Opportunity knocks for U.S. dairy exports

By CAROL RYAN DUMAS
Capital Press

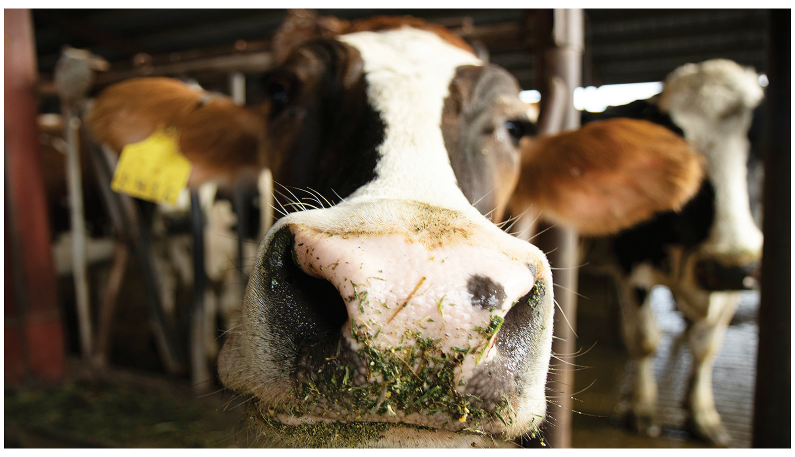
The tightening global milk supply and environmental restrictions in some countries are providing more opportunity for U.S. dairy exports, but supply-chain issues and high farm costs will continue to present hurdles.

The doors are open for more opportunity, but reliability is going to be key, said Patti Smith, CEO of Dairy America.

The U.S. has to be able to show its ability to get product to countries and be able to compete with Oceana and Europe, she said during the latest "Dairy Download" podcast.

The U.S. dairy industry has been in the position before to become a bigger player in the export market due to problems in global milk supplies, said Mike McCully, owner of the McCully Group, a dairy and food consulting firm.

"I think we're there again," he said.



Sierra Dawn McClain/Capital Press

Overseas restrictions on dairies will present opportunities for the U.S. dairy industry to increase exports.

But the supply-chain challenge is a new dynamic this time, he said.

Another new dynamic is environmental restrictions in some competing countries. Europe, New Zealand and other countries are making big pledges to reduce carbon, greenhouse gases and methane, and dairy operators might have to cut back on cows and milk production, he said.

"Practically, that's a new limit in those countries we haven't seen before. So you kind of get back to the U.S. really being the main region that has the ability to expand in milk production," he said.

In the short term, limited supply growth typically supports prices and provides opportunities for the U.S. to become a larger participant in export markets, said Sara Dorland, managing partner of Ceres Dairy Risk Management.

"Longer term, though, I would take a look at those artificial constraints we put on production," she said.

Domestically, dairy cooperatives are managing milk supply with base plans that have substantial penalties for additional production. Cost of investment to expand is much higher than it was in past periods of tight milk supply, but also the penalty for overproduction is a substantial stick that's keeping dairy producers from doing what they would have historically, she said.

"I think you've got folks looking at things a little bit differently. That's not to say that I don't expect dairy producers to add cows if possible. I just don't know that we see the rapid deployment of cows and barns that we've seen over the last few times" of tight global supply, she said.

With milk prices expected to be more than $20 per hundredweight, those production caps will eventually come off, McCully said.

"Farmers, at least in some parts of the country, that want to expand will put more pressure on their processors — whether it's the cooperatives or private processors — to expand," he said.

In addition, several plants are going to be constructed or considered. Four cheese plants in Texas and Kansas are planned that will process roughly the equivalent of the milk of 250,000 cows, he said.

"That's pretty significant, and that's coming at us over the next three to five years. … I think we will see growth, it's just going to take a while," he said.

Labor issues to persist in dairy industry

By CAROL RYAN DUMAS
Capital Press

Capital Press File

More challenges await the U.S. dairy industry in 2022, experts say.

Worries about the supply chain, labor and inflation will remain in 2022, but the new year is also likely to bring the dairy industry new challenges, according to insiders.

