Dairy farmers concerned over water scarcity

By CAROL RYAN DUMAS
Capital Press

In the midst of a years-long drought, California is implementing the Sustainable Groundwater Management Act, creating even more concerns for the state's dairy farmers.

Signed in 2014, the law — known as SiGMA — requires local agencies to sustainably manage groundwater basins.

A big part of what SiGMA can be is a way to provide certainty about water allocations in the future, said Michael McCollough, professor of agribusiness at California Polytechnical State University.

"It's really difficult to run a business when you have uncertainty and when one of your main inputs … how much you're going to have on a year-to-year basis changes as much as it has over the last few years," he said during a virtual session of the California Dairy Sustainability Summit.

UC-Davis

Water is important to dairy cows but also for growing crops to feed them.

That uncertainty makes it even more difficult and a lot riskier for farmers. SiGMA will hopefully give producers an idea of how much water will be available so they can adjust, he said.

This is the first year SiGMA has started moving into the implementation phase, and people are starting to see direct impacts, said David DeGroot, principle civil engineer at 4Creeks Engineering.

"It takes a lot of water to operate a dairy. The good thing about dairies is they recycle a lot of that water over the years to become very efficient … but at the end of the day, it's still a numbers game," he said.

The biggest impact for dairies may be not so much on the dairy facility but on the feed side. Without adequate water or certainty of water, the question is where the feed will come from. The implementation of SiGMA is going to impact local forages, hay, silages and wheat, he said.

What goes hand-in-hand with that is water quality because dairies need to get rid of the nutrients they produce. The most efficient way to do that is to use crops to utilize those nutrients, he said.

"But if you can't mix those nutrients with adequate water and grow enough forages, then you're going to have a nutrient-reduction problem," he said.

Dairy producers need to be focused on managing their feed supply in concert with managing their nutrients, he said.

What would help dairy farmers is phased-in implementation that would give them time to adjust and SiGMA plans that allow for flexibility in water allocation and use from year to year, McCullough said.

U.S. best positioned to capture dairy demand

By CAROL RYAN DUMAS
Capital Press

While U.S. milk production has been constrained since last August, the U.S. is well positioned to become the preferred supplier to growing international dairy markets due to structural constraints in other exporting countries.

U.S. milk production has been relatively subdued due to short-term issues, said William Loux, vice president of global economic affairs for the U.S. Dairy Export Council.

"For one, we haven't really added too much new capacity so far this year. For another, we've had really high input costs on our farmers, making it less profitable even as (milk) prices have risen," he said during the latest "Dairy Defined" podcast.

But the U.S. is the one country that's structurally able to grow with global dairy demand, which is still growing overall, he said.

"Even in this inflationary environment, we're seeing consumers around the world really look to dairy, but specifically and on the structural and milk-production growth that we're talking about," he said.

Producers in Europe and New Zealand are dealing with the same short-term issues as U.S. producers, he said.

"You haven't seen much new capacity come online. They are dealing with incredibly high input costs, especially Europe as it relates to energy with Russia-Ukraine. But they're also dealing with higher feed costs and the like as well," he said.

Those countries are running into these temporary issues on top of the fact that weather wasn't that great this past year, he said.

"But they have some structural issues that are really going to be more of a constraint moving forward. That's where I think the U.S. is well placed," he said.

Both Europe and New Zealand — the largest and second-largest dairy exporters, respectively — aren't going to grow their milk production significantly over the next five to 10 years, he said.

"A lot of that has to do with environmental regulations that both governments are looking to put on the dairy industry," he said.

Those regulations aren't so much focused on sustainability as a way of maximizing productivity, making sure consumers are fed, while at the same time helping to protect the planet, he said.

"Instead, they're more focused on, at times, really disincentivizing dairy production and moving away from some of those animal ag issues," he said.

Countries like the Netherlands are driving programs to reduce the number of dairy cows by 30%, he said.

"That's not really necessarily in the spirit of 'Hey, there's a globe right now that is demanding dairy products. How do we do that sustainably,' which I think is the U.S. perspective," he said.

Port issues, inflation challenge dairy exports

By CAROL RYAN DUMAS
Capital Press

2021 was a record year for U.S. dairy exports in both volume and value despite logistical issues tied to the COVID-19 pandemic, but this year exporters face even more challenges, according to industry analysts.

To start, constrained U.S. milk production and strong domestic demand are limiting some opportunities for export growth, said William Loux, vice president of global economic affairs for the U.S. Dairy Export Council.

There are also continued logistical problems on the West Coast, and what's happening with China continues to be a major issue, he said during the latest "Dairy Defined" podcast.

The final thing is relatively high prices, which is causing lower-income consumers in key markets to push back at grocery stores, he said.

"So, as a result of that, we're seeing a little bit more subdued export performance to start the year, at least as far as volume goes," he said.

On a value basis, dairy exports are starting the year very strong due to higher prices and more exports of higher-value products — cheese, butter and high-protein whey, he said.

"So that's kind of creating this mismatch between total volume, at least to start the year, though I think the second half of the year will be much better compared to value…," he said.

Stephen Cain, director of economic research and analysis at the National Milk Producers Federation, said he expects some pushback from more price-sensitive regions, such as sub-Sahara Africa, the Middle East and North Africa.

In addition, the U.S. is still having problems getting product out of the West Coast and the buildup and backlog at Chinese ports is a growing issue, he said.

"COVID-induced lockdowns throughout the region have grown in number and intensity and the amount of people that are being locked down. That's effectively shut down some of these ports," he said.

As of late April, there were more than 500 vessels waiting to berth outside Chinese ports, he said.

"That backlog is really going to have an impact on global supply chain as well as Chinese demand moving forward," he said.

But bright spots remain in the export picture. Sales of high-value whey protein have been positive and saw some strong growth last year, he said.

"I think we'll continue to see that this year, especially in the countries like Japan and South Korea that focus on healthy aging, healthy living," he said.

Global cheese demand also remains strong, he said.

"I think we'll continue to see that throughout 2022, especially as regions continue to reopen, things get back to normal, he said.

Southeast Asia has had intermittent lockdowns during the pandemic. But things are getting back to normal, and that's going to be a boom for demand within the region, he said.

While dairy export volume might struggle to start the year, the U.S. is on a really good trajectory in terms of total export portfolio increasing and higher value in the back half of the year and in the years ahead, Loux said.

DAIRY MARKETS

Lee Mielke

Benchmark milk price jumps $1.97

By LEE MIELKE
For the Capital Press

The Agriculture Department has announced the April Federal order Class III benchmark milk price of $24.42 per hundredweight, up $1.97 from March and $6.75 above April of last year. It is the highest Class III price since July 2020 and 18 cents shy of the record high.

Monday's Class III futures settlements portend a May price at $24.77, which would be a record, June at $23.78; July at $23.51; August, $23.12; September, $22.81; October, $22.79; November, $22.44; and December at $21.92. If realized, the 2022 average would be $22.78, up from $17.08 in 2021 and compares to USDA's predicted average of $22.75.

The four-month average stands at $22.04, up from $16.40 at this time a year ago, and compares to $15.84 in 2020 and $14.71 in 2019.

The April Class IV price set another record at $25.31 per cwt., up 49 cents from March, and $9.89 above a year ago. Its four-month average is at $24.31, up from $14.14 a year ago, $14.78 in 2020, and 15.69 in 2019.

Busy vats and churns

You'll recall March milk production was down 0.5% from March 2021 but the month's Dairy Products report shows cheese vats and butter churns still got a workout.