In the past decade, 6,910 dairies have gone out of business

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This year, prices are expected to be even lower.

That average federal price was $16.17 in 2017, $14.87 in 2016 and $15.79 in 2015, down significantly from the $22.34 producers received in 2014.

The down years are tough, and the great years are few, said Wiersma, who has asked himself many times how long he can ride the roller coaster.

"Sometimes, it doesn't seem worthwhile. Other times, it's profitable again," he said.

A great year comes around once every six or seven years, he said, and the other years are split between operating at a loss and prices a little above break-even.

"It's a commodity business; you know what you're getting into. You just hope everything averages out at the end," he said.

But some dairies go out of business at the bottom of every cycle, he said.

In the U.S., 6,910 dairies have gone out of business in the past 10 years. In Idaho, Oregon, Washington state and California, 760 dairies have closed or switched to crop production.

The ups and downs of milk prices create a troublesome cycle. High prices prompt farmers to expand their dairy operations, but expansion is not precise, and the industry often slips into overproduction, causing prices to weaken, he said.

"I don't know if there is a solution, unless you want to get into supply management. But that kind of flies in the face of free enterprise and growing your business the way you see fit," he said.

Additional milk processing capacity "couldn't hurt, but you have to remember the processor has to be able to sell the product, too," he said.

Increased exports would also be helpful, and the outlook on that front is bright. Populations are growing in Southeast Asia and the rest of the Pacific Rim, where more people are moving into a middle class that demands more dairy products, he said.

Ultimately, though, commodity milk producers are always going to be price-takers, he said.

"In production agriculture, it's pretty hard to find a solution other than supply management," he said.

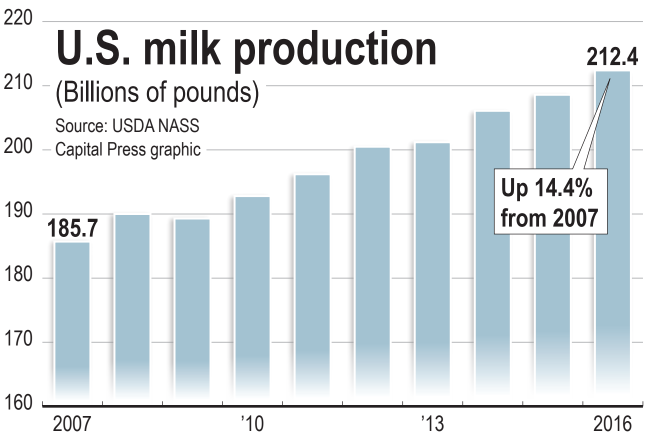
Supply and demand

Two things can increase milk prices — less milk production or more demand for dairy products, said Mark Stephenson, director of the Center for Dairy Profitability at the University of Wisconsin.

Low prices tend to reduce supply, and several cooperatives do have restrictions on milk in times of oversupply.

University of Wisconsin

Mark Stephenson of the University of Wisconsin Center for Dairy Profitability says two things can increase milk prices — less milk production or more demand for dairy products.



Carol Ryan Dumas/Capital Press

Pete Wiersma walks along his cows at Fairview Dairy near Buhl, Idaho, on Feb. 28.

But the likelihood of a national supply-management program is slim, he said.

Limiting the amount of milk produced on U.S. farms has always been a controversial issue and was dropped from the original proposal for the Dairy Margin Protection Program in the last farm bill, he said.

On the demand side, there are always modest increases in domestic demand for dairy products, both from per capita consumption increases and from population growth, but export growth has been slower, he said.

Processing capacity is an issue in some areas, and more capacity could help in certain places, such as Michigan, he said.

"But I don't think that's the real issue. The real issue is, do processors have a customer for their products?" he said.

They can always run another shift to make more product. But if they really perceived there was extra demand out there, they'd build or expand, and no one is doing that right now, he said.

There are a few places in the country where plants have been built or capacity added, but most of those are capacity that meets the objective of a particular company, he said.

A new plant Walmart is building in Indiana is a good example, he said. That plant will produce fluid milk, but it comes at the expense of the capacity of existing Dean Foods plants that have been supplying Walmart with milk, he said.

"It is seldom the case that capacity is added just because we have surplus milk to process," he said.

