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Dairy

Study evaluates dairy processing costs

By CAROL RYAN DUMAS
Capital Press

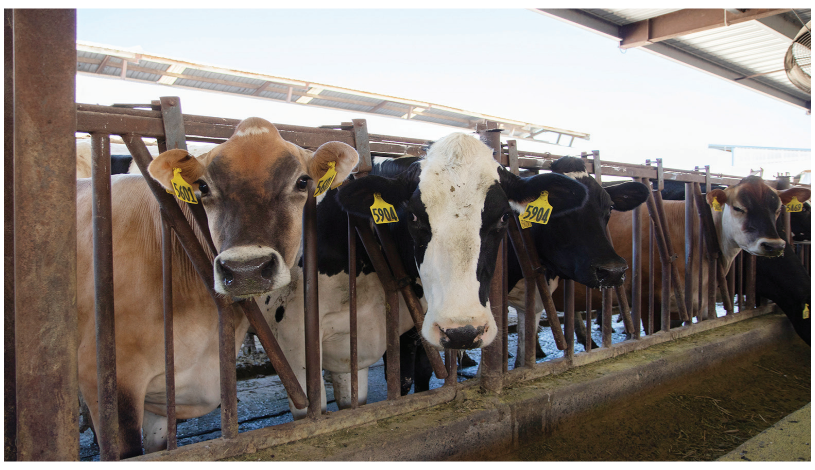
There is a lot of discussion in the dairy industry about reforming the Federal Milk Marketing Order system, including updating "make allowances," which address the cost of processing milk into dairy products, such as cheese.

To inform a potential change to make allowances, USDA in mid-February released a study commissioned through the University of Wisconsin on the cost of processing cheese, whey, butter and nonfat dry milk. The study was based on surveys of 61 processing plants across the U.S.

Daniel Munch, associate economist with American Farm Bureau Federation, broke down USDA's study and its possible implications in a recent report.

Make allowances are intended to be large enough to encourage the construction and maintenance of processing capacity and are deducted from dairy farmers' milk checks. They haven't been modified since 2007, he said.

"In general, any increase in make allowances would increase the deduction to cover processors' cost, decreasing dairy farmers' take-home pay in the short-run. A decrease in make allowances would have the opposite effect on dairy farmers' pay," he said.



Sierra Dawn McClain/Capital Press

USDA is studying the make allowance charged against farmers' milk income.

Based on total milk-class utilization volumes and make allowances for each class of milk, total make allowances — based on 3.5% butterfat content — would have increased nearly 33% under the values in the updated cost study in 2021, he said.

"This equates to a single-year $1.45 billion FMMO-wide increase in milk formula deductions to cover estimated increases in processor costs," he said.

Cumulative make allowances under the current system for 2017 through 2021 totaled $20.93 billion. Under the updated values, they would have totaled $27.56 billion, according to Munch's calculations.

"Across these five years, the adjusted values would have increased total make allowances by $6.6 billion, reducing the regulated revenue dairy farmers would have received for their milk by the same magnitude, all else held equal," he said.

USDA's study suggests processing costs have increased for cheese, nonfat dry milk and whey from both a 2006 survey by Cornell University and currently enforced make allowances, he said.

"This was an expected result given lingering supply-chain disruptions that have heightened input and labor costs across the broader economy," he said.

Values in the study are not the sole determinant in any future updates or changes to make allowances but similar studies have been used as a base reference point for FMMO hearing in the past, he said.

"Any increase in make allowances can lower the price of milk dairy farmers receive — reducing already shrunken margins — but must be balanced against the need to maintain sufficient plant capacity to process milk," he said.

Careful consideration of a widespread impact on dairy farmers' bottom lines is essential to any effort to change make allowances, he said.

U.S. dairy slams Canada's empty proposal on market access

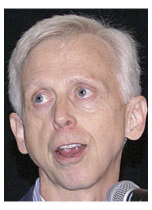
By CAROL RYAN DUMAS
Capital Press

The National Milk Producers Federation and the U.S. Dairy Export Council are denouncing Canada's proposal aimed at rectifying its breach of a commitment to market access for U.S. dairy under the U.S.-Mexico-Canada Agreement.

Issued last week by Global Affairs Canada, the proposal outlines changes to Canada's current scheme for allocating dairy tariff rate quotas, known as TRQs, negotiated in USMCA.

But NMPF and USDEC say it does nothing to improve market access and will continue to restrict dairy imports from the U.S.

In January, the U.S. Trade Representative's office announced it had won USMCA's first-ever dispute settlement panel by prevailing in its case against Canada that its dairy TRQ allocation process violated the agreement.



Jim Mulhern

A TRQ applies a preferential rate to a predetermined quantity of imports. Any imports above that quantity are subject to significantly higher tariffs.

U.S. dairy has argued that Canada reserves the bulk of TRQ access for Canadian processors, who have little incentive to import competing U.S. product. Canada's allocation scheme leaves only a small amount of TRQ access for distributors and gives no TRQ access for retailers — two segments with the strongest incentive to purchase U.S. dairy product.

Canada's proposal removes the specific earmarks for a certain percentage to go to processors, said Shawna Morris, vice president for trade with the U.S. Dairy Export Council and NMPF.

"However, the way that allocations are calculated will result in landing who gets most of the TRQs in essentially the same spot. Given this, the same concern remains about the TRQs being dominated by our companies' competitors in Canada," she said.

The proposal largely preserves the same problems with the present system. Retailers and foodservice companies remain intentionally excluded despite their clear involvement in the Canadian food and agriculture sector and interest in the TRQs, she said.

The proposal preserves the same narrow approach to primarily awarding the TRQs to Canadian processors that make the same product as U.S. processors wanting access to Canadian markets, she said.

"For instance, we expect the result of the process to award the bulk of the butter TRQ to Canadian butter manufacturers, the bulk of the cheese TRQ to Canadian cheese manufacturers, etc.," she said.

"They've tinkered around the edges a bit to be able to claim they've made a change, but this will land us in the same spot since it preserves the same flaws with the current TRQ process," she said.

Jim Mulhern, president and CEO of NMPF, said U.S. dairy producers are sick and tired of Canada's game-playing on dairy market access.

"All that American dairy farmers want is fair and good-faith implementation of USMCA's dairy provisions," he said in a press release on Thursday.

"We urge the administration to demand that Canada go back to the drawing board until it can genuinely deliver on providing the U.S. dairy industry the full benefit of USMCA," he said.

DAIRY MARKETS

Lee Mielke

Class IV price a record high $24

By LEE MIELKE
For the Capital Press

Volatility is the word of the day, the week and the hour as the Russian war against Ukraine rages on, raising havoc in every market, not to speak of the devastation of innocent human life.

Meanwhile, the Agriculture Department announced the February Federal order Class III milk price at $20.91 per hundredweight, up 53 cents from January, $5.16 above February 2021, and the highest Class III price since November 2020.

Monday's Class III futures settlements portend a March price at $22.61; April, $23.97; and a peak of $24.10 in May, 50 cents shy of the all-time record set in September 2014.

The February Class IV price is a record high $24.00 per cwt., up 91 cents from January, $10.25 above a year ago, and topped the existing record of $23.89 in August 2014.

You'll recall preliminary USDA data reported January milk production at 19.1 billion pounds, down 1.6% from January 2020. The January Dairy Products report shows which products got shorted.

Cheese output shot higher, totaling 1.168 billion pounds, up 1.8% from December and 2.8% above January 2021.