Official: NAFTA talks have high stakes for U.S. dairy

By CAROL RYAN DUMAS
Capital Press

The U.S. dairy industry has a lot at stake in the administration's upcoming renegotiation of the North American Free Trade Agreement, a top industry official says.

On the one hand, the industry doesn't want any harm to come to bountiful exports to Mexico. On the other, there's a lot to be desired in trade relations with Canada.

In testimony to the House Agricultural Committee, Tom Vilsack, U.S. Dairy Export Council president and CEO, asked committee members not to jeopardize the gains made in free access to Mexico. He also called for needed action on Canada's protectionist policies.

NAFTA is indisputably the U.S. dairy industry's most important trade deal and has been enormously beneficial in liberalizing dairy trade with Mexico, he said.

Under the agreement, Mexico has grown to be by far the largest export market for U.S. dairy. U.S. dairy shipments to

Associated Press File

Tom Vilsack, U.S. Dairy Export Council president and CEO, testifies on Capitol Hill in Washington, D.C. The former secretary of agriculture told the House Agriculture Committee that the North American Free Trade Agreement has been a boon to dairy trade with Mexico but there are shortcomings in trade with Canada.

Mexico in 2016 totaled $1.2 billion, up from just $124 million in 1995, he said.

"For much, if not all, of this we have NAFTA to thank," he said.

Last year, Mexico accounted for 47 percent of U.S. exports of nonfat dry milk, 31 percent of cheese and 38 percent of butterfat. Before NAFTA and Mexico's joining the General Agreement on Trade and Tariffs — called GATT — the only dairy-related U.S. exports to Mexico were some nonfat dry milk shipments for government feeding programs and a small number of breeding cattle, he said. GATT was the predecessor to the World Trade Organization.

"NAFTA has been the driving force behind this growth and is the reason the U.S. share of Mexico's dairy imports is 73 percent today," he said.

Without NAFTA, the duty-free access U.S. companies enjoy to Mexico could evaporate and be replaced by WTO most-favored nation tariff levels, which could result in tariffs of 45 percent to 125 percent, he said.

Mexico is negotiating with the EU on preferential access to the Mexican market, and discussing with New Zealand and Australia how to move forward with the Trans-Pacific Partnership, he said. The U.S. withdrew from the 12-nation TPP earlier this year.

"Conceivably, all three of our major competitors could see improved access to the Mexican market in the coming years. That's what makes NAFTA absolutely essential for our industry," he said.

It currently provides U.S. exporters with uniquely preferential access to the Mexican dairy market and is the vehicle the U.S. needs to remain competitive should Mexico open new inroads to U.S. competitors, he said.

"Because of NAFTA and Mexico's commitment to a mutually beneficial trading relationship, we currently have very few problems with Mexico in dairy. It is our goal … to help keep it that way," he said.

Canada, on the other hand, has created a dairy trade relationship with the U.S. that can best be described as "heavily strained," he said.

The Canadian government continuously creates new classifications, categories or standards to make U.S. dairy exports noncompetitive with domestic products. Other issues include tariffs, subsidizing exports and Canada's acceptance of trade-limiting geographic indicators on common-food names in trade agreements with other countries, he said.

"In short, the United States has a tremendous amount of unfinished business with Canada with respect to NAFTA," he said.

The U.S. dairy industry is united in its desire to preserve what is working under NAFTA with Mexico and address what isn't working with Canada, he said.

Dairy Markets

Lee Mielke

Dairy prices riding a roller coaster

By LEE MIELKE
For the Capital Press

August started with strengthening dairy prices despite the lower global dairy trade auction but relapsed. The cheddar blocks climbed to $1.7875 per pound last Tuesday, the highest price since Feb. 2, 2017, but closed Friday at $1.6975, down 5 3/4-cents on the week and 11 3/4-cents below a year ago.

They gave up 1 3/4-cents Monday and 2 cents Tuesday, slipping to $1.66.

The barrels shot up 11 1/2-cents last Tuesday, hitting $1.66, highest since Feb. 8, 2017, and reduced the spread to 12 3/4-cents, but finished the week at $1.53, down 2 1/2-cents and 35 cents below a year ago when they peaked for the year at $1.88. Five cars of block were sold last week at the CME and 48 of barrel.

Monday saw the barrels hold steady, then lose 2 cents Tuesday, slipping to $1.51, 15 cents below the blocks.

Midwest cheese producers report that milk supplies are still available but noticeably lower, according to Dairy Market News. Many Western cheese producers report there is plenty of milk available and processing facilities are at or near full capacity. Domestic demand is solid but traders remain hopeful that exports can effectively soak up their heavy stocks.

