already have lowfat and no-fat alternatives available in premium ice milk, lowfat frozen yogurt, and non-fat ice cream like products. We have probably already lost the fat consumption of those consumers. However, a Simplesse containing product contains more dairy ingredients than today’s other non-fat alternatives. It may also bring consumers back to the frozen dessert aisle who have previously abandoned it due to the fat issue.

Simplesse will also be used in mayonnaise, salad dressings, and margarine—effectively expanding the demand for dairy ingredients into new product lines. The demand for butterfat will decline whether Simplesse was ever developed or not.
However, the demand for solids not-fat will expand due to Simplesse. The secret to maintaining a decent milk price is to increase the demand for non-fat solids faster than the demand for butterfat is declining. Encouraging the use of Simplesse as opposed to an alternative product like Olestra, which contains no dairy ingredients, may pay large dividends to dairy farmers.

On the consumer demand side, maybe the industry should stop fighting the trend for lower fat products and start promoting it. Just about every nutritionist who detests butter, recommends the inclusion of skim and lowfat milk into everyone’s diets. Let’s take advantage of that. Skim milk doesn’t have a nutritional enemy in the world and we should start making use of that fact. For what dairy farmers pay for promotion, I’m sure advertising agencies can find a way to promote skim or lowfat milk without knocking whole milk.

If there is one factor which has the most unused potential to favorability influence the Northeast dairy outlook, it is developing market strength through farmer unity. Farmers are often their own worst enemies in this regard. Those dairymen who fail to work with their neighbors, do not understand the milk price philosophy of proprietary handlers. A successful proprietary handler wants to see his shippers receive a nickel more than their cooperative neighbors but 50-cents less than last year. That’s why the milk industry foundation is pushing for lower support prices and increased imports of dairy products.

There are more than 80 cooperatives in the New York-New Jersey marketing area. Yet those cooperatives represent less than half the milk marketed under the Order. And yet we wonder why RCMA continues to struggle.

Individual farmers and small groups have been successful in bargaining for over-order premiums. However, their success has not been the result of their bargaining skills or their handler’s generosity. It was caused by tight market conditions. If either side of the supply-demand equation falters—with local supplies increasing or local demand decreasing—then their bargaining position goes out the window.

Although Class I dealers can recoup higher over-order premiums out of the market, they don’t have to as long as farmers are not united. Class I dealers only have to pay the premiums levels that their competition, namely Class II processors, can afford to pay. Yet Class II processors are limited by what their upper Midwest competitors pay for milk and receive for products. Farmers acting separately are limiting their premiums to the maximum amount the players with the least ability to pay premiums can afford. United, farmers can increase premiums to the market optimum that each individual player can afford. That difference can mean millions of dollars to Northeast dairymen as they move forward into the 1990s and will significantly impact the outlook for the Northeast Dairy Industry.

Whether it be the 1990 Farm Bill, the recently announced nationwide Federal Order hearings, RCMA, milk quality scares, or any of a dozen other issues, the Northeast Dairy Outlook has never been so uncertain. However, with that uncertainty comes challenges and opportunities. The remainder of this conference deals with that exact question: How can we best influence our outlook so as to move in a positive direction in the 1990s.
The 1990 Farm Bill - The Dairy Industry Perspective

Linwood Tipton
Milk Industry Foundation

Thanks for the introduction, Pat. I appreciate it very much. I also appreciate your having accommodated my schedule. I didn't realize that there were not many flights in and out of Rochester and back to Washington. When I accepted this commitment I thought it would be easy to get back to Washington later today, but I have now discovered that there are only two flights, and one of them leaves at 12:10 and the other one leaves at 6. I have an appointment this afternoon so I appreciate your accommodating that.

I'm going to make some brief comments and then I'm sorry that I won't be here for the discussion, maybe if I have some time we can take a question or two before I have to leave.

First off, I'd like to say that I have had a long affiliation with the northeast as Pat's introduction indicated. Having been a member of the staff of Eastern Milk Producers Cooperative Association for a few years. And then, subsequently, having worked in Boston with what was then called Cooperative Dairy Economic Service. This was all the operating cooperatives in the Northeast, so I've maintained these ties with the northeast for a long time. I see so many leaders here from the northeast, I know that many of you are leading your organizations, you're members of the board of directors and chief executive officers of a number of cooperatives and a number of the companies in the northeast. I'm reminded of a story about leaders - you've seen how ducks fly along and then all of a sudden, the point duck, you know, that big duck out in front, and all of a sudden the rest of ducks kind of veer over on a new course. The head duck will look back and see that they've moved over and are no longer following, so he moves over quickly and places himself in front again. That's the trick of a leader, you must stay out in front. Somebody was telling me that story, not long ago, and they described it as being relative to President Reagan. Their comment was that "Here President Reagan was flying out here, a lead duck all by himself, for 20 years, and one day he looked around and there all the other ducks were -- right behind him. He hadn't changed course but they had. That's pretty typical of how things often occur with leaders.

I want to get into the substance of what I have to talk about. They're a lot of things happening relative to the dairy price support legislation right now. The House Dairy and Poultry Committee will be meeting tomorrow. They already have had two or three mark ups. They completed hearings and are now at the point of attempting to come to some kind of agreement as to what they will recommend to the full committee. Basically there are two kinds of concepts that have been advocated. There are a lot of variations of these but there are two basic components. One is a base and quotas program, with assessments. In New York they refer to assessments as taxes. This program means that every time the governments surplus exceed a certain amount there would be imposed quotas and bases on dairy farms andlor plants. And if that level gets too high, reaching a certain level, there would be an assessment or tax on dairy farmers in order to cover the excess cost for the government.

The other approach is a market oriented approach. A lot of people say, "Market oriented means you're going to reduce the prices." That's not necessarily true. In fact, I was a bit surprised at the comment made by the last speaker just prior to coming up here. He said the position of the Milk Industry Foundation is to reduce prices and increase imports. That simply is not true. That clearly is not our position. It's not even close to our position.

The fact of the matter is that the market oriented approach can, depending upon the structure, reduce prices. But, that is not the desire of the milk processors at this time—not at all. Processors
are not seeking price reductions for two reasons. One is that we believe we are going to need as many nonfat solids as can be produced in this country during the next several years. The demand for nonfat solids is increasing and we need more produced just to take care of the domestic market. Last year there were about 400 million pounds of nonfat solids which were exported. That is more than probably should have been exported because it drove powder prices sky high. There was too much exports. But it points out that the surplus was less than 400 million pounds of nonfat solids. If you take a look at what is happening to consumption in this country, there is a substantial decrease in milkfat. But, there is going to be, and is currently, a substantial increase in the demand for nonfat solids. There are many primary reasons for that. Just think about it for a moment, every time lower fat products come on the market they require more nonfat solids to make, than did the higher fat product that was replaced. Look at lowfat yogurt, it requires a substantial amount of fortification of nonfat solids. Look at the nonfat ice creams, a substantial amount of fortification of nonfat solids is required to provide mouth feel, taste and other desirable characteristics.

It is our belief, that in order to maintain an adequate supply of nonfat solids in the country, we are going to have to pay substantially higher prices for them. But the surplus fat is resulting in pressures to reduce support prices.

It is also our belief, that the prices to dairy farmers should not be going down, at least very much for the next five years.

Now how can we accomplish these two things? We suggest that the thing that is driving the support price down, is the fat side. In other words, the government's buying substantial amounts of milkfat. When they buy substantial amounts of milkfat they incur government costs, when they incur government costs the momentum to drop the support price is great.

However, we would suggest that the more appropriate way to accomplish this, is to let the price of fat drop down to a market clearing level and increase the price of nonfat solids by an offsetting amount so the prices paid to dairy farmers are left virtually unchanged.

How do you do that? What kinds of price level does that require? In our estimation it would require dropping the milk fat prices, the butter prices, down to, maybe as low as 60 cents, certainly 65 cents. And it would require increasing the nonfat solid prices even if you had only one price cut, only one 50 cent price cut in the next five years, it would increase the nonfat solids price up to 94 cents. So that's 94 cents for the CCC purchase price for nonfat solids, you'd have about a 60 cent price for milkfat.

What would that do for milkfat? I think it would sell. That would be a level that milkfat would be competitive with other fats and oils. It would be competitive with the world market price, because the world market prices is competitive price for other fats and adds. I do not believe that government would accumulate many stocks, if any, if we accomplished that. Likewise, on other occasions when I've suggested this approach, I get the immediate reaction that if we get the nonfat solids too high the government will simply begin to buy nonfat dry milk. My answer is I don't believe so. Because our analysis is, that nonfat solids are going to be in short supply. We went through a very expensive analysis to do this. We looked at every single product in the market and the shifts that are occurring in wholefat products, reduced fat, low fat, and nonfat products. By estimating out the amount of fat that would be required for each of these products and the amount of nonfat solids that are required for each of those products we have a good picture of the demand for milkfat and nonfat solids. The answer is that by increasing the nonfat solids price up to about 94 cents or so - you never get to the point that the government is buying very much nonfat solids. The extra solids simply are not there. They are not going to be produced. And that is based on expected increases in milk production at a rate of about 1 1/2 to 1 3/4 percent per year. Also milkfat production remains high, but the market is there for the milkfat because you are going
to be able to put it into the world market, you're going to increase domestic uses because of the price being competitive with other fats and alls. In our opinion, this would leave dairy farmers income, about where it is now. Market forces would really be at work because milkfat would be competitive with other fats and oils, and nonfat solids prices would be higher but supplies and the demand for nonfat solids would be in close balance.

Now, that's the principal. This principal is embodied in the bill that was introduced by Congressman James Olin, from Virginia. It has been introduced on the Senate side by a couple of Senators. I would urge you all to take a look at it. I think that there has not been enough stopping, stepping back, and saying "Whoa, wait a moment! Things have changed!" The demand for milkfat is not what it used to be. Probably, over a long period of time, one might be able to change the amount of milkfat that is in milk being produced, but, most of the analysis I have seen says that although it is technologically feasible to do so, when you look at the economics there is not going to be much change in the milkfat in raw milk. I imagine that the cost reduction from changing the feed is not going to be comparable to the income reduction that would come from reducing the milkfat, so, I think that dairy farmers will continue to make milkfat. So if we are going to continue to make milkfat, we need to get it priced at a level at which it will be competitive.

I don't believe that we are going to have a lot of nonfat solids to ship onto the world market in four or five years. The prices that I'm talking about at around 94 cents would be above the world market price for nonfat solids, but I don't think we are going to have sufficient quantities of nonfat solids after servicing the domestic market to ship extensively on the world market. The only way you can export nonfat dry milk is to keep the nonfat solids price down around that 80 cents a pound. And if you're going to keep powder prices down around 80 cents a pound milkfat prices will have to be higher. That's how you either get into large government expenditures or require assessments.

So I think the way out of the problem is to drop the prices of milkfat, increase the prices of nonfat solids.

I think the Secretary of Agriculture needs a little discretion as to how he's going to adjust the support prices. Who knows what's going to happen with milk production in the future. But the triggers in the Olin Bill are pretty high. Our figure would be that the government would have to buy the amount of milkfat, and the amount of nonfat solids—that are conjunctive—that are contained in 7 billion pounds of milk before there would be a price reduction. A double trigger!

Right now, the government has to buy only the amount of milkfat that is contained in 5 billion pounds of milk to trigger price support reductions. The suggestions we are making—that is the double trigger based on both milk fat and nonfat solids—would raise those triggers very substantially. It would make price support reductions much less likely to occur.

The second aspect of our proposal is to require adjustments to the relative value of milkfat and nonfat solids contained in milk. Assuming we were wrong in our assumption relative to Nonfat Dry Milk that I was talking about, and all of a sudden the price starts to decline, and the government acquires quite a bit of that product, and the nonfat dry solids acquired are in excess of the amount that would be contained in 10 billion pounds of milk, then there would be a support price reduction called for. If it goes above, the milkfat or nonfat solids, 12 billion pounds, the secretary would have discretionary authority, to impose other reduction measures. The central important aspect of the legislation, or the trick of the approach, is that if either the milkfat or the nonfat solids exceeds 7 billion pounds, you don't have a price support reduction but you do force the secretary to adjust the relative values of nonfat and milkfat solids. I believe that if we can get milkfat value down around 60 to 65 cents, there will not be a surplus of milkfat. Likewise, I believe nonfat solids value can and should be increased to offset the drop in milkfat value. This would mean no decrease in price supports and would provide the needed incentive for more nonfat
solids and less milkfat. This is a program that will work. It will be market clearing --ie. no or little surplus milk—the government will not be spending enormous sums of money on dairy price supports and there will be no assessments, quotas or bases.

Thank you very much.
The 1990 Farm Bill—The Dairy Industry Perspective

James C. Barr
National Milk Producers Federation

Thanks, Pat.

Good morning. As you might expect, I have a slightly different story to tell than Tip just told. Tip and I were out in the hall talking a while ago, and George O'Brien came in, and George's comment was "Oh boy," he said, "The dairy industry's safe for at least one day, we got both of you guys outside of Washington, DC." So, you are safe, at least for another day.

When I first joined National Milk five years ago, the debate was just starting on the 1985 Farm Bill. The problem that existed at that time was that the U.S. had tremendous surpluses of all dairy products. Warehouses full of nonfat dry milk, butter and cheese. Total budget costs up around $2 billion a year. As I listened to the various arguments within National Milk as to what needed to be done to develop a program that wouldn't totally destroy producer income and yet deal with the surpluses and the budget problems that were there, it struck me that they all worked. You couldn't disagree with any one program because one would work and the other one wouldn't. Basically, they would all get you to the direction that you wanted to go. Including the one that was offered by the same Jim Olin mentioned by Tip, which would cut the support price a dollar per hundredweight each year until CCC removals get down to an acceptable level of about 5 billion pounds per year. That program would have worked. There wouldn't be many dairy farmers left when it finished working, but it would have worked. Those dairy farmers with the deeper pockets would have still been there. So, as we enter the 1990 Farm Bill debate, we are basically dealing with the same set of problems in that we have a commodity that is in surplus. That is driving down support price and creating the instability in the market place that occurred last year. Namely, we have a surplus of butterfat. That surplus will continue throughout the lifetime of the farm bill. Not so much because there has been a drop in the consumption of butter, it is because there has been a shift in the consumption of dairy products to lowfat. When you shift from a higher fat to a lower fat product, what do you have left? You have an excess of butterfat.

When we testified a few weeks ago before the dairy subcommittee of the House, I happened to be sitting next to a dairy farmers from Minnesota who was there to testify for NFO, or Save the Family Farm Coalition, or one of those groups. We struck up a little conversation as we listened to the various people testifying. All were stating that what is needed are lowfat, low cost dairy products and that will solve all the problems of the world. I leaned over and I said to him, "You know what we need? We need to go to the geneticists and tell them to breed us a cow that doesn't have any fat in the milk. Then whatever fat is needed we will add to the milk from some other source." And he said back to me, "You know, that's not a bad idea, Jim. While you're at it, tell them to breed one that milks only five days a week."

