

**Report of the Kansas Dairy Marketing Advisory Board
to
The Standing Agriculture Committees of the Kansas Legislature
February 2012**

Membership and Purpose of the Board

The Kansas Legislature created the Dairy Marketing Advisory Board in 1994 with the enactment of K.S.A. 74-555. This board reports annually to the Senate and House Agriculture Committees.

Currently, the members of the board are appointed by the governor. The Kansas Dairy Association may make nominations to the governor for consideration as appointments on the board. Two members shall be dairy farmers; one member shall represent the milk handlers of the state; one member shall be a consumer of milk and the other member shall be the secretary of agriculture or the secretary's designee. The current board members are: Steve Ohlde, producer; Lynda Foster, producer; Rabecca Harris, dairy processor; Kerri Ebert, consumer; and Secretary of Agriculture Dale Rodman.

The dairy marketing advisory board is tasked with three duties: 1) to study and evaluate the need for establishing a statewide milk marketing order; 2) to make recommendations as to the implementation of milk marketing orders; and 3) to prepare and submit to the standing agriculture committees of the legislature a report of its findings and recommendations.

Kansas Dairy Industry

The Kansas dairy industry continues to change. As we have reported the last few years, the state continues to have fewer dairy farms but with higher milk production per cow and per farm. Kansas milk production increases in the last ten years have been dramatic. This is attributed to not only the growing industry in western Kansas but the overall increase in dairy farm size throughout the state.

For benchmarking purposes, we can compare the early 1980s dairy picture with present numbers. There were 1,327 Grade A dairies and 738 manufacturing grade operations in 1981. Those dairies had 123,000 cows that produced nearly 1.4 billion pounds of milk. At the end of 2011, Kansas had 318 Grade A dairies and 42 manufacturing grade dairies. Those dairies had approximately 124,000 cows that produced more than 2.4 billion pounds of milk which represents 1.25% of the U.S. total. The most recent statistics ranks Kansas 17th in total milk produced and 11th in milk per cow.

The Kansas dairy processing industry has been relatively stable. Dairy processing plant capacity in Kansas has not grown as much as milk production from Kansas dairy farms. Kansas is a net exporting state for raw milk: dairy farm production in Kansas is approximately 135 tankers of milk each day while Kansas dairy processing plant capacity is approximately 26 tankers each day. There is some interest in building new milk processing facilities in western Kansas. However, the current regional milk processing plant capacity of over 1000 tanker loads each day exceeds existing raw milk supplies now. Investors are weighing the economics of constructing new multi-million dollar processing plants against milk transportation costs to fill existing regional processing plants.

Changing National Picture

United States milk production continues to increase also. The dairy growth areas are the west and southwest, including Idaho, New Mexico, Texas, Oklahoma and southwest Kansas due to favorable environmental conditions. Southwest Kansas is benefitted by the dryer climate with the added advantage of nearby dairy feed sources. The nation-wide trend of very large regional processing plants continues. "Full-line" dairy plants processing fluid milks, cheese, ice cream, butter, etc at one facility are no longer the norm. Large plants now specialize in one or two products: fluid milks, yogurt, ice cream only or one type of cheese. The future may also see an increasing number of on farm milk condensing operations whereby the condensing step of cheese or yogurt production will be done on the farm. Condensed or concentrated milk will then be shipped to a large regional plant for final processing. Two advantages of this operation is the savings in transportation costs (1 tanker of condensed milk versus 3 tankers of raw whole milk) plus the benefit of the "cow water" extracted from the milk which can be efficiently used on the dairy farm.

Dairy product consumption has changed substantially over the past several decades. These changes have important implications for all involved in production, processing and marketing of milk and dairy products. A strong positive trend in per capita consumption of all dairy products has been shown since the mid 1970s, increasing by some 72 pounds per person (+13.4%). When one examines this increase in per capita consumption we see that cheese consumption has increased 130.3% while fluid milk and cream consumption has decreased 21.5%. The popularity of Hispanic foods and pizza, both utilizing large amounts of cheese, has fueled this overall increase in dairy consumption.

Milk Prices

Federal milk marketing orders have been an integral part of the U.S. dairy industry for many years. Milk orders were first implemented in the 1930's and have been a fixture ever since. They have been continually amended and updated, however, to accommodate industry modernization and changing marketing conditions. Fluid milk markets are inherently unstable due to the uncoordinated nature of fresh milk supply versus demand, which is compounded by milk's perishability and seasonal production variability. Federal milk orders were conceived and implemented with the goal of counteracting the inherent instability in fluid milk markets. The primary objective is to provide a framework to make buying and selling milk a more orderly process for both producers and processors.

