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## Dairy

# Darigold's new strategy means big changes for some members

By SIERRA DAWN MCCLAIN  
Capital Press

EUGENE, Ore. — On Feb. 29, the owners of Konyon Dairy sold their 1,500 dairy cows and closed.

The sale closed the final chapter of the dairy's 44-year history.

"We had no plan of leaving dairy so soon," said Leticia Konyon Ficek, who co-owned the dairy with her brothers, David and James Konyon, and their parents, Jack and Marian. "If you'd told us December first we'd be selling, I'd say you're crazy."

The Konyons said recent changes made by Northwest Dairy Association prompted their decision. NDA — with Darigold as its marketing and processing arm — is a Seattle-based cooperative with about 430 member farms in Washington, Oregon, Idaho and Montana.

The domestic dairy industry has in recent years been limping along with falling demand for fluid milk and depressed prices. To adapt, NDA has been changing its game plan, impacting farmers across the Northwest.

In December, NDA announced to members the company would make big changes in 2020, including reinvesting a portion of farmer profits in new equipment and products, raising the penalty on overproduction and opening the option for farms to sell their "base" to other farms.

Farmers have a base, or production quota, of milk they're permitted to ship to Darigold so the company won't be oversupplied. Darigold declined to comment on specifics, but the base is calculated using various factors like the overall market.

The opportunity to sell base turned it into a commodity. Steve Matzen, NDA senior vice president, said the company doesn't officially recognize the value of base, but "members do business with one another." Some farmers realized they might be better off selling their base than staying in the industry.

That's why Konyon Dairy sold its base and cows, Ficek said.

"We just saw an opportunity and took it," said Ficek. "It made good business sense, but it's bittersweet. We've done this all our lives, raised our kids



Leticia Konyon Ficek/Konyon Dairy  
From left, James Konyon, Leticia Konyon Ficek, Jack Konyon, David Konyon at Konyon Dairy near Eugene, Ore.

here. We didn't think we'd stop dairying for another 10 to 15 years, but we knew an opportunity like this might not come again."

The Konyons said they no longer plan to run a farm operation and will seek employment elsewhere.

In January, Rod Tjoelker, a former NDA member and dairy farmer in Whatcom County, Wash., also sold his cows and closed RTJ Farm, founded 1948.

Like the Konyons, Tjoelker hadn't planned to quit dairying until he retired. On Dec. 19, Tjoelker said, NDA announced the upcoming changes. On Jan. 5, Tjoelker decided to sell, and on Jan. 16 NDA approved the sale. By the end of the month, all of his 530 cows were gone.

"It felt very quick," he said. "We were spinning. We sold the base before we had the cow buyer lined up. It was a gutsy move."

Tjoelker said he plans to run a small herd of beef heifers and rent some of his land to a potato grower.

He said closing the dairy has created ripples in the local economy, including equipment companies, his hay broker and others.

"It's a real shame for our area," he said.

NDA is also upping the penalty on production over the base, cooperative members said.

Dairy economists say overproduction of milk means lower farm-gate prices.

According to a source who received Darigold's letter to members and did not wish to be identified, some farm-

er-members have produced twice as much milk as their base allows. To discourage overproduction, the source said, Darigold recently raised its over-base charge, meaning farms that produce too much milk will be paid significantly less per hundredweight for excess milk.

"What Darigold is trying to do is match supply with profitable demand," said Gary Genske, a New Mexico dairy farmer and accountant for the dairy industry. "Northwest Dairy is kind of fixing the oversupply problem. I've got to hand it to them for stepping up."

Every farmer Capital Press talked to said having a strong base system is important. But farmers appear to have mixed opinions about the co-op's other new strategies.

Darigold is seeking to expand its international market, where demand for dairy is growing.

According to McKinsey & Co., a global management consulting firm, U.S. dairies have a domestic milk surplus and an international dairy deficit, so long-term opportunities are enormous.

About 40% of Darigold's milk goes overseas, said Steve Matzen, NDA vice president, and the company continues its international expansion.

But farmers and financial experts say dairy cooperatives must be strategic when selling on the global market, or they may inadvertently reduce rather than lift producer profits.

According to McKinsey & Co.'s 2019 dairy report, prices can suffer if companies don't systematically "identify risk by developing insights on supply, demand, policy and politi-

cal factors, and trends."

Genske, the dairy industry accountant, said dairy classes III and IV — including cheese, butter and powder — are "sold at yard sale prices around the world."

Sarah Taydas, Darigold spokesperson, said the company mainly exports classes III and IV: whey proteins, milk proteins such as skim milk powder and milk protein concentrate, cheese and butter.

Darigold's international customers, said Taydas, are food manufacturers that make products such as infant formula, confections and nutritional products.

"I'm not at all opposed to global marketing," said Genske. "You just have to be so strategic about it, otherwise that powder is just thrown onto the world market, and it does nothing more than suppress the producer's pay price."

NDA is also making changes in the U.S.

Taydas said the company is investing \$67 million in its Boise, Idaho, plant to add capacity for a new fluid-milk product and a modern aseptic, or contamination-free, bottling line.

One Darigold farmer who did not wish to be identified said although he supported the long-term investment strategy, he questioned the timing.

"They're doing a major reinvestment," he said. "To do that, they need a bunch of equity from the farmers, meaning paycheck cuts. You'll get that back someday, but, oh boy, it might be a while. It seems to me they should've been modernizing plants gradually instead of suddenly."