You saw two presentations up here early this morning. One by Cliff Carman and one by Bob Wellington. Basically, I will say that I agree with their assessment. If you take the current farm bill and extend that farm bill for five more years, the support price, come 1995, will be $8.60 per hundredweight. In fact, it will probably get there by 1993. Also, if you take the Olin Bill, even though the triggers are much more generous in the Olin Bill than those contained in a continuation of the current farm bill, the support price will still drop $8.60 by the end of the 1990 Farm Bill.

National Milk has spent two years trying to develop consensus on the 1990 Farm Bill. We have to develop a dairy plan that will create higher support prices or at least a support price that has some relationship between itself and the market price, in order to provide income and in order to
provide stability. As I said, for two years we worked to develop such a plan. We came up with several models during the two-year period. None of the models met the objectives of all the members of National Milk. So we went back to the drawing board and finally develop a plan that deals with the problem and yet deals with it in a way that is more generous as far as farmer income is concerned.

What the National Milk plan would do is, set the support price at $10.60 throughout the lifetime of the 1990 Farm Bill. At least $10.60 would be the floor. The price could move up from $10.60 and it could move down, but at no point could it move below the $10.60 per hundredweight. Now that creates a problem, and it is a problem we have in 1990, that we did not have in 1985. That problem is called the Gramm, Rudman, Hollings Deficit Reduction Law. That law causes one of the difficulties we have to deal with in agriculture which is that our programs must fit within the Gramm, Rudman, Hollings budget projections. If we just set the support price at $10.60 and don't do anything else, we run into budget problems throughout the lifetime of the bill because of Gramm, Rudman, Hollings. So in order to cut the cost to the Federal Government and recognize that the problem is not surplus milk but surplus butterfat, our program would create what we call a Component Adjustment Program. This program would place an assessment on excess butterfat purchases by the CCC if these purchases exceeded six percent of commercial demand. The only reason we selected six percent of commercial demand, first of all, is that is the approach chosen by the National Commission on Dairy Policy. Secondly, it indexes the amount of purchases by the CCC. For example, a five billion pound trigger in 1985 is certainly a smaller percentage of total production than it would be today.

We would also put the Component Adjustment Plan on the skim side for continuity purposes only, because no where in our calculations do we assume that we will be in surplus on total solids throughout the lifetime of the 1990 Farm Bill. We do think, perhaps, in 1992 or 1993 there might be a surplus in all milk. At that point, we would suggest that an inventory management program be put in place. The term used to be supply management, but Chairman Stenholm likes the term inventory management. So inventory management sounds good to me.

One of the problems that we have had in National Milk is that we couldn't decide on what kind of inventory management program we wanted. So we decided we would give the secretary a choice of three. We had strong proponents in National Milk for a two-tier pricing program. We have strong proponents of a whole herd buyout. We decided to advocate both, and while we were at it, we might as well throw in a diversion program, too. So our program, at least right now, calls for three types of inventory management programs that the secretary could use. Quite honestly, the latter two are in deep difficulty right now in the House. You could almost say that they were "dead on arrival." A whole herd will be very difficult to resurrect on the House side, perhaps something can be done in the Senate, but that remains to be seen.

Nobody likes bases, nobody likes assessments, nobody likes price cuts. Yet everybody recognizes that we cannot have a dairy program that will generate large federal budget costs. Unfortunately, you can't have all three. We decided, therefore, that the best way to solve this problem was with a base excess plan. Each producer will be given a marketing history on butterfat production. In fact, each producer in the country has a butterfat base right now; a marketing history.

An assessment would be placed on excess butterfat production. Our calculations are that in spite of what you hear about all of the surpluses of butterfat in the United States, we are really only in about a two or three percent surplus condition right now. That will probably remain the case throughout the lifetime of the farm bill. We would have an assessment on butterfat production in excess of probably two to three percent of the dairy farmers marketing history. What does that mean in terms of what it would cost a producer? Actually, one of the criticisms of the National Milk plan is that the assessment is too small to discourage butterfat production. In fact, most
producers would probably choose to go ahead and produce the butterfat and pay the assessment. But the goal of the National Milk plan is not necessarily to discourage butterfat production, but it is to deal with the excess CCC costs. If it is necessary to cut butterfat production to do that, farmers will respond. Tom Camerlo, President of National Milk, has a nutritionist from Colorado State University working on a program for him to try to cut butterfat production by up to two percent without adversely affecting the health of his herd or without increasing the total amount of milk produced. Tom is actually on that program right now and will see, before the end of the year, whether it will work or not. Also, there was recently a seminar on butterfat production at Cornell University. The results indicated that you could change the butterfat test substantially depending upon feeding practices.

The NMPF proposal deals with new producers by establishing a base which would be 75 percent of the first month's marketing on an annualized basis. Now what does this do? If you compare the National Milk program with other programs that have been suggested to date, you can see, National Milk programs support price level would remain substantially higher throughout the lifetime of the new farm bill. The data actually shows that by 1995 the support price will begin to move above $10.60.

In addition, the all-milk price under the National Milk plan would also remain substantially higher, particularly in the 1992-1993 period.

The National Milk plan will work. It deals with the regional concerns in that there are deficit milk production areas in the United States, but there are no deficit butterfat production areas in the U.S.

There is another issue at work here. If you consider the budget baseline projections of the Congressional Budget Office (CBO), and the USDA, and project them over all five years of the 1990 Farm Bill, by the time you get to 1995, the total baseline projection for dairy under CBO is about $211 million per year. Under USDA projections, it is about $250-$270 million, somewhere in that range. Ladies and gentlemen, you simply cannot run a dairy price support program with those kinds of funds. If we look at 1985, the support price for dairy was $12.60 per hundredweight. That price declined to $12.10 in April of 1985, a result of the so-called Dairy Tobacco Adjustment Act of 1983. The total annual cost for the dairy price support program in 1986 was approximately $2 billion. This year's cost projections for dairy are going to be about $679 million or about 1/3 of what it was in 1986. Contrast that to what is being considered in the current farm bill for the wheat and feed grain programs, where they are projecting a freeze for these programs for the lifetime of the 1990 Farm Bill. You begin to, at least in my paranoid mind, see a move to a zero cost program under the Federal Budget for dairy. That has happened to the tobacco program and to the sugar program. The next smallest federal ag commodity program is the dairy price support program. You can see that it is easy to generate that scenario for dairy.

Where do we go from here? The time schedule is tight. We have already testified in the House and in the Senate. We have been to two markup sessions in the House Dairy Subcommittee. The House Subcommittee is considering four bills - NMPF's, Jim Olin's, the Administrations, and the Stenholm-Gunderson Bill. Steve Kerr is going to brief you on the Stenholm/Gunderson approach in a moment.

When I met with Charlie Stenholm last week, I asked him, "Are we going to finish up by next Tuesday?" He said, "I don't know." Well, if they continue to make the same progress that they've made so far, we'll still be trying to mark up the dairy bill when the rest of the farm bill goes into effect in January 1991.

What are the pressure points? The pressure points are very simple. $10.60 is going to be hard to hold. The current support price is $10.10 It is going to be very difficult to move that any
higher. As of last week, we had the votes to do that, at least at the subcommittee level. But as you move away from the subcommittee to the full committee and so on, it becomes progressively more difficult.

Another pressure point is standby inventory control or supply management or whatever you call it. No matter what flavor it is, whether it is two tier, whether it's whole herd, whether it's diversion, or some other concept, it's going to be very difficult to do.

Finally, we'll run ahead on into the baseline problem with the budget before we finish markup. The NMPF plan fits a reasonable baseline projection for the lifetime of the farm bill, but it doesn't fit the projection we talked about earlier. If we can reasonably expect to get somewhere between $600 and $700 million for the dairy price support share of the federal budget, which doesn't seem to be unreasonable based on what they are considering for other commodities, the NMPF program will meet these budget criteria.

One other issue that I would like to touch upon before I stop is Federal Milk Marketing Orders. As you know, Secretary Yeutter announced last week that USDA will hold a National hearing on federal orders. The hearings will address transportation differentials, multiple basing points reconstituted milk, and perhaps some other issues. Therefore, for the next several months, we will be working on a two-prong approach to determine federal dairy policy for the next decade. One on the dairy price support issue before the Congressional Committees and second, the administrative hearing process on federal orders. It is going to be a busy year.

So, with that, Pat, I'm going to turn it back to you and we'll hear what Steve Kerr has to say. Thank you very much.
The 1990 Farm Bill: The Dairy Industry Perspective

Steve Kerr
Council of Northeast Farmer Cooperatives

Good morning. It's a pleasure to be here on this less foggier- than-Albany-morning. Since the weather usually moves from west to east. Let's hope that this is the leading edge of the good weather and not the trailing edge of the bad.

I don't know if Jim Barr coined this phrase or not, but I think it's the dairy version of the NIMBY (not in my back yard) syndrome. He called it "nobody likes this, nobody likes that". We are clearly suffering that this year in Washington. I think that's probably the best summary of the problems that we are having so far. It's going to mean some pretty tough decisions, because over the last ten years we've gone through surpluses, and budget problems. We've tried certain programs, found whether they work or not, but then have tossed them out whether they were good, bad or indifferent. I think Jim is right—milk diversion and buyout are programs which won't be run any time soon. Now, that leaves you with a couple of choices. The price cuts and, frankly, a base plan. That's why I think Jim called it "nobody likes this, and nobody likes that": there seems to be no middle ground this year, as there was in 1983 and as there was in 1985.

A little history might be helpful because I think history, in this case, demonstrates some considerable progress on our part. Obviously, this time in 1985 we were wringing our hands over too much milk and a 2.5 billion dollar program; lots of NBC Nightly News stories castigating the dairy industry about farmers feeding at the government troth. We find ourselves, today, in a different situation. We don't have all that milk, we don't have all that cost, and - as you know from prices last fall - we don't have all those inventories, either.

Interestingly enough, I think that Chairman De La Garza, of the House Agriculture Committee, is right when he says that the 1985 Farm Bill has worked. Obviously we have worked our way—with a little help from mother nature—out of what looked like a chronic surplus problem in the early 80s. That leaves us with a very different and perhaps a more difficult decision to make this time. It is always easy to rally troops when you have a crisis on your hands. Everyone agrees that 1985 presented a crisis. Even though there was dissention in that year, I think that there was a clear understanding that we couldn't continue to go down that road, letting the government buy more and more milk. The budget problem that Jim Barr mentions is a curious one because the budget becomes kind of an external constraint on what you do with programs.

Interestingly enough, the way the dairy process in Washington works now tends to reward the bad and penalize the good. When you say, "Gee, we've been wonderful people. We've reduced the dairy program costs by over 200 percent", you find yourself in a no win situation. If you have successes, you have lower costs and, therefore, your base line drops, leaving you with fewer and fewer dollars to do greater things. So as we look at political constraints, of not using certain programs again, and we look at the budget constraints brought on by our various successes, you start to see the problems that folks like Jim Barr have in Washington when they try to convince a bunch of congressmen and senators that we've been good boys, and should be rewarded for it.

Butterfat? That's the problem on everybody's lips. Clearly, there are two ways to deal with the fat problem. Linwood Tipton explained one: reduce the support price until you can sell product abroad, maybe a little bit more here. Or what National Milk has proposed, that is, try to control milkfat production on the farm, or at least prevent its marketing so that it doesn't drive prices down as it did this past January. I think that's the crux of the argument. The Secretary of Agriculture
and Mr. Tipton's group would prefer to use lower prices. Dairy farmers and their cooperatives would prefer some kind of program that restricts marketing so that we don't have to reduce prices.

The House sub-Committee, as Jim said, seems to agree that just dragging the price of milk down to control butterfat is not the way to go. I think that is an important recognition on their part. A couple of figures that may be helpful: even though the fat problem may be only a 2 to 3 percent surplus now, the folks at Land O' Lakes seem to think it will grow considerably in the years to come, perhaps up to 10 percent a year. That suggests that this is a problem that is not going to go away just by wishing and hoping. Secondly, the Olin Bill that Linwood Tipton referenced, the one that would reduce prices, relies to a certain degree on the so-called "butter/powder tilt". If you don't want to cut the support price more than once, as Tip suggested would be the case, you are going to have to push powder prices up in order to get butter prices down. His figure of 60 to 65 cents per pound for fat, I thought, was a pretty interesting one because most of the folks in Washington talk about 75 cents a pound as being a price at which we can export fat. That was contradicted by folks from the New Zealand Dairy Board a couple of weeks ago. They are not sure if the world price of fat is 75 cents; in fact, they're not sure that there is a world floor for fat. So as we try to move the fat that you make, off the market, out of our country, we may end up like a cat chasing its tail: thinking that we found a price that will do it and finding out that we haven't. In my mind that raises real questions about the logic of just reducing the support price, because when you say we'll only cut the price once, and then we use the butter/powder tilt to make the rest of the adjustments, that assumes that you are going to hit that proper price at some point and won't have to do any more. And that after hitting that price, the so called fat problem will disappear. That seems to be an open question at least in the minds of some of the people around the world who market butter.

I don't know if 94 cents is where the powder price would end up if you pushed butter down to 60 cents with only one price cut, but it suggests to me that it might be more like $1.00 than 94 cents. While the government could certainly use the powder purchases for the food nutrition program, I don't know how much they would get, or how happy they would be to have powder prices at $1.00 considering that the debate just a few months ago was that we can't continue to push this tilt because if we do we'll push our domestic powder prices and our support price of powder to a level where we will be uncompetitive in export and start to attract a lot of powder to the government.

I think, as we go forward from a farmers' perspective, there is a couple of numbers that really jump out at me. They have all been mentioned this morning, but I just want talk about them quickly. Under the Olin Bill, the support price would end up at $8.60 by 1993. And according to USDA, some testimony a week before last before the House Dairy sub-Committee, that would leave you with an all-milk price of about $10.50. The National Milk Plan would result in the same year with the support price closer to $10.60. And an all-milk price closer to $12.50. Or $2.00 above what is estimated under the alternative approach. Two bucks is a lot of money, I don't need to tell you. I think that is really what is at stake in this debate.

Why is the butterfat program so important? What we keep hearing, of course, from the majority of folks is that they want stability. We heard all the volatility in prices, people want things to settle down. Can you settle them down by reducing the support price a buck and a half over the next three years? I just don't see how it would. If we've been having instability over the last few years because we were allowing price cuts, I don't know how another $1.50 cut is going to create stability in and of itself.

The cornerstone of the National Milk Plan, is a cornerstone of what I think has come out of the farm side of the dairy industry: a price support freeze. Interestingly enough, whenever you freeze the support price you have to deal with supply control. I think, as Jim Barr said, that if you look at these plans, there is no question that if we just continue to drop the price of milk we'll have
enough milk in the U.S. I guess it'll be affordable, but there will be big changes on the farm. Two out of three ain't bad, in Washington's mind. If we don't want to reduce prices to maintain some semblance of balance between supply and demand, we are going to have to deal with inventory management on the butterfat side or on the milk side at some point. And as Jim said, that's where the controversy lies. It's over the use of supply management. Listening to the House debate over the last three weeks, there is much less disagreement on the use of inventory management for butterfat, than there is for milk. I sense from the Stenholm-Gunderson Plan, that they've pretty well accepted the notion that we can deal with fat on the farm but, as I'll mention in a minute, I'm not so sure they're convinced that we want to go down the road with supply control in the event of milk surpluses and cow surpluses like we had in the mid 1980s.