Milk prices received by dairy farmers hit a 30-year low early in 2009, making that year a difficult one for dairy producers. Plummeting prices in the dairy industry coupled with rising feed, energy and other input costs left many producers financially weaker. Producers who survived 2009 looked forward to a predicted milk price recovery in 2010. Milk prices in 2011 did recover somewhat, however input costs including feedstuffs and energy are at all time highs.

For historical purposes we can compare late-year statistical uniform prices (SUP) in Central Federal Order No. 32. We see \$20.36 for December 2007; \$13.63 for December 2008; \$14.96 for December 2009; \$15.29 for December 2010; and \$18.82 for November 2011. In recent years the Cooperatives Working Together (CWT) program has tried to stabilize prices in a voluntary effort by producers to take cows out of production to help boost milk prices. The recent reduction in the number of Kansas dairies can mostly be attributed to CWT buy-out programs. Late in 2010 it was announced that the CWT programs would discontinue dairy buy-outs and focus more attention on increasing demand and sales of dairy products both domestically and exported.

The outlook for 2012 farm prices is favorable but it will take time for dairy farmers to gain back the equity that they lost in recent years.

Dairy Consumer Issues

Consumers of milk and dairy products have never had as many choices as today. Prices for whole milk in retail stores are currently averaging about \$3.50 per gallon. Milk that is labeled “local”, “natural” and organic command higher prices. Consumers are confused by the many labels they are confronted with in stores. Label statements such as “antibiotic free”, “pesticide free” or “milk from cows not treated with rbST” raise other questions in consumers’ minds even though all milk is tested repeatedly to assure it to be completely free of antibiotics and pesticides. Many dairy producer groups believe these label statements are misleading to consumers. Some producers fear that approved technologies such as rbST that allow them to efficiently produce milk may not be available to them in the future. Another consumer issue that has recently received some national attention is that some school districts are banning chocolate milk from their school cafeterias. Many well meaning consumers assume that dairy product consumption is contributing to child obesity. One fact not being mentioned is the nutritional value of milk and dairy products on a cost per unit of protein compared to other foods. The dairy industry must be proactive in reminding consumers of the wholesomeness, nutrition and safety of dairy products.

Several Kansas dairy producers are pasteurizing, bottling and packaging dairy products on-farm in an effort to take advantage of consumer demand for “natural” dairy products. The success or failure of these operations will depend on their ability to successfully compete with regional dairy processors in the market place. Small on-farm dairy processors trying to establish niche markets must somehow reach confused consumers trying to do the right thing while managing food budgets in a down economy. In the end high quality dairy products, produced locally can still command premium prices.

Regional Dairy Compacts

The Kansas Legislature acted in 1999 to allow the Kansas secretary of agriculture to enter into a southern interstate dairy compact if it was determined it would benefit Kansas producers. The Kansas Dairy Association supported this action. The goal of compacts was to stabilize prices paid to farmers for fluid milk, thus reducing business uncertainties and stabilizing the regional milk supply. There has been no action to form such a compact in the past year, and none is expected in the near future. At this time the Kansas Dairy Marketing Advisory Board does not see a current need to establish a statewide milk marketing order.

Conclusion

The dairy industry continues to change at a fast pace. Historically, dairy markets were local with farm produced milk being processed and marketed in the nearest city of any size. However with the advent of better refrigeration and transportation, the dairy industry has become regionalized. Globally, some 13% of U.S. production is destined for export. Global markets now affect even the smaller producers as evidenced by recent European pressure on United States milk regulators to lower somatic cell count levels. Kansas is adapting with many positive changes. Increases in total milk production improves the state's chances of attracting a new processing plant with jobs and economic benefits. Also, several smaller producers are developing ideas to produce cheese or bottled milk for niche markets.

The Kansas dairy industry has changed significantly since the creation of the Kansas Dairy Marketing Advisory Board in 1994 as evidenced by this report. As such, this board respectfully recommends to the Kansas Legislature that the function, scope and purpose of the dairy marketing advisory board must also change. These changes, outlined in House Bill 2503, would allow the Kansas Dairy Marketing Advisory Board to better advise the department of agriculture and other state agencies on dairy industry initiatives, concerns and needs. The board could also function to improve communication and interaction among small, mid-size and large dairy producers and processors. We will detail these proposed changes to board representation and function in a legislative submission to revise K.S.A. 74-555. We would continue to monitor milk marketing and pricing issues but also we feel there is an opportunity for the board to be a better advocate for the Kansas dairy industry. We thank the Kansas Legislature for its interest. The Board stands ready to appear before the Senate and House Agricultural Committees, if appropriate, to discuss these ongoing issues and any recent developments.