HighGround Dairy's Monday Morning Huddle reported that China's cheese demand was "certainly massive last month and reached record highs. Volumes from New Zealand were up 74 percent from a year ago and represented 55 percent of market share and a record high from that country."

"China imported 1,291 metric tons from the U.S. during June, strongest volumes since April 2015; second quarter imports from the U.S. were up 77 percent from the prior year to 3,372 MT, representing 11 percent market share," according to HighGround.

Butter was also on a roller coaster. After all it is fair season, and a lot of product made its way to the CME. It climbed to $2.7375 per pound Thursday but closed Friday at $2.73, up a penny on the week and 46 cents above a year ago, with 63 cars selling last week.

The spot butter lost 3 1/4-cents Monday and melted another 3 3/4-cents Tuesday, to $2.66.

Butter makers continue to report that weekly sales figures are improved from last year.

Western contacts report that processors do not have any problem getting cream. Butter supplies are comfortable and domestic butter demand is good. International demand seems to be picking up due to higher foreign prices.

Cash Grade A nonfat dry milk closed Friday at 86 1/4-cents per pound, up a quarter-cent on the week and 3 cents above a year ago.

The powder was down 1 1/4-cents Monday and held there Tuesday at 85 cents per pound.

The July Federal order Class III milk price is $15.45 per hundredweight, down 99 cents from June but 21 cents above July 2016 due to lower cheese, dry whey and nonfat dry milk prices.

It also topped California's comparable Class 4b cheese milk price by 16 cents, the lowest differential since November, 2016, when the 4b topped the Class III by 69 cents.

Oregon dairy honored for its sustainable practices

By ALIYA HALL
Capital Press

RICKREALL, Ore. — Rickreall Dairy is the first farm in Oregon to receive the national Outstanding Dairy Farm Sustainability Award.

The dairy near Salem was one of three U.S. farms selected this year for the award by the Innovation Center for U.S. Dairy. The award is given for sustainable practices in such areas as cow care, energy conservation, water conservation, nutrient management and business and employee relations.

Louie Kazemier

The third-generation farm, owned and operated by Louie and Lori Kazemier, houses 3,500 Holstein cows that produce approximately 50.4 million gallons of milk annually — about 138,000 gallons a day.

In addition to the dairy's daily operations, it has an open-door policy and hosts guided tours for between 2,000 and 3,000 first-graders annually from Salem, Dallas and Independence, Ore., Louie Kazemier said.

Among the sustainable efforts Kazemier has pursued is a partnership that allows him to send the dairy's solid waste to his neighbor's cropland for the use as natural fertilizer in exchange for feed.

"Every dairyman has to do this," he said of sustainability. "We save money, it lowered costs of production and it makes us more money by selling manure."

The dairy's other sustainable practices include collaborating with a local food processor to recycle water for irrigation for his 1,100 acres of crop land as a means of saving water, which is recycled three times before it is used for irrigation. He also tests the soil to make sure no nutrients get into the ground water, according to the Oregon Dairy and Nutrition Council. The dairy has 25 employees with an average tenure of 20 years.

Rickreall is a member of the Northwest Dairy Association, a farmer-owned cooperative that sells more than $2 billion in dairy products annually through its subsidiary, Darigold.

Of the 3,500 Holsteins, Kazemier milks about 1,700; the others are either heifers or dry cows.

Robotic milkers popular despite dairy slump

Reduced dependence on labor attracts more farmers

By MATEUSZ PERKOWSKI
Capital Press

When the antiquated milking parlor at the Abiqua Acres dairy became obsolete, the farm's owners opted not to replace it.

Instead, they installed a new state-of-the art barn equipped with two robots that milk the cows at their convenience.

The machines will allow the farm to eventually expand its milking herd from 90 to 120 cows without having to hire employees, said Darleen Sichley, who runs the farm with her husband, Ben Sichley, and her parents, Alan and Barbara Mann.

"Robotics made a lot more sense than building a parlor and hiring help," she said.

The Sichleys and Manns operate the dairy entirely themselves, so delegating the milking chores to robots frees up hours they'd otherwise spend in the milking parlor.

"We get our lives back," said Ben Sichley.

Milk prices have fallen since the family began planning for the project, but they're confident the robotic milkers will pencil out over the long term by allowing the farm to remain employee-free.

"We've always been family-run," said Darleen.

Dairy farmers' average "mailbox" price per hundredweight of milk — the amount of the check they get in the mail, minus transportation and other costs — plunged from a peak of nearly $26 per hundredweight in 2014 to a trough

Mateusz Perkowski/Capital Press

Visitors to the Abiqua Acres dairy near Silverton, Ore., observe cows as they enter a robotic milking system during a recent open house. Dairymen have continued to invest in robots despite lower milk prices.

of roughly $14 in 2016. The price has since risen to more than $17 per hundredweight. A hundredweight of milk is 11.63 gallons.