Let's look at Stenholm-Gunderson briefly. Tomorrow we are going back to Washington, and there's a start on this bill all over again. There are three or four packages out there. There's the National Milk Plan, which is our preferred choice. There is the Stenholm-Gunderson Plan, the work of the Chairman and Vice-chairman of the Dairy Sub-committee. There is the Olin Bill, as explained by Mr. Tipton. And then there is a U.S.D.A. Bill that isn't a whole lot different than the Olin Bill in its important aspects.

Clearly, the Stenholm-Gunderson Bill already has melded pieces from all of those plans. And I expect, from what we've seen in the last couple of weeks, that what we are going to get out of sub-committee is very largely the Stenholm-Gunderson Plan, like it or not. What does it have? Well, it has a price freeze. A price freeze at no less than $10.10/cwt. It increases the support price to $10.60/cwt. at the outset. Jim said that may be hard won, and quickly lost, but it does go to $10.60 as National Milk suggested. And it does set a national minimum at $10.10.

It has what they call a "butterfat check off program". It is the same thing as the "CAP" program, although the details are a little different. The "Trigger" for these programs is based upon, not on milk equivalency, but on actual product purchases. They would "Trigger" the butterfat checkoff, when U.S.D.A. had significant removals of butterfat; and stay in that stage unless U.S.D.A. also began to purchase nonfat dry milk. That's where we are now and I suspect that's where we'll be under this plan for some time. They have a stage where butterfat surpluses, and modest removals of powder give the secretary an equivocal choice of a 50 cent price cut, or two tier pricing. This is why I say that it's not as clear that they have bought the idea of inventory management for milk surplus: they ducked it by simply saying we'll let the Secretary choose. I don't care if Mike Dukakis were President today, I doubt that two tier pricing would be chosen in any case.

The forth and final stage is one in which U.S.D.A. buys fat and hefty amounts of powder. The plan then requires the secretary to use two tier pricing if things get bad enough - and in their rule book that is the equivalent of having more than 7 billion pounds on a total solids basis.

Where do we end up? My sense is that if you look at the projections that you get from people like Cliff Carman and Bob Wellington, that you end up in the second or third stage. That is, you end up at a $10.60 freeze (or perhaps a $10.10) and a butterfat program for the better part of the five year Farm Bill. You are not likely to get into the choice of price cuts or two tier, and you are even less likely to get into the mandatory two tier unless we're reading the numbers wrong. I think Stenholm and Gunderson see that, too. That's one reason I think that they are willing to stake themselves out with a butterfat program, because I don't think they believe that they are going to have to go beyond that.

The sticking point, as Jim pointed out, is that we are not yet over the hump on price cuts versus inventory management. Even though Stenholm and Gunderson did put it into their plan, there is a lot to come yet. The details of supply control are up in the air. The Stenholm-Gunderson Bill makes it clear that they would require the butterfat base plan on an individual farm basis. The
plan is a little less sure, apparently on milk surpluses though, because it's worded in such a way that the basis could be applied to individual producers, or, as Linwood Tipton suggested, to a dairy plant itself. I'm perplexed by that one, but that's an open question and I'm not sure that's a mistake, Jim, the way they've written it. Think about a quota plan on plants.

Finally, how does Stenholm-Gunderson stack up against National Milk? I think National Milk has been quite successful if you want to look at this thing as being half full as opposed to being half empty. National Milk wanted a price floor: there is a price floor in the Stenholm-Gunderson Bill, whether it's $10.10 or $10.60. Secondly, they do move to something that approximates a total solid measure of surplus. To move into price cuts or into two tier pricing, they use something that looks like total solids because they require substantial removal of both fat and nonfat solids before you trigger anything. Thirdly, they have incorporated the so called "Boehlert Amendment" or "Agri-Mark Proposal": the idea of treating the purchases of dairy products that are used for price stabilization purposes separately from purchases used for food assistance. A very important piece of that puzzle was added a couple of weeks ago when Leon Panetta, who is a Democrat from California on the Ag Committee, and more importantly head of the Budget Committee, introduced a Bill to increase the amount of money for TEFAP and food stamps. Obviously, we can't take the burden of these food assistance purchases off the dairy farmer's back, unless there is some money out there.

Fourth, Stenholm and Gunderson adopted a butterfat program - they call it "checkoff" instead of "CAP". But the net effect is the same. That's four out of five things that we sought. The one up in the air - the inventory management on real milk surpluses is not going to be resolved for some months, if ever.

Thanks a lot.
A Review of the Critical Needs of the Northeast Dairy Industry

Norman P. Harvey
Agri-Mark, Inc.

Good afternoon. This morning we had a chance to hear from those who help direct national dairy policy in Washington and, once again, we’ve learned that what may work for the nation’s dairy industry may not be the best answer for our own northeast industry.

Though it does not come as a surprise to those of us who have followed the progress of the 1990 Farm Bill, neither should this news come as a big disappointment.

If we look around this room today I think that we could all agree that we have the people and the organizations necessary to heavily influence the direction of the northeast dairy industry without help from Washington. Oftentimes I feel that rather than being assisted by Washington we are handicapped as we try to solve our own regional problems. Regardless, within this room are the resources to put our industry on the proper path towards stability, and even prosperity, for both the farmer and the handler.

I’ve been asked, as Chairman of the Northeast Dairy Industry Leadership group, to review with you today the critical needs of our regional dairy industry. While time does not allow me to address all of the issues facing our industry, I would like to pick the three which I feel are the most important as they also have a direct influence on many of the other important needs of our industry.

The three critical needs of our industry which will have a great impact on all of us during the 1990s and beyond are: adequate milk prices received by farmers; the formation of a common northeast marketing strategy, including the free movement of milk between northeast states; and improved farm management resources.

To begin, the remarks we heard this morning can only highlight the fact that lower milk prices for the nation’s farmers could very well be a reality during the 1990s.

Prices paid to farmers ranks near the top of everyone’s list, including mine, as crucial to the survival of our regional industry. While we enjoyed the short-lived high prices of this past fall and winter, all indications are that future prices under the 1990 Farm Bill will be lower.

Farm income remains as the key obstacle to solving many of our regional industry’s woes.

How can we expect farmers to not only maintain but modernize their farm operations if they are only making enough money to get by? How can they afford new milking parlors or other dairy equipment to improve milk quality and help solve problems caused by labor shortages? How can farmers build efficient manure storage or feed storage areas to enable them to utilize their farm’s resources to the fullest without an adequate income? How can we compete with other regions of the country and improve our output per cow and output per man if we cannot invest in the necessary capital improvements?

How can we expect young farmers to enter the dairy business if they do not see a profitable future for themselves and their families? And how can we expect cooperatives to remain profitable if farm financial problems force individual farmers to leave co-ops and chase the nickels and dimes offered by proprietary handlers in their effort to attract milk supplies?
Prices, therefore, are the key, but what can we do right now, right here in the northeast, to increase farm income?

First of all we can do everything possible to ensure the survival of RCMA. You have heard this before but, despite many of the organization’s problems, the bottom line is that RCMA has infused millions of dollars into the northeast dairy industry. Agri-Mark members alone have received an extra $11.5 million since RCMA pricing was reinstituted in September of 1987.

Though RCMA still has problems which must be solved before over-order pricing becomes a reality again in the northeast, the organization is headed in the right direction. Presently it is carefully evaluating similar and successful over-order pricing mechanisms in Chicago and other parts of the country to determine what pricing or organizational structure may work best in our market.

Once we are able to generate sufficient income for farmers and have developed a level playing field for handlers, then we can begin to talk about other ways to improve prices and general farm income. Whether it be through better farm financial management and decision making, maintaining class I differentials, or by helping to stimulate dairy product sales through increased promotion by dairy farmers, income received by farmers is crucial to the survival of our industry.

Another crucial need of our industry is to hasten the move towards uniform standards of dairy products throughout the region as well as uniform farm inspection regulations and other issues which stand in the way of free movement of milk between northeast states. We need (if I can steal a term from RCMA) to put dairy cooperatives on a level playing field as well.

If we can begin to look beyond our own state boundaries and view our industry as a regional dairy industry rather than a group of individual state industries—and treat it as such—we will be able to be much more effective marketers of milk and more effective as a strong regional industry. We will then be able to develop a common northeast strategy for dairy cooperatives, including joint pricing policies. These joint pricing policies will also put more money into farmer’s pockets.

Once a common strategy is established in both pricing and in the best utilization of cooperative manufacturing and balancing plants, then cooperatives will be able to improve their milk handling ability and position in the marketplace. We will be able to take closer looks at co-mingling milk from different cooperatives on joint hauling routes and joint cooperative ventures. We will also be able to scrutinize other issues which affect cooperative financial strength, including the important issue of attracting non-cooperative dairymen into cooperative ranks.

All of this will be accomplished when cooperative leaders disregard their biases and make a true mutual commitment to the improved profitability of the northeast dairy industry.

There is no doubt that cooperatives must become more profitable if they are to maintain membership and attract non-cooperative dairymen into their ranks. We have seen some of the cooperatives in our market and throughout the rest of the country increase their profits by marketing or manufacturing value-added dairy products for their members. The greatest possibility of a return of dollars to dairymen seems to be in that area.

Co-ops must carefully scrutinize their practices of the past, including that of balancing the market, to ensure that the greatest level of return and services are provided to those dairymen that are paying the costs of collectively marketing their milk. Whether it be through value-added marketing or other means, directly meeting the needs of the individual cooperative member must take priority over serving other dairymen in the market.
And, while it is recognized that cooperatives must become more profitable, let us not forget the other handlers who are our marketing partners. That challenge is for all of us, as milk handlers in the northeast market who desire a strong regional industry, to be as efficient and as profitable as possible.

I've long been a vocal supporter of consolidation of cooperatives and I still am. However, we can more easily head in that direction if we can develop a common marketing and pricing strategy, make better utilization of cooperative facilities, and allow for the free movement of milk between northeast states. Combine this with an over-order pricing structure like RCMA to ensure the financial survival of our northeast farms and our industry will be able to function more successfully and more profitably than in the past.

The adaptation of new technologies will also be important to our regional industry. I'm referring to all technologies which will impact a farm's managerial ability to perform efficiently. Mechanical, electronic, and biotechnology have influenced our industry dramatically in recent years. The challenge remains, however, for all of us to properly understand and then implement the vast amount of research which has taken place which will help us improve our dairy operations.

Recent USDA projections indicate that the number of dairy farms and land in farms will continue to decline but existing farms will be larger and production per cow will increase. Labor shortage will continue to be a problem for northeast dairymen so every avenue must be explored to increase herd size and production per man and per cow without a corresponding increase in labor. This can only be accomplished by more efficient housing, milking, and feeding facilities for dairymen.

And again, increased farm prices will be the key which will allow our dairymen to modernize their facilities and adapt new technologies into their farm operations.

The land grant universities in the northeast have helped our region's farmers to adapt new techniques—but that adaptation has not taken place at as rapid a pace as is necessary. Adequate funding of the Cooperative Extension Service and other agricultural programs must be maintained at these universities to provide farmers with the necessary guidance as they plan for the future.

I challenge the northeast land-grant universities to collectively review their role in the future of the dairy industry and identify a strategic direction for research and education that will benefit our regional industry. These universities must also play an important role in educating northeast farmers on the proper use of pesticides and other farm chemicals and practices which will affect the environment. Today's consumer is becoming more aware of the environment and food safety than ever before. It is vital for dairymen and handlers alike to be constantly aware of these concerns as they control the processes which guide the flow of milk from the farm to the market. While we have made progress in maintaining and improving quality control of dairy products, we must pursue even higher standards of quality.

As members of the northeast dairy industry, we have a tremendous responsibility of supplying milk to the largest consumer market in the United States. One out of every six Americans live in the 600-mile strip between Washington, D.C. and Boston's north shore. We cannot allow ourselves or our farm operations to stagnate and allow other parts of the country to capture part of our market.

Our average herd production average in the northeast is approximately 14,500—just above the national average of 14,029. However, our herd average lags behind that of California, Washington, and Idaho's average of 16,821 by 16%.
Certainly we have our work cut out for us if we are to remain competitive with the rest of the nation's dairy industry. We can only accomplish that through adequate farm pricing, continued and expanded cooperation among northeast cooperatives, and continued adaptation of new technologies and improved management on the farm level.

The needs facing our northeast industry are great, but so are our resources and our opportunities.

Let's not look ahead with fear and anxiety but with the same spirit of hard work and commitment which has made the dairy industry the most productive and most respected agricultural industry in the world.

Thank you.
Strategies for Maintaining a Vital Northeast Dairy Industry:
Producer Issues

Gordon Lamb
Oakfield, NY

Thank you, Bob.

I have numerous reasons to be nervous. I recognize a lot of my neighbors out here and they know exactly where my farm is, so that's one reason. And I asked my wife to go shopping this afternoon and I see she didn't take my best advise, and she's out here in the crowd. And, I confess, I did not realize what a large group would be present. And I do have an Ag. Economist joke and I apologize for that also, because it was told a couple of weeks ago at a Farm Credit Meeting in Albany and I recognize a couple of faces that were there. But it seems that when Albert Einstein died and went to heaven, St. Peter met him at the pearly gates and said, "I'm sorry, Albert, but we are all out of single room apartments, you are going to have to have some roommates." Albert thought it over, thinking of the alternative and said, "I'd like to meet my roommates." So he goes in and meets his first roommate and shakes his hand and says, "I'm Albert Einstein, my IQ is 195 what's yours?" The roommate says, "Mine's 190." Albert says, "We're going to have a great time. We'll talk about nuclear physics, we'll talk about math, the theory of relativity." He goes on to the next roommate and says, "I'm Albert Einstein, my IQ is 195, what's yours?" The response was "130". Albert says, "Well, that will be great. We'll talk about the classics, the classic literature, art, music. We are going to have a great time." He goes on and meets his third roommate and says, "I'm Albert Einstein, my IQ is 195. What's yours?" The roommate says, "60." Albert says, "Come on over here in the corner. I want to get your latest forecast on interest rate projections."

Well, my IQ approach is the latter, it can be attested to because I'm standing here right now.

I must confess to being a reluctant participant in this forum because emotions have been known to run high in discussions in farm and non farm groups alike. I have no special insights and can only share with you a little of my past history. And some concerns for the future. And, at this point, I would like to tell a little bit of my own farm background. My wife is here in the room, as I mentioned. We have three sons. Our oldest is a sophomore at Cornell. Our middle son has been admitted to Cornell for the fall. And both of them profess to become Veterinarians. My youngest son is in eighth grade and his goal in life is to go to UNLV and play basketball and gamble. Which leads me to my next problem. And that is I planned to set aside this entire weekend to prepare for this event and Saturday morning I took a trip around the neighborhood over to Wyoming County, where there are a lot of large dairy operations, and I interviewed a few people and I came back home prepared to sit down with pen and paper and write up quite a lengthy dialogue. Well, of course, the NCAA tournament was on and then hockey came on and then, of course, we had to flip channels back and forth between the Sabres and NCAA. So, nothing got written Saturday night. And then, of course, we had church yesterday morning. And then in the afternoon I got the fever and took the pencil out and started writing and in walks a good friend of mine and we had a nice talk and sat down in front of the TV and began watching the hockey game, and so I can only read as far as I've written.