"When we look at supply chain, I think the focus will go onto reliability and infrastructure verses congestion," said Patti Smith, CEO of DairyAmerica, the largest skim milk powder supplier in the world.

The overarching challenge in the dairy supply chain is labor, she said during the latest "Dairy Download" podcast.

"Labor impacts every single other aspect and component of it. … It's not going away, and it's not something that's a quick fix," she said.

Sara Dorland, managing partner at Ceres Dairy Risk Management, said labor is the thing folks in the industry fret about most.

"I think it's going to be a challenge for the entire supply chain," she said.

Mike McCully, owner of the McCully Group supply-chain consulting firm, said he doesn't know if labor or energy cost is worse for the industry.

Higher energy prices will play into every part of the economy. If there's more upside in those prices, it'll affect the cost of everything in the dairy supply chain, he said.

DairyAmerica is keeping a close eye on the reliability of the supply chain and how it can navigate the challenges, Smith said.

Some of the issues relate to how the company can transition its business if need be, such as not being able to get product on a ship or not being able to use a certain port, she said.

But there is also the issue of a tighter global milk supply and the effect on global suppliers, she said.

"We're watching what the global market is doing and where we can play, what doors are being opened," she said.

It comes back to reliability and the ability to execute within the supply chain but also which markets might offer opportunities, she said.

"It's really about being agile and navigating that new world," she said.

Ceres has been watching China because when that nation begins to consume more dairy products the world snaps to and begins supplying it, Dorland said.

"It creates huge opportunities for U.S. exporters, especially into other areas … where some of the folks that are supplying China may back out of," she said.

China is also important because when its imports slow, no other region can absorb that change. What happens in China dramatically influences the U.S. domestic market, she said.

Ceres is also watching the weather and the prevailing La Nina, which can have a dramatic effect on New Zealand's dairy production and a profound impact on milk prices, she said.

The McCully Group has its eye on supply and also how hoarding by food companies over the last several months will play out, McCully said.

It's also keeping an eye on geopolitical issues, with the collapse of the China Evergrande real estate group, Russian troops on the Ukraine border and the tension between China and Taiwan. Those things could cause a lot of markets to crater, and dairy would be pulled into the vortex, he said.

Idaho Power requests new resources to meet peak demand in summer

By BRAD CARLSON
Capital Press

Idaho Power Co. wants to acquire enough electricity to meet higher summer peak demand as the state's population grows.

The utility in its new request to the state Public Utilities Commission said it will accept proposals for all types of additional sources of electricity to meet the higher peak summer demand, including renewables and battery storage.

However, Tom Arkoosh, a Boise lawyer, said the plan discourages development of small hydroelectric projects under the Public Utility Regulatory Policies Act, or PURPA.

He represents IdaHydro, whose members operate more than 30 small hydropower plants that qualify to sell electricity to a utility under the 1978 federal law. Members include irrigation districts, canal companies, farmers and ranchers.

Idaho Power in its Dec. 30 request says it forecasts additional summer peak capacity needs starting next year and running through 2026, when the major Boardman, Ore., to Hemingway, Idaho, transmission line is expected to start operating.

"We anticipate sustained load growth that will require new resources to meet peak summer demand and maintain system reliability," the company said.

Idaho Power in its Dec. 3 application to proceed told the commission its proposed acquisitions are "necessary and required in a dynamic energy landscape in order to continue to provide reliable and adequate electric service to customers starting in the summer of 2023 and into the future."

The company said in its paperwork it identified a deficit that starts in June 2023.

Under PURPA, utilities must buy qualifying small hydroelectric facilities' power at a special rate. The state-approved rate reflects what the utility would otherwise pay to buy or develop new power sources.

"The importance of the capacity deficiency date to PURPA project development is economics," IdaHydro's Arkoosh told Capital Press.

He said the hydroelectric projects receive separate payments for energy delivered and for available capacity put online. The utility does not make added capacity payments until it reaches the first capacity-deficiency date.

The capacity payments would spur new development while a lower, energy-only rate would not, Arkoosh said.

"My clients advise that with a capacity deficiency date of next year, new small hydros would become economically feasible and would be developed," he said.