Despite their leaner earnings, dairy farmers have continued to invest in robotic milkers because of the concern over worker shortages, said Mark Brown, a regional general manager for DeLaval Dairy Service, which makes and sells the machines.

"That's what's driving it, more than anything," Brown said.

DeLaval has seen sales of robotic milkers grow through the milk price slump, though demand would likely be even stronger if the industry was experiencing an economic upswing, he said.

"If milk prices were high, I don't think we could build them fast enough," said Brown.

While the lowest-cost milking systems will cost $1 per hundredweight or less to operate — compared to $2 or $3 per hundredweight for robotic milkers — farmers still see the automated systems as worthwhile, said Larry Tranel, an extension dairy specialist at Iowa State University who's studied the economics of the machines.

Robots aren't so much more expensive than many conventional milking parlors as to deter dairies from investing in the technology, since farmers are drawn to the reduced dependence on hiring workers, he said.

"They're trading labor for technology," Tranel said.

If immigration enforcement gets more strict, dairies also face the prospect of having to pay higher wages to attract U.S.-born employees, said Brian Gould, an agricultural economics professor at the University of Wisconsin-Madison.

"If the dairy industry is going to have to pay more for labor, it's going to make robotics more attractive," he said.

Aside from cutting labor, robotic milkers automatically collect data about cattle productivity and other traits that improve dairy management, said Brown of DeLaval Dairy Service.

New features and software are constantly being developed, including infrared cameras that photograph each cow to track how it's responding to feed rations, he said.

"The machines are designed so that any future technology can be retrofit onto them," Brown said.

Data analyzed by robotic milking systems can also alert farmers to any developing health problems before they're readily noticeable, said Bob Russell, director of DeLaval Dairy Service North America.

"All those metrics can help give you an advance indication the cow may be becoming ill," he said.

Robotic milkers have grown popular enough that cattle breeders are aiming for "robot ready" cows with characteristics such as more uniform udders that make teats easier for the machine to locate, he said.

U.S. cattle inventory hits nine-year high

By CAROL RYAN DUMAS
Capital Press

While the beef cow herd shows the industry is continuing herd expansion, replacement heifer numbers suggest that heifer retention is slowing and the expansion is starting to wind down.

Beef and dairy cattle and calves in the U.S. on July 1 totaled 103 million, 4 percent higher than July 1, 2015. The USDA National Agricultural Statistics Service suspended the mid-year inventory report in 2016 and 2013, but the most recent July 1 inventory count is the highest since 2008.

The higher count was expected, considering herd expansion efforts since 2014. Without a 2016 mid-year report, there were no comparisons but looking at the last two years, the numbers clearly show significant growth in the total herd and in the beef cow herd in particular, said Derrell Peel, Oklahoma State University Extension livestock marketing specialist.

U.S. cattle inventory, July 1

(Mid-year report suspended in 2016 due to budgetary constraints.)

Item	(Million head) 2015	2017	Percent change
Cattle and calves	98.2	103	4%
Beef cows and heifers that have calved	30.5	32.5	7
Replacement beef heifers	4.8	4.7	-2

Item	(Million head) 2015	2017	Percent change
Calf crop	34.1	36.3	6

Source: USDA NASS Capital Press graphic

At 32.5 million, the number of beef cows, including heifers that have calved, is 7 percent above the 2015 mid-year count. And the ratio of the July beef cow inventory to the January level (104 percent) is the highest since 1993, during the last full-blown herd expansion, he said.

Compared with historical data, "that's a big enough ratio to confirm we are still expanding the cow herd this year," he said.

The data on replacement heifers are a little harder to interpret, but the numbers are quite a bit smaller in this report, suggesting heifer retention is slowing, he said.

Beef replacement heifers on July 1 were down 2 percent from July 2015, and the ratio of those heifers to January's count is the lowest in the data series, he said.

It's harder to see a cyclical effect in replacement heifer ratios than in beef cow ratios, but the July to January ratio is 73 percent, compared to a long-term average of 89 percent, he said.

In addition, heifer slaughter is up 11 percent thus far in 2017, and the number of heifers on feed was up 11 percent in the second quarter of this year.

"All those things together would seem to suggest we're not saving heifers as aggressively as we have," he said.

The 2017 calf crop is expected to be 36.3 million head, up 3 percent from 2016 and up 6 percent from 2015, USDA reported.

"It's just part of the story of ongoing herd expansion. We expected it would be bigger," Peel said.

That means more feeder cattle supplies and increased beef production for another couple of years, he said.

The estimated feeder cattle supply outside of feedlots is 37 million head, 5 percent above the 35.4 million head on July 1, 2015, USDA said.