We do have a large operation. Twelve hundred milking cows, eleven hundred heifers. We grow 2000 acres of corn, mostly more for silage than for grain, but we do market corn and wheat. 1000 acres alfalfa, and some other smaller grain products.
I'm first going to give you some history so you know where I'm coming from. On completion of college in 1966, I bought a farm with 35 cows on an old field which is 35 miles to the west, in partnership with my father who had 69 cows at a farm 17 miles away. His farm was in the process of being acquired by the State of New York through eminent domain condemnation to become part of Darien Lake State Park. And this is a similar project to Buffalo Rapid Transit System. They got enough money to build the Rapid Transit System, but not enough to keep it operating. Darien Lake State Park got enough money to acquire the land, and that's the end of the story. Remodeling started immediately to house the projected herd size of 120 cows. And even if we could have predicted the herd size to eventually reach ten times that number, any layout developed in 1966 would have been rendered obsolete by technological advances in milking and housing facilities. The way our expansion occurred is by raising home born heifers and periodically installing a freestall barn, or milking parlor, or buying land depending on what the limiting factors seemed to be or what opportunity presented itself. No cattle were purchased except for a few registered calves to show at the fairs.

There have been legitimate complaints from the non-farm neighbors and perhaps not so legitimate complaints from the dairy community through the years. I have been through three public hearings in our township pertaining to requests for permits to construct three manure lagoons, I can safely say that the non-farm populations have genuine concerns about having a large dairy farm in Oakfield. These relate to truck traffic, manure or mud on the highways, odors, noise, light problems, possible pollution of ground water with coleforms and nitrates, bringing families into the school system with special needs, and the list goes on and on.

We have been compared to the Exxon Valdez oil disaster, and Chernoble, as an environmentally ticking time bomb. Most farmers would like to believe that they can leave the world a little better off than when they arrived, and I count myself among their number. I spent many years traveling around the country, trying to find a way of alleviating environmental problems, and just trying to find ways of being a better neighbor. Some technology that has been brought in from other areas of the country worked very well, while other technology was of questionable merit. Dairy farmers of virtually any size can be potential polluters. We used to pasture dry cows and heifers in a large field with a stream running through it. Obviously it was a beautiful pastoral setting, but very damaging to the water quality of the stream. This practice has ceased. In the early seventies, our cow numbers reached 200, plus replacements, but our land base for manure disposal had remained the same. The ratio of cows to land was 1:1. We decided that we needed to acquire more land. We put several trucks and tractors on the highway and hauled manure several miles away from the home base because many years of monitoring the ground water was showing a slight increase of nitrate and nitrate contamination. A major technological breakthrough at our farm was a manure separator which separates solids from liquids. The liquids that represents 90 plus percent of manure are then piped several miles above or below ground to outlying fields and irrigated. This distributes nutrients as they are needed and reduces truck traffic from what it once was, and the trucks were often out 365 days of the year, so you know that conditions weren't right for bringing mud onto the highway.

There are odors for a week or so in the spring and fall when irrigations has been going on but we have been commended by some neighbors and town officials for ameliorating one of the most aggravating and irritating aspects of the large dairy farm and that is manure disposal.

Our next job, hopefully, slated shortly, is to install several irrigation central pivots. That is several underground water supplies that will begin flushing our farms with fresh water. We hope, in the summer, to flush, separating out the solids and irrigating them immediately to minimize odor problems.
We are continuing to monitor ground waters and possible build ups of coleforms and nitrates as well as other possible contaminants. The public demands, and must receive, the utmost consideration to the environmental concerns. We cannot contaminate ground water.

In 1975, when we first applied for a manure pit permit, one neighbor asked why we could not have remained at the 31 cow number present when we first arrived in Oakfield. I'm sure that my reply was not satisfactory to him. We who have chosen the route of developing large businesses have many complex reasons for doing so. My response at the time was one of economies of scale, and henceforth, the need to expand. Some of us are driven by the desire to adapt new technologies. Some need the challenge. Some want to build an operation to insure the future of the next generation. Some are empire builders. Some of us need psychoanalysis to figure out why we tick. We might like to attest to that being the case here. Whatever the reason, more large dairy farms are being developed and more will be coming on the scene in the near future, given current public policy in the dairy sector. Obviously, the economics have been strong for building large dairies for those able to put land, labor, capital and management together. The present federal price support system works in favor of the large operation. We know that we have a market for everything that we can produce, as long as it is a good quality milk. Go to any dairy co-op meeting and you will quickly learn that the large dairy operations are the ruinations of the small family dairy farmer. We are the greedy ones - building surpluses, dropping fluid utilization, thereby depressing milk prices. Hence, the call for some sort of supply management, thereby, holding expansion in check. We need only to look a short way north to Canada, or across the Atlantic toward the European common market to see the results have been short term favorable to the existing producer, but a long term disaster to developing an efficient dairy industry that is clearly not competitive on the world market.

Having recently tested the fruits of a tight dairy supply, inelastic demand for dairy products and, therefore, inordinately high producer level prices, I would expect a renewed call for some form of supply management in the face of unprecedented price decreases. However, I would advocate continuing in the 1990 Farm Bill, the present supply-demand base support or some fine tuning of the trigger mechanism. If butterfat is in surplus, why reward us for marketing high butterfat milk, but why penalize us if other components are in short supply? And let's redefine what actually is surplus. Furthermore, having produced 4 percent butterfat milk only two months ago, and having figured out how to get it down to 3.3, I think it's time to adapt this, quickly.

I'm sure this will continue the trend for leaving out inefficient producers. More hill farms will be growing Christmas trees instead of producing milk. But this trend has been going on in every nongovernmental protected industry in the country. And if we are to remain a viable industry in this region, we must continue to remain viable as a world or domestic trader, then we must allow these trends to continue.

Where does this dialogue leave us in the Northeast? We do not have the advantage of the south and southwest in just building another trail, and adding a few hundred cows, and calling the feed dealer to bring in some more alfalfa or high quality bulk commodities. But there will be many instances in the Northeast where large dairies will make economic and environmental sense. I would advise any dairyman planning such an undertaking to apply every possible consultant including agricultural engineers, agronomists, bankers, financial planners, tax accountants, nutritionists, legal advisors, department of environmental quality, etc. The Northeast will lose processors in the added, now available, markets if they cannot be assured the high quality milk that they must have.

Where does this leave our operation? Actually, this was the place that was blank, and no one could be more interested than myself in what I was going to write next, but I scribbled something out this morning. I would like nothing better than to foreclose our obsolete facilities and build a state of the art complex which, of course, would be obsolete by the time it gets off the drawing
board. Technology is what drives me. But, of course, this costs money, and if you begin forecasting the 8 or 9 dollar milk, I'll just rearrange the drawing board, instead of building. How many cows is too many for one location? Maybe if we do build, it would be several miles away, thus alienating a whole new group of neighbors. I believe that the time has arrived where the younger and more ambitious generation will make these decisions. I already have a junior partner, who's our top manager. Plans are in the works for our two herdsmen, who are in their mid-twenties, have ownership in our cattle, and I think we operate with four enmities. My father and myself started this partnership. We began with drawing aspects, we formed a corporation for tax reasons. We kept the cattle out of that for tax reasons. The next step was forming a livestock entity, that was for tax reasons, and to bring a junior partner in. And the final step was that my Dad didn't want to own any more land and was ready to retire, so my junior partner and myself formed an entity to buy land.

And the next thing I have listed here is - Grow broccoli? I don't know where that came from. I think I reached the end of my speech.
Strategies for Maintaining a Vital Northeast Dairy Industry:  
Producer Issues

Samuel Stoner  
E. Berlin, PA

It is rather interesting and challenging to be up here. As you might assume from what Bob said, I have two degrees, and these were both in teaching, so I prepared for something other than agriculture though I grew up on dairy farm. Prepared at home, I guess for farming and in college for something else, so that I had some alternative to fall back on if agriculture doesn't work. That's really why I prepared for teaching was because I did not trust the Ag. economy that well, and I wanted to have an alternative that I could go to if I felt that I needed to. I did teach for six years right after coming out of college with my bachelor's degree and I got my master's in summer school during the years that I was teaching. I didn't get started in farming and probably wouldn't have gotten started in farming if I didn't have the opportunity to go into partnership with my father. I wasn't going to go out and spend the bucks it would take to start up by myself, but my father offered a partnership with him, I was glad for that opportunity and accepted it.

In 1969 I started in full time dairy farming and partnership with my father. So I really chose agriculture now as a choice, and if you had told me twenty years ago, though that when I started in agriculture, that I would be as far in debt as I am today, I may not have started, but here I am now, I'm in it.

I was in partnership with my father for four years and then for about three and a half years I was a sole proprietor. Then I was in partnership with a brother up through 1988 when I formed a partnership with my oldest son, now, who is just starting in agriculture since the beginning of 1989. My son was also educated for something else, he was a computer science major, graduated from college with a degree in computer science and felt that he wanted to farm, yet he wanted another alternative and he is in partnership with me now. We farm about 250 acres, 75 milk cows, with about that many herd replacements on the farms. I have two other sons, Allen and Nathan, these are both in college, a freshman and a junior in college neither of them studying agriculture. The youngest one is interesting in being a veterinarian. He feels that he can swing it yet there is a lot of difficult schooling between him and a veterinarian degree. My wife helps with a supplementary income by working as an activity leader at a local retirement home.

I'll just share some ramblings about our own operation and the things that I'm involved in. I guess one of the questions that was posed to us was, how do we survive and how do we keep going in the dairy industry today? One thing that I think my dad really drilled this in to was the importance of producing your big volume of milk when the price was the best throughout the year. We always worked hard to maximize our production in the winter when the price was the highest, and have our cows down in the summer when you don't get that good of a price for milk. The financial end can be difficult to get through the summer without the income, but we use a line of credit that we pay on in the winter that helps you get through the lean time in the summer when production is low and the price is low.

We buy mainly used equipment, not much new equipment, and try to keep costs as low as possible. The more expensive equipment, we have custom combine and corn shelling done. As we mentioned before, we all would like to have these palaces, these fancy facilities. In 1969 when I expanded, the salesman had all these big ideas of how to do it, to move out and start completely over again, but I think I'm glad today that I resisted that temptation to start a completely new facility and expanded our tie-stall barn at probably a third, or less than a third, of the cost to build a
whole new facility, and we've been using these facilities since 1969. We use a heat reclaimer on our bulk tank to save on some of our water heating bills. We try to take advantage of prompt payment discounts and early order discounts on equipment and supplies. Having a son that is a computer science major, we have a computer on the farm and our financial records are computerized. We compare our records from month to month to previous years and year to date information with previous years to see that we are keeping expenses in line. And I think that in regard to taxes that it's important that we have someone familiar with farm taxes to work with us in tax planning and preparation. I think that we, ourselves, should be familiar with taxes and tax preparation somewhat so that we can be very much involved with this ourselves. And I think that it's good to have this outsider looking over our financial records, too, someone that's familiar with agriculture and who see's other farmer's records and can compare us, compare yours, with others. And Farm Credit has provided, I think, a real service to us in this area. In tax services and financial help and management. And I think that this really goes hand and hand with Farm Credits business of lending funds for agriculture, too.

In our cow operation, we feed basically in three groups in our tiestall barns, and the groups are mixed throughout the barns so that there is some pushing of feed between cows. We feed the long hay separate from the mixed ration, once a day. These rations are computer balanced by our Agway representatives. Dry cows are fed mostly grass hay. We grow some soybeans and we try to feed our home grown soybeans to the cows at the time of year when we have the highest production. We feed homegrown soybeans to the highest producers. We raise all of our replacement heifers and these are raised mainly on grass hay, and the homegrown grains and soybean meal. We use BoVetec in the heifer ration throughout their growth. We usually freshen our heifers by 22 to 24 months of age. The cows are all bred AI, and are computer mated. I've bred for plus butterfat for quite a few years, I guess I've had this around now, real quick. We use some young sires. We do our own AI work. Heifers are all bred natural service and run in loose housing and rented facilities. We don't have a good catching equipment there for artificial insemination and we're not really there to observe for heat. I try to have corn silage and haylage of legume or legume-grass mix, to feed year round. We try to put our legumes in the silo and maintain our grass hay. We can only grow a limited amount of alfalfa because of our soil. We have, a lot of our soils are poorly drained and not really suitable for alfalfa. We try to buy additional feed if we are going to need it. At harvest time, last year we bought probably about a thousand bushels of shelled corn. We harvested shelled corn and put it in an airtight silo.

Manure handling from our cow barn. Manure is pumped into an earthen banked storage, a little over six month storage, and this is spread basically in the spring and the fall and we attempt to chisel plow this in as soon as possible after spreading. The calves are started in hutches and then moved to the Virginia styled counter sloped calf barn and from there they go to the banked barn with the manure pack. Probably one of the biggest problems in our area, I think many of the producers would agree, is the labor situation. Any time you look in the newspaper, there's an awful lot of ads for labor and help in the newspaper and it's real difficult to provide this needed labor. We have the partnership with my son, and we have one other full time hired man and then a part-time hired man, who has another job where he works full time during the week, but he helps me weekends, and this makes it possible for my regular hired hand to have weekends off. So that makes it nice for him. He provides help over the weekend for us and the house that I own and rent to this man is really the reason that I'm able to secure him on weekends. He said he wanted the house and I said if you'll help us you can rent it. So, I think, that is a real asset, if you have some housing, it makes it a little easier to secure help. Our labor costs tend to be high at our farm because we do a lot of our own repairs and some of our own building. But, over all, I think that our expenses are lower because we are able to hold down our repair and building costs. I think that the partnership has been a big asset in providing the labor necessary for the farm. When my brother left the partnership, if my son did not want to come in, I seriously question if I would be dairying today. My son was interested in a partnership and, I think, that this is one of the few ways possibly that young people can get started in agriculture. Being in a partnership with an
established person. I know that I wouldn't have gotten started any other way, and I don't think that my son would have. I think that the high cost of land makes it very difficult for young people to get started in agriculture and I think as we know, that land prices are being pushed up, especially in our area, we are two hours from Washington, DC an hour and a half from Baltimore, people are coming out in our area and buying, buying lots and commuting to Baltimore and Washington or Harrisburg. Harrisburg is closer. This is really development pressure in our area. And this, of course, drives land prices up somewhat. I serve on the township Planning Commission, and we've tried to keep the county as an agricultural area, but there's only so much that you can do. You have to allow some development.

From the aspect of using labor efficiently, too. We've, over the years, tried to plant our corn very early. Possibly in late April, in order to have this done and out of the way by the time we want to harvest first crop grass and alfalfa. Sometimes I plant corn so early I had one neighbor who said I could plant corn in December and harvest in August. I'm not sure that I can do that. We've had fairly good success in getting our corn in early so that we don't have to be trying to do this when we're trying to harvest first crop. It allows you to get your harvest done a little earlier in the fall, before bad weather sets in.