Plants don't want to make cheese or other dairy products when they don't have a known, or high probability, sale. If they make it but can't find a customer for the product, then it goes into increased stocks of products — and sooner or later, those stocks have to be reduced, he said.

Investing in milk

The last three years of low milk prices have been uncomfortable for dairy producers, but not enough to change production behavior. But it's gone on long enough now that it's likely to start having an effect, said Ben Laine, senior economist at CoBank.

"I think production growth will start leveling off and then wait for demand to catch up," he said.

The wild card is Europe, where production is still growing since milk quotas were eliminated a couple of years ago, he said.

The dairy industry is cyclical. Production sometimes gets out of balance with demand, but they do a pretty good job of matching each other over the long run, he said.

Both production and demand are going to continue to grow, providing export opportunities for U.S. dairy. It is critical the U.S. position itself for those opportunities, he said.

That means expanding processing capacity and building and upgrading infrastructure to be competitive on the world market, he said.

The ability of the U.S. to efficiently produce milk and increase production allows for continuing foreign capital to come into the processing sector, which ultimately benefits milk producers, he said.

Foreign companies have been investing in U.S. plants for decades, and at least 15 percent of the U.S. milk supply is processed by plants that are at least partially foreign-owned, he said.

"The U.S. has built a reputation as a reliable source of milk," he said.

Additional joint processing ventures offer opportunity, and there's been a new wave of investment and interest coming from countries with production limits, he said.

While producers are currently challenged near-term by oversupply and its negative impacts, the long-term outlook is good, he said.

Unprofitable demand

While there might be opportunity for processors, the real question is whether new processing plants will pay a profitable price for milk, said Bob Krucker, an Idaho dairy producer and board member for National Dairy Producers Organization.

"More processing facilities that simply pay an unprofitable milk price do not help the dairy farmer, but rather hurt the dairy farmer by encouraging and accommodating an increasing supply of milk in excess of profitable demand," he said.

Even though the processor is profitable, that doesn't mean the producer is profitable. In fact, processor profitability might be based on farmers' unprofitability — the ability to get low-priced milk, he said.

If milk oversupply is the issue, new processing projects have nothing to do with producer profitability, he said.

"The milk supply determines the milk price, and farmers determine the milk supply. Dairy farmers are making the milk and the milk oversupply," he said.

Milk price cycle more forceful than in the past

By CAROL RYAN DUMAS
Capital Press

Milk producers are going into the fourth year of relatively low milk prices, and the financial strain is increasing.

The unusually high prices of 2014 took a big drop in 2015 and dropped further in 2016. There was a bit of a recovery at the end of 2016, but they fell again the next spring.

There's obviously a wide range in profitability across farms. Some were prepared for the downturn and have been able to manage their cash flow through the last few years, but it's getting harder now, said Mark Stephenson, director of the Center for Dairy Profitability at the University of Wisconsin.

"The problem is working capital is pretty chewed out now and a lot don't have as much equity as they should have going to banks," he said.

Some might have problems getting operating loans or good loan terms. And many won't have money for upgrades or repairs, making it less efficient and more expensive to make milk, he said.

There have always been downturns; the thing that has changed is what has become the dominant cycle in milk markets, he said.

Price cycles and volatility in milk production are nothing new, but a generation or two ago, they were seasonal. They were disruptive but predictable, he said.

That 12-month cycle still exists, but it is less impactful. A short-term change of 50 cents to $1 per hundredweight of milk isn't as big a deal on $16 to $20 milk as it was on $5 milk, he said.

But starting about 15 to 20 years ago, the industry moved into new territory with an additional three-year cycle that is far more impactful. Swings in milk prices can approach 50 percent, he said.

Analysts are still trying to understand all the factors in the three-year cycle, but it started about the time the U.S. entered into exports. And exports certainly play a part. If anticipated sales overseas don't happen, product backs up into the domestic market and milk prices fall, he said.

Other shocks are also a factor, such as weather impacts in the Southern Hemisphere's pasture systems. Poor conditions can bring a big price surge in milk, sending a market signal to dairy producers that the world wants more milk.

Producer response to that signal in the U.S. would mean 40,000 independent decisions on whether to increase milk production. If everyone decides to increase production at the same time, prices collapse, he said.