Darigold talked in generalities, but declined to comment on the specific equity amount.

Despite criticisms regarding equity, farmers told the Capital Press they were pleased with Darigold's strategy for a new fluid milk product.

The innovative product, called Darigold FIT, is lactose-free, has 75% more protein, 40% less sugar and a fresh packaging design. Its sales have more than doubled in six months.

Farmers say they're excited because, according to the International Dairy Foods Association, fluid milk pays farmers the highest farm-gate price.

## DAIRY MARKETS

Lee Mielke



## February milk production 'leaps'

By LEE MIELKE  
For the Capital Press

February milk output shot higher, thanks to an increased herd size and favorable weather. The Agriculture Department's preliminary data in its Milk Production report shows output at 17.87 billion pounds, up 5.3% from February 2019.

However, the data is skewed in that February had an extra "leap day" of production than 2019. Adjusting for the extra day, output was up 1.7%.

February output in the top 24 states totaled 17.0 billion pounds, up 5.6%, but after adjusting, it was up 2.0%. Revisions added 40 million pounds to the original 50-state January total, now put at 18.8 billion, up 1.1% from January 2019.

Cow numbers in the 50 states in February totaled 9.37 million head, up 9,000 from January and 18,000 above a year ago. The 24-state count totaled 8.84 million head, up 8,000 from January and 39,000 more than February 2019. Revisions added 13,000 cows to the January count, now put at 9.36 million, 7,000 above a year ago.

Output per cow in the 50 states averaged 1,841 pounds, after adjusting, up 27 pounds from a year ago or 1.5%.

Adjusting for the Leap Day, California was up 84 million pounds or 2.6% from a year ago. Cow numbers were down 3,000 but output per cow was up 52 pounds.

Wisconsin was down 0.8% on 10,000 fewer cows and 1 pound less per cow.

Texas was up 74 million pounds or 7.0%, thanks to 32,000 more cows and a 21-pound gain per cow.

Idaho was up 5.5%, on 27,000 more cows and a 22-pound gain per cow.

New York was up 1.9%, thanks to a 38-pound gain per cow. Cow numbers were down 1,000.

Michigan was up 1.1% on 3,000 more cows and a 6-pound gain per cow.

New Mexico was up 2.7%, on 11,000 more cows offsetting a 15-pound drop per cow.

Oregon was up 2.0%, thanks to 3,000 more cows. Output per cow was down 7 pounds.

Washington state was up 4.0%, on 4,000 more cows and a 48-pound per cow increase.

# Danish neighbors partner to survive

By CHRIS MCCULLOUGH  
For Agri-View

ESBJERG, Denmark — Dairy-farming neighbors in Denmark have been milking cows in a partnership for more than 20 years. They say the business model works well for them.

Kjartan Poulsen is chairman of the Danish milk-producers association. He farms on the west coast of the Scandinavian country about 18 miles north of Esbjerg. He first started his farming career in 1989; he bought that farm just three years later. With 45 cows in his herd, by 1998 he had decided to join forces with his neighbor in a business partnership. His neighbor had 200 cows.

Farming partnerships are more common within families where farms have been handed down through the generations. But for Poulsen and his neighbor the business arrangement has proven successful; expansion has been rapid.

"His son joined us in 2013,"



Chris McCullough/TownNews.com  
Content Exchange

**Kjartan Poulsen milks 900 cows in partnership with his neighbor.**

Poulsen said. "In total we currently have 900 cows and farm 1,500 hectares (about 3,707 acres), 1,000 of which are rented. Both our farms practice organic production; that's how I started back in 1989."

Denmark produces 5.5 billion liters

of milk per year; organic production accounts for about 14% of that total. Arla Foods is by far the biggest dairy company in the country. But there are about 30 other smaller dairy companies with more than 60 production plants in total.

Dairy exports from Denmark account for more than 20% of all Danish agricultural exports, making exports an important sector for the industry. Dairy exports bring in about 2 billion euros to Denmark's economy each year — about \$2.17 billion. Imported cheese accounts for 25% while imported yogurt accounts for 20% of the country's total domestic consumption.

As with almost every other country, the number of dairy farms in Denmark has decreased. In 2005 there were 6,300 dairy farms but by 2018 the number had decreased to 3,000 farms with a total of 570,000 dairy cows.

Poulsen and his neighbor have split the cows on the two farms into different milking groups. The herd is all Holstein Friesian. The cows average 9,000

liters per cow per year — about 19,800 pounds per year.

"We are milking on two farms; the first one has all the first-time-calving cows in two teams," Poulsen said. "The second farm keeps all the older cows, also in two teams. Team one includes cows from calving to around 100 days, and the second team is with bulls. We do not use (artificial insemination) very often in Denmark."

"Both the cows and the young stock graze outside from around April 20 normally, but this (past) year it was very early on April 1."

The cows usually stay outside until about Oct. 1. The dairy milks twice per day on both farms.

"One site has a rotary-40-unit parlor and the other has a 40-side-by-side fast-exit parlor," he said. "Our milk quality is quite good at 4.2% butterfat and 3.4% protein. During the summer our butterfat is 3.7% and 4.4% in the winter time. All of our milk goes to Arla; we receive around 43.5 euro cents (\$0.48) per liter, which has been a stable price for the past eight months."



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