I think that it's important that we have strong dairy cooperatives to support us and to market our milk. In Order 4 we've had over-order pricing for some time now because of the high percentage of dairy farmers that belong to cooperatives and we'd like to see this more wide spread in the northeast. I think that our dairy cooperatives need to be large and strong enough to have good bargaining position with the buyers and the processors.

The environmental concerns, I think are many, in all of the areas that we live and farm. I serve on our Adams County Conservation Board and we strip crop all of our sloping land, I think that we all need to be very careful of the application of our pesticides and fertilizers in the north, that we're not creating problems, because when problems come up it just seems like we just generate more fuel for more regulation and more difficulties to deal with. Milk has gotten a lot of adverse publicity recently because of the sulfa and so on that are supposedly in it. I think that we need to be careful to sell only high quality milk. I rarely, very rarely, treat a lactating cow with antibiotics and sulfa anymore, because of the dangers of getting it in the milk supply. I think we farmers need to go on the offensive a little bit more for good public relations. At christmas time we go around to our neighbors and drop of a pound of butter to each of our neighbors. This is getting to be a bigger job every year, as we are getting more and more neighbors. In the summertime, I like to grow a little extra sweet corn, too, they appreciate a little sweet corn. I think that this is getting some good rapport with our neighbors.

We like to have tour groups come in, next week we will have a group of pre-schoolers coming to our farm.

Thank you.
Good afternoon, ladies and gentlemen. I went to the University of Maine for a degree in Electrical Engineering. When I graduated I spent six years in the Navy. I separated from the service in 1977 and I've been farming with my wife and three children since 1980.

I don't have any answers today about where the dairy industry is headed or even what we should do in the future as far as prices go. But I can give you some idea about what has helped us prosper in the 1980's. And hopefully to give a strategy for young people who would like to start in the dairy industry.

We started ten years ago. We had enough money, between the two of us, for eleven cows. And, fortunately, I knew one of the farm credit loan officers in our region, he's an old family friend, and we borrowed money from him, with no co-signer, to slowly increase our herd. We've tried to, every year, since then. It's funny because when I was thinking about going into farming I went around to all the successful dairymen in the area and I asked them for their advise, what they thought. And they all said the same thing. "What are you? Crazy? You can't get into the dairy industry today. Stay in the Navy. Go back to college and get another degree. There's no money in it." They said, "Look at all the money I have invested in silos and mixer wagons and fancy parlors and land and help running around." They said, "You don't want to do that." Well, I did want the satisfaction of running my own operation, and I'm glad that I did. I realized that to get into the dairy industry, I had to have an edge, if my dad sold me the farm, that's an edge. If your wife wins the lottery, that's an edge. You can go out and buy what you need, you need an edge. We had no edge. All we had was the willingness to work hard and the determination that we were someday going to have a nice herd of cows, and I should say, that we've done that. I think that many young people, today, are discouraged from getting in this industry. Even though they may be excellent dairymen, they are discouraged because they see the large capital investments that some of these successful farmers have, and they say, "Well, it's no use. I just can't do that. I'll just go flip burgers or something." Many of them would make excellent dairymen. And I'd like to offer a solution.

Here we were, ten years ago, with limited money. And I knew that in order for us to succeed I had to invest all the money that I had in productive units. And on a dairy farm, that's cows. They're the only thing that will turn a profit. In my opinion, the money in dairy, is made from her mouth to the end of her quarters. I have three principals that have helped me survive in the 80's and they are found in my operation today.

Number One - I keep my capital investment to an absolute minimum. I rent all of my facilities. I don't own a farm. It comprises of one acre of poured concrete and asphalt. My cows don't go out on grass. Around the outside of this acre of asphalt, is three sided, old, reworked chicken coops, made up into freestall barns. In one corner is a double six parlor and a milk room. That is also up to date even though it is one of the oldest parlors in the state of Vermont. I buy all of my feed. I've never grown an acre of corn. I've never grown an acre of hay. I don't have any of the machinery. I don't have any of the help. I don't have any of the silos. None of that. Absolute minimum capital investment. I should say that we do own our house down the road. We rent our facilities and purchase all of our feed.
I'm interested in keeping my money as close to the bulk tank as I possibly can. And I think that no matter how big your operation is, you should concentrate on doing that.

Number Two - My wife and I concentrate on efficient production. I'm interested in maximum profit, not maximum milk production, maximum profit. One of the sticklers that I have is on the concept of labor. My wife and I run the operation so that we can handle it ourselves. And this is one of the most important points of how we've been able to succeed, because we haven't had a large force of labor running around. We've always had good luck in finding someone that would come in on Sunday afternoons and milk our cows for us. That hasn't been a problem in our operation.

Thirdly, this concept is important to dairying or any business. Whether it be washing cars or selling shoes, I want my operation as simply as I possible can. It's got to be simple. I run my operation so simple that a high school kid can run it. Because right now, a high school kid is running it.

Today, we fed 165 head of pure bred holsteins of which 80-85 are milkers. We did it all with one 35 horse power tractor with a bucket on it. We do all the cleaning, feeding and bedding with one tractor. Contrast that with my counterparts who have invested in silos, mixture wagons, consultants, computer feeders, how can they compete? My operation is simple. I haven't changed my feed program in seven years. It's the same ingredients. Corn silage, wet Brewers grain and I buy a protein mix from my grain company.

I feel good about what I do. Everyday I make milk. The dairy comes and picks it up. They homogenize it and pasteurize it and bottle it. They take it to the store. Mothers go to the store, they buy the milk, they take it home and feed it to their children, and it gives them life. This is a noble experience, and it's a noble enterprise. We have a quarter of a billion people in this country and every one of them have a special need for dairy products, every day.

The experts tell me that the world standard of living will double in the next thirty to forty years. Never before has it happened so quickly. But, as we raise the level of the standard of living of the world, these people are going to want more food and better food, more beef and dairy products, more VCR's and trips to Honolulu. They are going to want them and demand them and they will have the wealth to pay for them.

My advice to anyone interested in getting into the dairy industry is to follow my simple steps. If I had my youth again, I would be looking for some of these buyout farms. Many of these older farmers, in their fifties and sixties have kept all their machinery and land. Their farms are just sitting there. They have the dream that one day they'll milk cows again. Their wife will say "No". They've got their money in CD's, collecting checks. I would try to find someone and approach them and say, "Look. Let me rent your facilities, just your milking barn and your milk room. I'll give you the manure and you produce the feed for me and I'll send you a check every month." When he finishes in the fall, he'll go back to Florida and collect his feed checks. He can get out here in the summertime and put the hay in, just like he's always done. He doesn't have the constant burden of a herd of cows to take care of. And I think that this is the way for some young people to get into this business. Also, you can find a farmer that might need some help. Maybe he has two or three sons who aren't interested in the dairy, go in there and start working for him and say, "Look. I'll help you out, you help me out. You're in your late fifties, you'll probably want to retire in the next six to eight to ten years, how about selling me your farm?" If you helped him for ten years, he'll sell it to you right. That's an edge you'll have.

Finally, let me say that, I watched the graphs this morning as the economists came up, and talked about what direction the dairy industry is going. Let me just say that, they don't know what way the milk prices are going to be in 1993 and 1994. So many things can change between now
and then. After all, what's the growing season going to be this year in this country? Does anybody know? Raise your hand if you know what the growing season is going to be like in this country. Nobody knows. The weather forecasters, back in Vermont, can't tell me what the weather is going to be friday.

All the dairymen that are in here, take your family back to the farm. Concentrate on making a quality product. If you can establish a reputation as a quality producer, the dairies will come to you. Number two - pay off the mortgage, that's the only road to freedom. My goal is zero debt. And three - have fun in dairying, because that's what it's all about. Take your family and go back to that nice operation and make food for the american people. That is great satisfaction. Remember - if you work hard and you're dedicated to what you do, you'll get your just reward.

Thank you.
Assessing the Northeast Dairy Industry Needs for the 1990s:  
the University Role

Robert D. Yonkers  
Penn State University

Read into this what you will, but the fact is the newest (and probably the youngest) northeastern Land Grant University faculty member with dairy responsibilities stands before you. The program committee may have wanted to showcase the new kid on the block; or, I may have been chosen due to my vast knowledge of the northeast dairy industry (however, I should point out I have spent the last ten years in Texas); or, they may have hoped I would be naive enough of an ag economist to actually say something of substance. You will have to be the judge.

I would like to be able to tell you what Land Grant Universities can do for you, but my job responsibilities do not include committing resources (such are the responsibilities of Land Grant administrators). I could also just describe past program accomplishments and discuss areas for future program emphasis to serve the northeast dairy industry. Instead, I would like to focus my brief time here to describe the changing structure of Land Grant Universities and to provide some insights into the developing framework in which we operate entering the 1990s. Four areas are particularly relevant for discussion:

1. The Land Grant resource base and support for agriculture.
2. The definition of agriculture.
3. The role of agricultural applied research and extension.
4. The Land Grant approach to agricultural problems and issues.

Across the country, many individuals and groups point to declining Land Grant resources and support for traditional agriculture as major problems. However, in this region especially, these are merely symptoms—caused in part by a decline in northeast agriculture; land, farms, employment, population. The traditional farm coalition barely functions at the national level, let alone in states where traditional agriculture has declined. It is difficult to expect support for Land Grants to continue at the same level and allocation if there is less and less traditional agriculture to be served by the system.

Now, we could bring this issue full-circle by arguing that the decline in northeast agriculture is due to the decline in Land Grant resources. However, my charge is to look ahead, not behind; given this “lemon,” can we make lemonade, and if so, how? Personally, I would not have accepted employment at a northeastern Land Grant were I pessimistic about this issue. In addition, contacts I have made to date with my peers in the region lead me to believe that, while lemons are tough to grow here, we should be able to make lemonade. One observation sticks in my mind. I have talked with many individuals in the northeast dairy industry, particularly those associated with cooperatives. One message is continually repeated; despite perceived vested interests, we need more horizontal cooperation among regional dairy coops and more vertical cooperation with others in the regional marketing chain. The same holds true for the region’s Land Grants, and I think we are moving in that direction.

On another front, the term agriculture historically defined the production of food and fiber and little more. Today, Land Grant resources designated for agriculture are often allocated for such non-traditional agricultural topics as natural resource management, nutrition and food safety, and rural, community and even urban development. This is very closely related to the decline in traditional agriculture discussed above. The Land Grant’s role is to serve the population; so as fewer people become less directly involved in traditional agriculture, survival of the system.
depends on changing programs to meet changing needs in order to continue old or obtain new funding.

Many view this as a threat, but it could also be an opportunity. If more people are affected positively by the Land Grant system, support for the system should continue or even grow. As long as the powers that be recognize that most, if not all, of the new topic areas covered by the term agriculture still relate back to the production of food and fiber, there will be support for important sub-sectors like the dairy industry.

Perhaps the area I feel most qualified (the term is relative) to discuss is the role of agricultural applied research and extension, since those are my job responsibilities. My role, as is being conveyed to me by department, college and university administrators, is different than that taught as few as ten years ago. I do not work for the federal or state extension service nor experiment station. As I just recently learned myself, I work solely for Penn State University, and my continued employment depends on reviews by my peers. My teaching is done off-campus, outside the classroom, but may be evaluated by another faculty member who never had an extension appointment. My research is not evaluated based solely on its application to the state's or region's dairy industry, but rather on its contribution to my professional discipline (agricultural economics).

That said, the new and old roles are not mutually exclusive, but some differences exist. The role of Land Grants is to provide educational programming and conduct research in support of such programs. Our mission is not to advocate positions, but rather to define the consequences of alternative decisions facing our clientele. Such consequences are not presented in terms of black and white, pro and con, since these require value judgments which are left to the audience.

For example, over fifty years ago Congress began to pass legislation which today defines the programs and structures of the dairy industry. Land Grant dairy economists chose to and/or were told to encourage the dairy industry to form collective bargaining groups and Federal Orders. Today, dairy producers still face alternatives involving cooperatives and Federal Orders about which they must make decisions. The Land Grants' role is to provide information to aid the decision process, and to serve as a resource as individuals and groups attempt to implement their own decisions.

The Land Grant system is taking the expanded definition of agriculture and developing a more industry-wide approach. In the dairy industry, this includes milk handlers and processors, wholesalers, retailers, and consumers, as well as the traditional clientele, the production sector. Were I to publicly encourage farmers to join or form a cooperative, the Dean's office would most certainly receive letters from independent handlers, which I would never see, but which would be put in my file and reviewed at tenure time.

Another emerging Land Grant philosophy, more evident in this region of the country than some others, is that agriculture, by any definition, does not drastically change at political boundaries like state lines. This is a real opportunity for the northeast dairy industry during times of reduced Land Grant resources and/or non-traditional allocations of support. This view by administrators is very consistent with the feelings among faculty in the region that cooperation among universities in research and extension programs is critical to the continued health of the northeast dairy industry.

In summary, the message, delivery, and audience of Land Grant Universities will continue to change and evolve in the 1990s. There has been and will continue to be an increasing emphasis on the economics of the entire agricultural sector, rather than on the production of more food and fiber. Expect Land Grants to encompass a broader view of agriculture and be more responsive to the needs of all society, not just farmers. Last, but not least, Land Grants may provide the last
bastion of issue neutrality, especially as structure, technology and policy debates are more and more carried into every household in the country.

Most of you in the audience have years of experience in the northeast dairy industry, including many contacts over the years with the Land Grant University system. I am certain you each have perceptions regarding the role of the Land Grants toward the dairy industry, and these may be at odds with some or all of my comments here today. For the sake of young professionals in the Land Grant system like myself, I ask only that you come away with an awareness of the changes which have and are going on, and an understanding on your part if we do not perform just like our predecessors.
Good afternoon.

This role of doing the summation is a little bit different for me. When I first saw it on the program, I said, "Gee, that's easy because I don't have to prepare for it." And, I didn't have to sweat it out this weekend, the way Gordon did in terms of having something down on paper. But the other side of this role is that about five minutes from when Quentin finished up, my pulse began to race a little bit as I realized I had to somehow put all of this together and make it all sound coherent in a short period of time.

Well, for a couple of minutes, I thought that maybe what I was going to do is share 15 minutes worth of economist jokes with you, but I really don't have that many. So, I got thinking a little bit, and I have prepared a few thoughts.

Actually, I think our panel this afternoon has done a great job. It started with painting the big picture that Norm Harvey brought us from the Dairy Leadership Group, and then looking at a day-to-day producer viewpoint of things—I think it all comes together very nicely.

This is how I put it together. Let me try it out on you.

First of all, from listening to three different speakers, it is very clear that there are a lot of different paths and strategies for dairy farming success in the Northeast. We all know this, but we need to be reminded of it from time to time. I guess the old saying is "different strokes for different folks." We heard three much different ways of going about the process of dairy farm organization and management. All three of them are very successful in their own right. Nothing wrong in any of them. Again, I think that is one of the beauties, and also the strengths, of our dairy industry here in the Northeast. We do have a lot of diversity, and there are different answers for how to go about doing it.