Loans are becoming a target for environmental litigation

LOANS from Page 1

"The biggest thing is the lack of a cumulative impacts analysis," said Tom Buchele, an attorney with Earthrise Law Center.

Loans are becoming a target for environmental litigation because the federal government is supporting large-scale operations with more significant pollution hazards, said Heinzen.

The value of FSA ownership loans — which are used to buy or expand farms — was roughly $3.5 billion for beef operations, $2.25 billion for chicken operations, $2 billion for dairy operations and $550 million for hog operations, according to 2017 data obtained by Food & Water Watch.

"Advocates have become more aware of the scope of federal financing," said Heinzen.

If public money is being used for lending to CAFOs, it's reasonable to rely on federal statutes to increase public oversight of the process, said Amy van Saun, staff attorney for the Center for Food Safety.

"Another federal hook is a good thing," she said.

In a lawsuit over federal loans to a hog farm in Arkansas, several environmental organizations prevailed in their claims under the National Environmental Policy Act and Endangered Species Act.

Mateusz Perkowski/Capital Press

From let to right: Tom Buchele of Earthrise Law Center, Tarah Heinzen of Food & Water Watch, Kevin Cassidy of Earthrise Law Center and Elisabeth Holmes of Blue River Law spoke about environmental lawsuits over federal lending to "factory farms" during the recent Public Interest Environmental Law Conference in Eugene, Ore.

The groups did not succeed, however, in winning a court order withdrawing government guarantees for the loans, which would have likely eliminated financing entirely, said Cassidy of Earthwise Law Center.

"It probably would have been the end of the farm and the judge wasn't willing to go that far," he said.

Even so, the lawsuit did result in the lining of manure lagoons and installation of methane gas controls, Cassidy said. "There were some real good environmental outcomes from the case."

In another instance, the possibility of litigation forestalled loans to poultry operations in Arkansas even though no lawsuits were filed.

Environmental groups submitted a petition seeking a higher level "programmatic" study of the poultry houses being built and also made Freedom of Information Act requests about financing from USDA and the Small Business Administration.

The aggressive FOIA actions were able to "scare the bejesus" out of people seeking to build the CAFOs, and at this point, none have been funded, said Elisabeth Holmes, an attorney with Blue River Law.

"What is great is there have been no monies allocated," she said. "We consider this a victory."

Initiative would exempt diesel, biodiesel and aviation fuel used in food production

CARBON from Page 1

Initiative sponsors are not making any claims about the initiative's potential impact on the climate as a standalone measure. "We see this as setting an example, even if your a state with relatively clean energy," Johnson said.

The initiative would exempt diesel, biodiesel and aviation fuel used in food production, a standard feature of carbon tax proposals. The Washington Farm Bureau, however, argues a carbon tax would raise other costs for producers and has opposed all carbon tax proposals.

Washington voters rejected a carbon tax in 2016. Many climate-change activists opposed that measure because it would have cut other taxes to offset the affect a carbon tax would have on energy costs and consumer goods,

The idea was to cut greenhouse gases without pinching pocketbooks or growing government. For some environmental groups, this was a fatal flaw.

The new initiative does not have tax cuts. If the measure qualifies for the ballot, the Office of Financial Management will estimate tax collections. The initiative's sponsor say it will raise more than $1 billion a year.

The taxes would be deposited into a "clean up pollution fund." The money would be further distributed into accounts for "clean air and clean energy investments," "clean water and healthy forests" and "health communities."

Spending would be overseen by a 15-member board made up of government agencies, one tribal member and a representative of "vulnerable populations in pollution and health action areas." Three "investment panels" would recommend how the money would be spent. The initiative dictates the make up of each panel. The one for clean water and healthy forests would be co-chaired by a tribal leader and "one stakeholder that represents statewide environmental interest."

Todd Myers, environmental policy analyst for the conservative Washington Policy Center, said the initiative fails to hold the board accountable for actually reducing carbon emissions.

"The oversight board has so much latitude, they could spend it all on social justice with only tangential connections to carbon reductions," Myers said.

"There's no requirement to spend the money effectively," he said. "It just becomes a guaranteed tax increase."

Johnson said the goal would be to reduce emissions so that the fee doesn't go up forever. Spending plans would be subject to public hearings, and after two years, state lawmakers could amend the initiative, he said.

"The Legislature would be kind of the arbitrator of how this is working," he said.