Second, I heard all three speakers, in different terms and different examples, mention the importance of careful use of capital and wise use of debt. Of course, I would hear that because that is very important to us at Farm Credit. I think it is a very important part of looking at the agricultural picture here in the Northeast—not just dairy, but for all of agriculture. We did not have the wrenching problems that the Midwest had in the 1980s in terms of farm debt and financial stress. That was a real plug for us, and that's a lesson we should never, never, never forget. Debt is very much like aspirin—the right dosage can do wonderful things, but too much of it can kill you. So that was an issue that came out very well from all three speakers.

The third point. Norm Harvey talked about the importance of farm management. Of course, when listening to three producers, you do get a lot of different nuances on day-to-day aspects of farm management. Think about the complexity of the different farm management alternatives that are out there. And, again, the continuum of approaches that individual producers take in dealing with the complexity of farm management. Every week, farm management is getting more and more complicated and is changing at an ever-increasing rate. A couple of panelists stressed the use of consultants as a way of tapping into specialized kinds of help and knowledge, whether it be farm management or nutrition or other aspects. Quentin seemed to have a little bit different approach. One of his answers was to "keep it simple." I don't know if you are familiar with Tom
Peters or not. He calls this very basic management theory the "KISS" principle. "KISS" stands for "keep it simple stupid." You were a little bit more polite about it today, Quentin. But, it is the same concept of specializing in what you do best and letting other people do what they do best, and therefore arriving at the same excellent results as being a generalist and using consultants. But either way, it is again a matter of addressing the issue successfully rather than your particular strategy for doing it.

The fourth issue that I heard in the discussion today is farm labor. This is an overriding issue in all of Northeast agriculture. While I suspect it's going to ease a little bit in the next year or two as people come back from construction and some manufacturing jobs, long-term, it is going to be one of the issues that really makes or breaks who is successful in agriculture and who isn't. Getting the labor, and managing it successfully to make it pay for itself, will be critical to success in the 1990s.

I think it is a lot easier to talk about the labor problem than it is to talk about the solution and the cure. We heard some differing approaches as to how to do that. Again, all of them innovative in their own right, but ranging from doing a better job of attracting help to positioning yourself in such a way that you don't need a lot of labor, especially a lot of skilled labor.

The fifth item that I have on my list is the environmental issue. Certainly that is something that is becoming more and more prevalent in Northeast agriculture. And I think we are just beginning with that issue, rather than experiencing something that will pass in a year or two. It seems to be an evolving set of issues as I listened to Gordon Lamb describe his experiences in this area. We are getting smarter and smarter about environmental issues all the time. The "state of the art" and the knowledge base is coming along very rapidly. But I suspect that when we are 5 or 10 years farther down the road, we are going to look back and way, "Gee, we didn't know very much about some of those things in 1990."

Both Gordon and Sam have combination dairy and cropping enterprises. I read their approach as being sensitive to the environmental issue. In other words, they are doing things to understand the direct impact—monitoring groundwater for nitrate levels, for example. But also trying to be responsive to it, rather than saying "Gee, it's not a problem; it's my land, and I'll do as I please." They were trying to be responsive and trying to address the issue before it became a regulatory problem. I think that there is a big lesson in that approach for all of agriculture.

The sixth issue that I heard today was the importance of a high-quality product. I wish I could have remembered all of the one-liners that these three speakers used today, but I really liked Quentin's phrase "slave to the consumer." When it really comes down to brass tacks, that's what this business is all about. We are all slaves to consumers. We brag and take a lot of comfort in the high image that dairy products have among consumers, and that's very true. But we need to remind ourselves that we need to keep working on our consumer image and that we can't ever rest on our laurels. Obviously, the antibiotic residue issue and the consumer perception of what bST is all about are going to be very important in terms of maintaining the high consumer image of dairy products.

Now, let's go back to what Norm Harvey said in terms of some of the marketing issues. He didn't talk a lot at the producer level about marketing. He did talk about affiliations to a particular cooperative or handler. It seems to me that this is logical because at a producer level, on a day-to-day basis, marketing is something that is pretty remote. It's off the farm; really it's the processes that occur after that truck pulls away from the bulk tank. Most of the marketing occurs from then on and is not visible and, therefore, is kind of hard for the individual producer to get a handle on. Certainly, this is a very, very influential item on the entire list of issues, because after all is said and done, that 25 cents or 50 cents or a dollar on the milk price is critical. Marketing and the
challenge of not being able to do much about it at the individual farm, but as an industry needing to get together to be successful and influential, is a very important issue.

The final item on my list is something that we don't talk about very much in programs like this. Again, I think we all know it's there, but I'm not sure we remind ourselves of the importance of it as much. I call it the human side of agriculture. Especially the human side of family farm agriculture which prevails in our part of the country. All three speakers spoke to it in a very low-key way, but it was woven into all of their comments. That is the importance of family participation in farm production. And I just suspect that if we were a conference of steel manufacturers, the involvement of family probably would not come up very often.

Entrepreneurship is also important. It's a term that we don't use very much in agriculture, but if you think in terms of successful family farm agriculture, it is very much an entrepreneurial undertaking. In that mix of rationales for farming that Gordon referred to, entrepreneurship certainly is very much a factor among many farmers.

There is another aspect that comes out of all this, and it is important that it's being said. And that's the importance of having fun and having pride in what it is you're all about. We do have a great product in this industry. I think when we learn more about this environmental issue, we're going to be able to demonstrate that well-managed dairy farming make important environmental contributions rather than environmental problems—that it's a good way to use resources and replenish the atmosphere and groundwater. I think the aspect of fun and pride is very important. While it may be difficult to have fun when you don't have the price you need, you certainly need a balance between the two to be satisfied in agriculture.

With that, I want to turn it back to Bob Yonkers. I think that this has been a great panel discussion today. It's been very eloquent and very close to home. I know these experiences and outlooks are a lot more relevant to the vast majority of this audience than hearing from another agricultural economist. So I want to add my thanks to these excellent panelists today.

Thank you very much.
Strategies for Maintaining a Vital Northeast Dairy Industry:
Marketing Issues & Opportunities

John I. Fridirici
Johanna Dairies, Inc.

As Clyde mentioned, Kurt Goldman could not be here today. As Director of Strategic Analysis I am here, filling in for Kurt - quite a change. As I spoke with some of you in the hall yesterday I might go so far as to say you were surprised, given the long history of cooperative work with which I have been associated. I am happy to be here and a part of a fine conference.

As Johanna is not known to many of you, I want to tell you a bit about who we are. It helps to have a perspective of the Company as you hear my comments.

Johanna is a division of a publicly-owned company, employing 3,000 persons at eight plants in New Jersey, New York, Pennsylvania and Maryland. Class I fluid sales dominate everything we do; 85% to 90% of our sales are fluid milk sales. We sell 4 million quarts of milk every day, 3.2 billion pounds of milk annually.

The milk is supplied to us - 70% from the major cooperatives in the Northeast including the Middle Atlantic States. The rest is supplied by 1,200 producers/shippers directly to our plants.

As one of the major players in the Northeast Dairy Industry, Johanna has a commitment to the viability of the industry. The health of producers and the health of Johanna are very closely intertwined.

Without a healthy producer base in the Northeast, Johanna cannot operate. Likewise, I will highlight, fluid processing and sales are fundamental to the health of the Northeast dairy economy.

My training is in marketing and food distribution, with an emphasis on management. And, as I am in Upstate New York, that training was done at Cornell. Dr. Story, known to many of you, was my advisor and Dr. Aplin was Chairman of my graduate committee. My thesis, Labor Productivity in Fluid Milk Plants, was not a best seller, but did thoroughly introduce me to the fluid milk industry in 1971. I have been near it or in it ever since.

As a Strategic Planner I look for the fundamentals of an issue rather than focus on the issues being thrashed about in the marketplace. The free market is great, but the natural conflict of supply and demand can confuse. To focus on fundamentals helps avoid reacting inappropriately to the symptoms of the problem and gives one a basis to set the priorities of conflicting points of view. As an example of looking beyond symptoms...

I race a TR-3 in vintage auto events. Two years ago I scored the main bearings. I changed them. Last year they scored again. The question was, "Are the bearings the problem or the result/symptom of the real problem?" I could have gone on replacing bearings after each run, but that was not an acceptable solution. I needed to know why the bearings failed.

The Dairy Industry has issues and concerns, and we need to separate the symptoms of the problem from the cause. We can continually fix symptoms until the industry dies of the real issues. We need priorities; we need to evaluate the basics, allowing us to be more effective in our search for answers.
Back to the TR-3, the issue was not the bearings, it was the oil pressure. And the oil pressure problem was not the oil pump, it was the need for another oil cooler. I could have changed bearings, brand of oil, but until I dealt with the real problem, cooling, I did not have a lasting solution.

I suggest economics offers a framework for setting priorities. Economics looks for fundamentals of competitive advantage as it evaluates a market. Businesses apply this fundamental looking for ways to gain advantage through differentiation, size and/or technology. Economic advantage is defined as comparative or absolute.

A competitive advantage, such as location, is one which the region can exploit, but one which can be offset. I suggest the cheese business is an activity in which the Northeast has a location advantage. But other factors, efficiency of production, assembly, and distribution make that advantage a comparative advantage. Others, such as California, Wisconsin, for example, can duplicate the cheese business, supplying the Northeast markets with product.

An absolute advantage is never perfect, but is an advantage the competition cannot duplicate. I suggest the location advantage applied to the fluid industry is that kind of advantage for the Northeast. The industry must maintain that advantage. Nothing is perfect. Neglect or abuse of an advantage, even if absolute, can render it ineffective.

The location of our industry, relative to the largest consumer market in the world, is an absolute advantage. We must foster this advantage.

The bulky, perishable nature of milk, gives farms and plants in the Northeast Location Utility. It is expensive to move the milk in fluid form. Therefore, nearby farms and plants have an advantage, an absolute advantage over farms and plants more distant from the market. We see it within the region. Labatt saw it when looking at the world for investment opportunity.

As the issues of the marketplace blow to and fro, turning on weather, quality of forage, orders, licensing, sanitation, premiums, new products, etc., we must relate the issues to the fundamentals of economic advantage, things like location, scale and quality to name a few.

A serious threat to our advantage is our history of local issues, local markets, small operations and local solutions. I grew up in a town, population then of about 2,000, now served by Johanna’s Pennsylvania division. We had three dairies doing home delivery, each delivered to my house. I might add.

The legacy of local orientation continued in the licensing programs, sanitation regulations, and farm inspection programs established at the County, State and Federal levels. The programs are important and back then the local orientation was all that was needed. But times have changed. The farms are larger, supermarkets and milk companies compete on a broader scale, milk moves vast distances, particularly as manufactured product—though distance no longer limits fluid product movement. Fast-food chains move fluid milk to distant markets in direct delivery systems.

A local orientation hides the larger issues of survival, but the market fundamentals of comparative advantage continue to operate. We must not hinder the market. We must not frustrate its efforts to allocate resources and meet needs.

The basic economics of competitive advantage can be frustrated, they can be neglected, they can be lost, but they cannot be denied. We, the dairy industry, must confirm the fundamentals of what we are about. Meetings such as this help us do that.

I need to come back to my earlier discussion of the TR-3 and racing.
There are rules governing the engine, tires, age of the car, and most important, conduct on the track. Within the accepted rules, much variety of car and style of driving are encouraged. Competition is fostered. The fundamentals are clearly communicated to and accepted by the drivers. We strive, as we see fit, to be successful within the reasonable guidelines. Running a car with illegal modifications, might score points, but will ultimately, if it becomes the norm, destroy the sport. I participate wholeheartedly, but if I race off against traffic I will destroy my car and those I might meet coming the other way.

Likewise, a marketplace must be able to identify how its product is priced, the factors influencing the price, the players, and the basic economics of supply and demand. This is critical, given the varying degrees of regulation present in the Northeast milk industry.

Fluid processors serving the Northeast corridor from New York to Washington, D.C. are running to catch up. The economic fundamentals of food marketing, distribution and technology have rushed ahead of market-order changes, regulation, and licensing, leaping state lines and cutting quite a swath through the Northeast. Yet, three Federal Orders with significant differences regulate the market.

The marketplace, while not perfect, is good at allocating resources and activities. Those changes which get bottled-up usually compress the process of change. But, if held up too long, other areas of the Country or World get a head start, which can be an advantage for them and difficult to overcome.

A viable Northeast Dairy Industry must build on a solid foundation of efficient farms, plants and distribution systems, providing quality service and quality products able to compete regionally, nationally and globally.

A viable Northeast Dairy Industry must embrace a clear definition of the region's competitive advantage, and the linkages which can leverage that advantage for the industry. To do otherwise continues a very narrow focus, subjecting the industry to excessive fragmentation, frustrating economies of scale, slowing new investment and hindering efficiency.

The location utility of milk used in fluid sales drives a fundamental economic advantage of the Northeast versus the rest of the Country, an advantage which commands a premium.

Acting MA, Dr. Norm Garber, highlighted statistics, at the recent New York State Cheese Manufacturers Annual Meeting, of payments made to manufacturers from Class I processors. Dr. Garber based his comments on 1988 data and the Class I differential of $2.55.

He noted, during the year the difference of the blend price and Class II averaged $0.84. This money was paid by Class I handlers to manufacturers via the market administrators offices and distributed via the manufacturers to farmers, who received the Order 2 blend price. The total dollar amount was $55,321,271.

Using Dr. Garber's number, that was $0.84 year-round in 1988, to all farmers on all milk, from the sale of fluid milk--over $55,000,000--8,400 annually to a million pound producer.

Dr. Garber went on to note an objective of the funds and the Order is to ensure an adequate reserve milk supply is available to serve the fluid market. Manufacturing plants voluntarily affiliate with the Order to have benefit of pooling their milk with the higher Class I sales. They, in turn, have a responsibility driven by this $55 million benefit to insure the availability of milk to the fluid market. Norm's statements are consistent with the fundamentals of location utility and, I might
add, the need to foster the absolute advantage the region has in the marketing of fluid milk. There are sound economics fundamentals trying to work in the Federal Order System.

Like so many other things in life, too much of a good thing can be deadly. These fundamentals can be overworked. For example, leveraging the well being of all farms pooled, on fluid milk, is not sustainable, particularly, when for the higher premiums, the fluid industry is not assured milk. Recent premiums have been distributed throughout the milk shed and fluid processors then challenged to pay even higher premiums for their own needs, be they seasonal or year-over-year. This is destructive. Margins suffer and volumes drop. The fluid industry is weakened. Recent statistics suggest a serious downturn in consumption of fluid milk occurred this Fall, at least partly attributable to the rapid price increases. The very heart of our advantage, fluid sales, is eroded when this happens.

The undisciplined scramble for milk supplies in the Northeast and the problems of the milk shed overlap, particularly as relates to Order 1 and 2, are unhealthy situations. Ultimately weakening the dairy industry in the Northeast, minimally, damaging the attractiveness of the region for additional investment on the farm or in the plant.

The change we are experiencing is dramatic. The conflicts created are part of the solution. We must not allow the particulars of the situation to overshadow the direction in which we must be headed. If the race is to be run, we must agree on the fundamentals which provide direction for what we are doing.

Together, Johanna believes, we can build for the future. Individually, the pieces cannot survive. The competitive advantage of the fluid market is which Johanna lives in must be leveraged, not destroyed. A priority can give focus, a point of consensus, and thereby help provide meaning to the apparent chaos of the marketplace.

I conclude, the unifying focus, the priority of the Northeast dairy industry is found in the absolute advantage we have in the marketing of fluid milk. Let us not destroy it.

Thank you.
Strategies For Maintaining A Vital Northeast Dairy Industry: Marketing Issues and Opportunities

Wesley Allen
Leprino Foods, Inc.

I thank you for being invited to your 1990 Annual Northeastern Dairy Conference and for the opportunity to share with you my thoughts on the subject of "Strategies For Maintaining A Vital Northeast Dairy Industry: Marketing Issues and Opportunities."

I think for us to properly discuss this subject we must first look at the national dairy situation before we more specifically discuss the Northeast.

The decade of the 70s was one where the government, due to political reasons, administered the support program in an irresponsible manner. Part of this irresponsibility probably can be shared to a certain degree by dairy cooperatives that spent a lot of time, money and effort in exerting pressure on politicians to routinely and frequently increase dairy support prices. We all know what resulted.

Higher prices that increased routinely created a false security blanket that encouraged bankers to supply the resources to eager dairymen to steadily increase milk production.

These increases were not market driven resulting in upward spiraling costs to the government and to the tax payer that inevitably became an unrealistic and unreasonable burden.

The decade of the 80s was a very painful, almost "cold turkey," period of adjustment for both producers and for manufacturers but mostly to producers. Support prices were reduced in a series of decreases in an attempt to reduce the cost to the government and to reach a support price level where free market forces would be the prime force to move prices.

Now the question is what is the dairy situation going to be in the decade of the 90s? To answer that question, let me share with you my observations based upon Leprino Foods Company's participation in the national markets from coast to coast.

First, the supply and the demand for dairy products is in very close balance. This statement can be substantiated by the following observations:

1. CCC purchases for fiscal 1989 were at their lowest level in many years. On a solids basis, they were approximately 23% of the average '85 & '86 levels and approximately 42% of the substantially lower average '87 and '88 levels. In fact, had the 5 billion milk equivalent support price trigger level been expressed on a milk solids basis, it would have been 33% below the trigger mark for fiscal 1989.

2. Cheese and non-fat dried milk were in short supply and at all time high price levels during the fall and winter of 1989.

3. The shifting of milk supply resources from what had in the recent past been less economically viable products to more economically viable products finally reached a point in the fall and winter of 1989 that prices for previously less economically viable products increased to levels that caused them to be more economically viable than the products shifted to. Prime examples would be block cheddar compared to barrel cheddar and non-fat powder compared to cheese.
This points out that there is a basic level of demand for dairy products that when the supply shrinks below demand levels, unanswered demand will drive prices upward on these products until supply can satisfy that basic demand.

4. Even though prices for cheese and non-fat dried milk took substantial nose dives in January and February they have actually increased in March. These increases in March are due to supply and demand being in better balance than some people would want us to think. In my opinion, cheese prices should not have gone below $1.30 a pound during the spring and summer of 1990 due to the supply demand balance.

Yes, our evaluation of market conditions was shaken when the block cheese market of February 2nd decreased from $1.3975 to $1.2525. However, isn't it interesting that the market of March 30th increased the block cheese price to $1.2775.

My second point in evaluating the dairy situation in the decade of the 90s is that both producers and manufacturers do not know how to conduct themselves under market driven conditions, thus causing too much volatility in both milk and manufactured dairy product prices.

I guess that should not be too surprising. After all, it has been approximately twenty years since producers and manufacturers have been in a market-driven environment.

I am hopeful, however, that given more time in this new environment that both producers and manufacturers will learn early in this decade that such volatility is not healthy for either of us, and that more stable, substantially less volatile conditions will prevail.

Producers must learn not to push basic milk prices and/or premiums too fast or unreasonably. Also, certain manufacturers must learn that forcing prices down unreasonably is not sound and will be more costly when taking a longer range view at market conditions.

My third point in evaluating the dairy situation during the decade of the 90s is that the government will realize that its goal of a market-driven dairy economy has been realized, and continued over-correction of dairy supports is not necessary or desirable.

I believe that it is very important that dairy cooperatives be successful in the 1990 farm bill to have government measure milk equivalent purchases on a solids basis and not on the present totally inaccurate milk equivalent basis. The present method is incorrect and simply wrong.

It is also important to have the government recognize that a five billion trigger level is just too tight of a measurement for even a market-driven dairy industry to efficiently operate within when considering real life seasonal production and demand patterns. The trigger level should certainly be increased to approximately five percent of the total U.S. milk production equivalent basis.

Using this percentage would allow the present trigger level to increase to approximately a seven billion pound equivalent. It would recognize that this trigger level should increase or decrease as a function of total milk production which is also more practical.

My fourth and final point in evaluating the dairy situation in the 90s is that total demand for dairy products will continue to increase at a steady, reasonably good rate. These increases will mainly be driven by a continuing healthy growing demand for cheese products.

To summarize, I believe that during the decade of the 90s, the dairy industry will be truly market-driven, for the first time in twenty years and that producers and manufacturers will have ample opportunities for growth and prosperity.
Now, what does this mean to the Northeastern Dairy Industry? To answer that, let us first get down to basics and look at the Northeastern market.

The largest population base in the United States is domiciled in the Northeast. This translates into a very large basic fluid demand. This fluid demand has to be supplied by Northeastern producers. It is not going to come from the milk deficit South and certainly not from the Midwestern region.

Just as basic as that fluid demand is, equally as basic is the fact that fluid prices will have to be sufficient enough to stimulate Northeastern producers to produce sufficient quantities of milk to satisfy the Northeastern fluid market.

These basic fluid supply and demand economic dynamics should represent a substantial security blanket to Northeastern producers.

If any region has a large fluid milk demand base it almost automatically has a large volume of milk available for manufacturing. This is due to the seasonal demand for fluid products versus the seasonal production cycle of cows. It is also due to most fluid plants operating five days per week which is two days per week short of the cows' operating days per week.

It is almost mathematically impossible for a large fluid milk region to not have at least 40 to 50 percent of its milk produced available for manufacturing.

It is important to producers and to fluid processors that the most economically viable manufactured dairy products and the most economically efficient dairy manufacturing plants be located in their milk region. If this is not the case, prices for fluid milk can be seriously eroded. This would be due to the manufacturing segment not being capable of adequately contributing to the blend price needed to provide proper levels of payments to producers to stimulate the level of total milk production required for the region.

Some manufactured dairy products are significantly more price elastic than others. This is due to some products being regional in production and regional in consumption. The best example in the Northeast of such a product is ricotta cheese. The style of ricotta cheese manufactured and consumed in the Northeast is substantially different than the ricotta found in both Chicago and California by example. This product in the Northeast is much more price elastic than other manufactured dairy products. Prices for these products can increase with increases in milk prices and premiums much more easily than other manufactured products. These price increases are easily passed on to consumers.

Other manufactured products are unique to the area and are also fairly price elastic. The prime example here in the Northeast of such a product is New York cheddar. The concern, however, has to be that consumers don't stop consumption of such a unique product because price differentials between New York cheddar and other cheddar becomes too great. A substantial number of consumers will draw a line with what they are willing to pay for the uniqueness of New York cheddar when price differentials become too great.

Some manufactured dairy products that have traditionally enjoyed what might be called a "niche" market for regional manufacturers have also enjoyed elastic prices. The problem is that if the product is fairly easily made by a number of manufacturers outside the region, "niche" markets can be deluged with competition when prices become too inviting to outside competition.

A very current example of this phenomenon is whole milk powder. Until recently, two Northeastern manufacturers have enjoyed almost all of the whole milk powder business from the confectionery industry in Pennsylvania. Increases in their prices in response to all time high milk
premiums this fall and winter made whole milk powder too attractive and inviting. Competitors from both Wisconsin and as far away as California are now serious competitors. Because of this, these Northeastern manufacturers will find it much more difficult to employ elastic prices in the future and have lost volume to these new competitors.

The bottom line on even manufactured dairy products with somewhat elastic prices is that the total volume of milk needed to manufacture these products is far less than the total available in the Northeast.

Thus, high volume demand manufactured dairy products that are sold into national markets are very necessary to consume the total milk available in the Northeastern region.

While these products, such as American and Italian cheese, are some of the highest volume products sold in the United States, they are usually sold to large customers on a single national price basis. That makes them insensitive and inelastic to regional differences in milk prices and particularly to runaway high milk premiums.

Leprino Foods Company's three largest customers will collectively buy in excess of three hundred and fifty million pounds of mozzarella cheese this year or, an equivalent of three and a half billion pounds of milk. Their operations are from coast to coast and thus they will take delivery in a multitude of different states. Leprino Foods and our competitors will make all sales to these customers at a single national price.

This pricing practice is the same employed by Kraft and Schreiber when selling to large national users of processed American cheese such as McDonald's and Burger King.

Now that we have examined the basic economic forces of the Northeastern market, what is the decade of the 90s going to specifically be like in the Northeast?

I believe that due to dairy products' supply/demand balance on a national basis that prices will be market-driven and that the basic federal order prices for Northeastern milk will be strong. This will represent the best decade of economic opportunities to producers in twenty years.

Fluid consumption will continue to be a very important force in the Northeast. Fluid needs will represent additional opportunities to producers as growth in total Northeastern production becomes even more important for fluid processors to accommodate demand season to season without having to rely on the annual enacting of the Orders' call provisions.

The need for manufactured dairy products with a national demand will grow at a much greater rate than those manufactured dairy products with local or "niche" markets.

Leprino Foods Company feels that the demand in the 90s for mozzarella cheese will grow at the rate of eight percent compounded annually. Although the final decision has not been made at this date, we believe McDonald's will make the decision to market pizza nationwide based upon what appears to be favorable results from their 200 stores now in that market.

Our Company's annual growth from 1990 to 1995 is projected to require our contracted milk supplies to grow by six hundred million pounds of milk per year.

It will be very important to Northeastern producers to have an appreciation for the important role that national demand for manufactured dairy products plays in maximizing their return in the Northeast. Producers must be knowledgeable and realistic concerning those markets. They must understand that the Northeastern market is too big not to have an active market share of these products.
Northeastern producers have every reason to be optimistic about the 90s. If they can psychologically change their current very pessimistic views, the worst case I've witnessed anywhere in the United States, and if they can approach the opportunities in a reasonable manner, the 90s will be a great decade for them.

I believe they'll do it right and regenerate the Northeast as one of the three great milk producing regions in the United States.
Food Safety: A Major Marketing Issue in 1990

M.H. Donovan
Eastern Milk Producers Coop. Assn., Inc.

The following sample of headlines have greeted American consumers as they opened up their Wall Street Journal, Washington Post, or New York Times over the past year.

Along with their first cup of coffee, many consumers were told, "don't drink your milk"—"milk cartons are poisoned with dioxin"—and that "antibiotics and sulfa drugs are present in the milk you are drinking."

Fact or fiction? Fact, generally. Milk packaged in waxed, chlorine-bleached paper containers can show traces of dioxin according to John Ryan, a researcher with the Food Research Division of the Health Protection Branch of Canada. Also, antibiotics and sulfa drug residues have been found in a significant number of milk samples purchased off supermarket shelves in major cities across the U.S.A.

While most of these articles are factual, what they lack is specific data which will allow the reader an opportunity to determine whether consuming milk or dairy products does place the individual at risk.

I was privileged recently to hear Professor Manfred Kroger of Penn State speak on the subject of food safety to participants at the Pennsylvania Directors School. He highlighted the tremendous advances in food safety which have occurred over the past 50 years and stated unequivocally that our food supply has never been safer than today. He stated that today's analytical testing equipment can detect contaminants at extremely low levels, which is one of the contributing factors to consumer confusion over questions of food safety.

Twenty years ago we measured in parts per thousand; then we measured in parts per million; and today we can detect and measure contaminants in parts per billion. He cited an example of standing over a full-size swimming pool with an eye dropper and adding individual drops as we count one-one billionth, two-one billionth, three-one billionth and so forth. Is three parts per billion of sulfa drug residue in milk a risk to the consumer's health? Not according to FDA which has set the acceptable level at 10 parts per billion and not according to the vast majority of the scientific community.

But the American consumer reading his or her Wall Street Journal was not informed that antibiotics and sulfa drugs found in the milk samples were at trace levels well within the tolerances set by FDA. It's little wonder, given this type of sensationalized reporting, that the alar scare occurred last year at this time.

Let's take a moment to review the alar scare and try to see if there are not some lessons to be learned from this unjustified crisis and resulting losses which were sustained by apple growers and processors. The alar controversy began in the early 1980s. In 1984, there were indications that alar might be a carcinogen; however, in 1985, a board of scientists advised EPA that the studies suggesting that alar might cause cancer were flawed and inconclusive. At that same time, the National Resources Defense Council, a consumer advocate environmental lobbying group, urged EPA to ban the chemical, a position that was rejected by EPA in 1987. That should have sent a message that alar does not pose a risk—but unfortunately EPA, yielding to pressures, decided to reduce the amount of alar residues acceptable on apples, which suggested that the substance was harmful.
In late February 1989, the CBS news show "60 Minutes" broadcast a segment stating that the presence of alar on apples was an "intolerable threat" that put one of every 4,200 pre-schoolers at risk for cancer. The report said that the EPA had known since 1985 about studies linking UDMH, a breakdown product of alar, to cancer in rats and had not acted to ban the substance. No mention was given of the scientific panel's earlier advice to EPA that the study was flawed and inconclusive.

The next day, NRDC followed with a general release on the subject and the results were immediate and dramatic! Apples and apple juice sales plummeted as parents, worried about the perceived threat to their children, stopped purchasing apple products. One supermarket pulled apple juice with barely detectable levels of alar which posed little or no health risk to consumers. The industry—growers and retailers alike—ran for cover in a desperate attempt to distance themselves from alar and cut their losses, which were already in the millions of dollars on lost sales.

Responding to why they pulled good products off their shelves, the supermarket spokesperson said, "we are dealing with perceptions here, we're not dealing with reality." One conclusion I have reached, based on the material I reviewed for this speech, is that we had better start dealing with reality if we hope to avoid total chaos in our industry and other segments of the food industry. The difficulty is—what is reality? What level of sulfara drugs or antibiotics in our milk supply is acceptable and does not pose any significant health hazard? What levels of pesticide residue on fruits and vegetables is acceptable? What testing methods should be employed in determining residue levels? These questions are not simply defined and are subject to varying opinions, many of which can be, and are, totally uninformed.

American consumers have come to expect an unlimited supply of attractive foodstuffs reasonably priced, and conveniently available. Our prosperity, coupled with the current wave of health consciousness, has led to unreasonable expectations and sometimes irrational calls for super health foods and a super-clean environment. The problem is further magnified by a general lack of scientific knowledge among the consuming public and growing discontent and skepticism toward federal agencies (i.e. FDA, EPA, etc.) who have historically been the gatekeepers on matters of food safety.

In an article in the Washington Post last October entitled, "Who's minding the store?" Carole Sugarman, a staff writer, suggested that the directing and guiding of food safety and nutritional policy for our country has shifted away from governmental agencies (FDA) and is increasingly guided by supermarkets, food companies, and private organizations. She cited as cases in point, five supermarket chains refusing to buy any milk or dairy products which come from herds which were on experimental bST trials; States becoming involved in drawing up their own food safety and labeling laws (most notably California's proposition 65), and actions by the Kellogg Company and the American Heart Association, to establish their own health messages and nutritional guideline policies in lieu of FDA action. She also cited the National Defense Council's role in the alar hysteria as further evidence of this undesirable trend.

It's little wonder that consumers are confused. Who are they to believe?? NRDC—who says that alar on apples is a hazard to our health—or the scientific community that disagrees? FDA that says bST poses no human health hazard, or Jeremy Rifkin and Dr. Epstein who claim otherwise?

Most of these debates revolve around risk assessments. What amount of alar residue on apples is acceptable to maximize crop efficiency and improved appearance and storability of red apples? What amounts of antibiotic or sulfur drug residuals are acceptable in milk to insure effective herd health maintenance? Opinions differ sharply on these questions, and it is in this area that FDA is often caught between a rock and a hard spot. Professor Manfred Kroger summarized it well recently when he wrote, "the problem of risk assessment lies in the fact that there is no
method of estimating risks that everyone finds appropriate, fair, or meaningful. Governments and activists alike may apply muddled statistical analysis to risk data to support the conclusions they intend to make. The media compounds the problem in being far too uncritical in their reporting of findings; whatever has dramatic impact and whoever creates the most drama are favored. The technologically illiterate consumer who naively insists on total food safety and zero risk is the ultimate loser." I differ with Professor Kroger only in my belief that the farmer is equally at risk with the consumer in the debate, which will result in either higher prices to consumers or lower returns to farmers and processors.

I believe that it is time that our industry take concrete steps to protect our farmers’ and processors’ interests in this swirling debate. FDA may be a slow-moving imperfect bureaucracy, but it is the best that we have. For all its purported and actual faults, it has played a significant role in insuring that the American public has the safest, most cost-effective food supply in the world. The alar mess shows all too clearly what happens when complicated scientific issues are allowed to be decided by a frightened public acting on incomplete and often erroneous press reports, rather than by public officials charged with protecting the public on the basis of hard scientific evidence. FDA Commissioner Frank Young put it well when he said, "you cannot do risk assessment by media, there has to be a real scientific process, and we have to be able to inform the American people when risks are real."

To be effective in this role, FDA must have our total support and backing. Not just when it is convenient and profitable, but at all times. I believe Kroger and the other chain stores erred when they yielded to pressures from Jeremy Rifkin and his foundation on economic trends, and announced that they would not accept milk from bST trial herds; FDA had cleared this milk as safe for human consumption, and Kroger undercut FDA and furthered Rifkin's cause by their actions. Attempts by Ben & Jerry's to commercialize the bST issue and by apple processors and chain stores to commercialize the alar scene fall into the same category—for that matter. Farmers who, because of concerns with the economic impact of bST, have actively supported Rifkin or ban bST movements, are also undercutting FDA at their long-range expense. As an industry, from top to bottom, we need to support FDA. This support should also include aggressive support for expanding FDA funding to insure that they have the necessary resources to accomplish their role in these challenging times.

The second thing that we can do is to clearly and effectively communicate the facts on issues concerning nutrition and food safety. We must be extremely careful to provide information that is based on scientific fact, research backed, reproducible, and time tested. We should also be prepared to challenge our critics and those who attack FDA to prove their contentions with broad-based scientific fact. I believe the apple industry's handling of the alar situation provides some examples of what not to do. We need to be prepared, and we need to be willing to play hard ball, including discrediting those who attempt to mislead and confuse consumers on critical questions of food safety.

Finally, we must continue to encourage the media to be extremely responsible in their handling of critical food safety issues. We must continue to provide clear, concise factual information through our cooperatives, National Milk Producers Federation, National Dairy Council and the Milk Industry Foundation to all interested parties. The vast majority of the press, especially the farm press who recognize the potential dangers to agriculture, have treated this subject very fairly and sensitively; however, the CBS handling of the alar issue and the Washington Post's continuing attacks on the dairy industry are extremely troubling.

Coleman McCarthy's column "don't drink your milk" in the February 17th edition of the Washington Post is a case in point. Coleman, in this article, attacks milk as unhealthy nutritionally for our children, attacks farmers for "enslaving cows for commercial gain", and states that cows "are shot through with so many drugs that milk ought to be sold as a prescription-only product".
Jim Barr, C.E.O. of National Milk Producers, responded on February 20th with a letter to the editor pointing out the errors and shortcomings of McCarthy's article, but the damage was done. I don't have an answer as to how we can work more effectively with the Washington Post, Wall Street Journal, and New York Times, to name a few, to insure a more balanced presentation of these sensitive issues, but we must try!

Our industry's image, and the pure unadulterated image of our major product—milk—has increasingly come under attack during the past decade. As an industry it is crucial that we take timely action to meet the threat. The decision nearly two years ago, by all members of National Milk Producers Federation to urge our members to discontinue the use of drugs containing sulfamethazine and to petition for it's withdrawal from the market is an example of timely response to an explosive issue. Moving in the direction of collecting butterfat surplus on the farm, rather than to attempt to market it in opposition to most nutritionist's recommendations is another healthy direction which is emerging. Food safety and nutrition will continue to be hot buttons in the 1990s and as such will enjoy a great deal of media exposure. We must be ready to effectively address these issues. We have the support of the majority of the scientific community; we have the weight of facts on our side; we have effective national organizations in National Milk Producers Federation, National Dairy Council, and the Milk Industry Foundation; and most importantly we enjoy the good will of the American consumer for our products. We have all the tools at our disposal—all we have to do is effectively employ them.

Thank you.
Strategies to Take Advantage of the Marketing Opportunities in the Northeast

Bill Davis
Cabot Farmers’ Cooperative Creamery Co., Inc.

Which would you like to hear first? The good news? Or the bad news?

Let me report the good news first:

1. Our farmers are enjoying the highest milk prices ever paid—contributing to the most profitable year of the decade.

2. Powdered milk was not only tight nationally, but also internationally for the first time in many decades.

3. Cheese consumption has continued to rise—albeit modestly.

4. On top of record prices, NE dairy farmers received unprecedented premiums from RCMA and unprecedented premiums from proprietors of dairy cooperatives.

5. The appearance of new items in the retail dairy case topped any levels in recent memory.

6. New lifestyles, new demands from consumers opened the doors for new dairy products as well as new dairy companies.

And now the bad news:

1. The M-W plummeted by a record amount in February.

2. CCC is purchasing record amounts of butter—owing to a dive in butter consumption of over 11.6% in one year.

3. A drop in dairy consumption was also felt in the core product lines of cottage cheese, ice cream and whole milk.

4. RCMA has suspended the collection of premiums.

5. With the deficit in the balance of trade, as well as the crippling federal deficit, the federal farm policy continues to trim milk price support levels.


Now, some of us took advantage of both the good news as well as the bad.

And some of us didn't do either. Most of us probably saw some of this coming and took steps to position our companies against ANY news—good or bad. But on balance, I contend that our dairy industry in the northeast has not taken full advantage of our potential. We are letting the news lead us around. We are not creating the news.
A little perspective on the news we are reacting to would be in order.

Three years ago I addressed this same conference on the changing structure of the northeast dairy products industry. It was crystal clear three years ago what a few key opportunities were going to be:

* Changing lifestyles would dictate lower fat, lower cholesterol dairy products. Accordingly, products meeting those needs were going to increase in demand by tremendous levels.

* Cheese consumption would continue to rise.

* Dairy farmers would be going out at alarming rates, shifting shortages in different parts of the northeast.

* Consolidation of food companies throughout the US would mandate supply organizations play a bigger role in the future of these organizations. Accordingly, cooperatives would have to consolidate to meet the demands of fewer players.

Agreeing among ourselves that this was the stage we performed on for the last three years, I'd give us a pretty lackluster review because we did not turn this news into opportunities for our regional industry. Instead, we've focused most of our collective efforts on member relations and policies in Washington.

In a typical news reporter's style, let me ask those of you in the audience that represent or are directors or managers of cooperatives a few questions for my next editorial:

* Have you taken the time to do strategic planning?

* Do you have a focus or emphasis on your operating structure that extends out over the next five years?

* Have you have consulted with your counterparts in other areas of the country to help you see what's coming from their point of view?

* Have you formed boards or associate boards with outside directors representing key areas of influence on your organization?

* Have you taken the time to develop relationships with your customers in order to look down the road together to determine how you both can win?

* Do you know your competition and customers as well as you should in order to remain responsive?

* Are you properly capitalized so that you can take chances, risk new ventures and/or new products or means of delivery?

* Do you spend as much time with your customers and employees in planning as you do going to conferences, industry meetings, local, state, regional, and national lobbying organizations?

The questions could go on. And the real point is: if we can't answer a resounding 'yes' to all of these questions, then we aren't developing the strategies that will keep us in a healthy business for the long-term. And tragically, the editorial cartoon that would accompany this news article on
our industry would probably picture a tidal wave of national and international influences washing over this very small universe called the northeast dairy industry.

It is quite frankly not good enough to be content with supplying the dairy farmer with a steady market for their product and a reliable paycheck every two weeks as the major mission of cooperatives. They will not make it on our rate of return.

And this focus on a reliable paycheck is a particularly short-term objective in a tight milk market. So is our focus on lobbying Washington. Both are a small part of what we must be prepared to bring to the discussion of our future. Admittedly, federal policy brought tremendous rewards over the last fifty years, however, we are heading, and have been heading, steadily toward a free market situation. And a free market isn't met with the supply side perspective only. A free market demands all sides of the product be developed in concert with all players—competitively positioned to cooperate to the fullest. Those of us who are seeing all sides will do well. Those of us who rely on a supply focus with a strong federal policy are going to be left behind.

So, what are the particular 'free market' descriptors in the northeast:

* Tremendous consolidation of retailers, employing highly sophisticated marketing strategies in highly expensive terms to the manufacturers
* Tremendous consolidation of processors, proprietary processors
* Tremendous growth and national penetration of our cheese companies
* Enviable access to the world's largest consumer markets

On our side, the side of the cooperatives, how do we relate?

* Little or limited consolidation
* Limited response to these changing retailers and proprietors

Clearly, we are not building the relationships we need to develop with all the participating players in our industry.

In a tight milk situation in the northeast, and the changing demands for the different components of our milk supply, NOW is the time we can make real news. Now is the best time I can imagine for the farmer organizations to enter into joint ventures with the proprietors in order to develop relationships that will outperform any other competitors in the dairy industry, anywhere in the U.S.. Think about the opportunities we could define:

* What about a relationship with proprietors serving metro markets? They are under severe restraints owing to shorter work weeks, the quality and wage of employees, the high cost of real estate, and the pressure to address environmental concerns. What have we got that they need and what do they have that we need? How can we work out a joint venture, where both sides can profit.

* What about the needs of manufacturing plants? They need the right kind of milk—high quality with the right components of high solids for certain products or low fat milk for bottling. We as dairy suppliers must meet that demand efficiently, economically—and ideally, cooperating on what gets delivered to whom, when and how. Each of us would benefit from a more systematic division of labor and component delivery.

If, in fact, we can meet these various needs, there are many others to be explored. Consider working toward the consolidation of surplus butterfat for a branded butter program (for both retail and food service), or developing new products that are more akin to freshness, seasonality, and
safety as premium products that can only be put together with the close coordination of supply, manufacturing, and marketing resources available in the northeast.

Then—and truly then we are each positioned to develop relationships where all sides are benefitting and should therefore give all sides a clearer stake in the success of the other. And the traditional functions performed by cooperatives such as seasonal balance and long-term milk supply agreements will gain greater value and importance.

With this kind of agenda, we can then participate in a free market context—with free market principals played out—with stakes where performance is its own best reward and the return on our investment is higher.

A gross example of the way we as dairy farmer organizations run our organizations without these kind of essential relationships is RCMA. Here we pulled together 22,000 diary farmers controlling huge blocks of milk and TOLD the customers what they were going to have to pay! We failed to include the customers and we failed to achieve our goals.

Any news reporter could have told us in hindsight that premium activity in the northeast on Class I milk side was too rich for the proprietors blood. A reporter would have been told what a dismal year the proprietors had and would have concluded that we were so intent on building a consensus among the farmers on what they would be paid, that we forgot ask how we could have worked our way around some of the heavy pricing issues facing the proprietors.

Clearly my point is that supply is only part of the equation for our business. Processing, distribution, retailing and the consumers are all part of our universe, or should be. Relationships that share the risk, structured to share the rewards, are relationships that will ensure our future. We can empower our customers with products in the northeast so that they can compete successfully with players from any part of the country. We can bridge the gap between our production of 20% of the national product in a market area that represents 30% of the consumers. On our bridge, both sides win by meeting the demand of our respective customers.

Cabot has been reading the news in our industry pretty closely over the last five years. For example, we were right on with low-fat cheese and cultured products. Cabot Vitalait has garnered praise from all corners of the U.S.. But we have not made the most of this excellent product. We simply do not have the capital within our organization to roll Vitalait out nationally, and only modestly in our region.

Some smart marketing guys in New York had capital three years ago. They didn't own any plants, had no retail distribution, and yet they have blown Kraft, Dorman, and Cabot out of the low-fat waters with Alpine Lace. They identified a low-fat, low-salt dairy product niche. And they went after that niche with the resources of two public stock offerings in order to market their product nationally.

So, here we are in Cabot, happy to report that for our small organization, we will probably sell 2,000,000 pounds of the tastiest low-fat cheese on the market anywhere. But what have we really done to help the northeast dairy industry aside from putting us in the position to be more competitive with other diary farmers and cooperatives in New England?

How can we resolve the intrinsic dilemma between what cooperatives can and can't do, without the capital to stake out higher risks for higher returns? That is the crux of Cabot's strategic agenda for the next five years. And ironically, this dilemma wasn't alleviated one iota after winning the best cheddar in the country award, or by out-paying other cooperatives in the northeast last year. Tell me how do we let the world know that we won the most prestigious award in our industry, when we barely have the capital to advertise at competitive levels in our own backyard?
And to each of you, I pose the same strategic challenge: Go back to your organizations and take a look at your plan. See if it makes sense in a free market. Invite your customers to sit down and talk about these market influences on both of you. Parlay your assets of the highest quality milk and/or components and stand ready to deliver it when and where it is needed. Play on their marketing know-how, with your resources, to map out a win/win relationship.

Let's take the time to make some new news for the northeast dairy industry. Let's start playing by free market rules—well beyond the traditional definition of cooperatives' missions.

Some of us have tremendous focus, tremendous products and good marketing with no capital and limited milk supply. Others have no milk supply, plenty of capital and a good strategic marketing niche. And others in our region are buying from sources well out of our market, paying for what we together could offer. Let's stop avoiding what's really going to influence our future by blaming Washington, or Albany, or Montpelier. Let's make a move on rethinking our collective assets as a conglomerate would—where do we pool what, how do we consolidate, where do we work together so that the paycheck to the farmer every two weeks has a greater chance of being there and being bigger.

It is time to start making news, to create wealth for our farmers as our stockholders. Let's not just read the news and wonder in isolation what to do next. Let's make the news together.

Thank you.