

Speaking out . . .

Opportunity knocks, New Zealand's Fonterra answers

by John Nye

RECENTLY, we had an interesting visit from a dairyman who was also a Fonterra Co-op member from New Zealand. It was also one of the most disturbing conversations I have ever had about the dairy industry.

My premise was that when our U.S. milk prices start to go up, Fonterra ships boat loads of product into this country to artificially lower our price which makes the export of U.S. product more affordable for them. The gentleman said I was not correct, that they actually own enough supply in this country that they could dump it domestically, no ships needed.

Fonterra has partnered in many 10,000- to 20,000-cow dairies in China. They control the milk from those dairies and pay them enough that the new megadairies can, in turn, come to the U.S. and pay twice what we can afford to pay for alfalfa hay. This radically drives up purchased feed costs in the western U.S.

My next contention was that through these actions, Fonterra has effectively made the U.S. a balancing plant for the rest of the world. What do balancing plants consistently do? They lose money. Ask any co-op board member. My dairyman friend agreed that this was the case.

I asked him how a small country that produces about as much milk as Wisconsin could control the world's export market like they do. His answer was that U.S. dairy interests (our marketers) had allowed them to manipulate our markets. He indicated that they had made many billions of dollars due to our ineptness and ignorance.

A unified group

New Zealand dairymen are pretty much all graziers with similar operations. The dairy industry is very important economically to New Zealand. There, the dairymen work together and have the backing of their government.

Fonterra's attitude is that dairymen in the U.S. could not agree on what kind of rope to hang themselves with. As long as we are divided on dairy policy, Fonterra is very happy to take advantage of us. They are pretty sure we will never get together as an industry with one voice in this country.

One persistent problem with dairy in the U.S. is we are too willing to compromise all of our competitive advantages away. One example is we pay the freight on milk all the way to its final destination no matter the cost, then pay all the freight on all our inputs, as well. A good deal for someone but certainly not the dairyman.

With the advent of the new farm bill and the Dairy Security Act, my prediction is that the U.S. dairy industry will roll over and give away all the beneficial parts such as emergency supply management. Dairy needs to follow the example of the NRA (National Rifle Association). Like them or hate them, even with all the recent gun carnage in this country they have not blinked or given up one thing. You have to admire that.

As an industry we are so divided that processors, outside interests, like Fonterra, and politicians will forever be able to prevent us from making reasonable returns on our businesses.

It may not be as bad in the Midwest and East, but as China hauls away more and more of our roughage (and water), the squeeze will head farther east and affect more than just Western dairies. Other challenges include little tweaks in pricing; for example, yogurt makers paying Class III price for a Class II product, end-product pricing and true protein over crude protein. Every time one of these great pricing schemes get implemented, our pay price permanently erodes just a little bit more.

New York and Idaho are excited

about yogurt and a greater demand for milk, but never mentioned by the power brokers is the idea that paying a little bit more for that milk will provide all the milk plants need. Cheap financing and how to get dairymen more financing for expansion is often talked about by processors and politicians. We don't need more bank loans, we need more price for our product.

However, to go along with that more equitable pay had better be an emergency supply management component to keep the inevitable over-supply in check, to prevent the ruinous prices we have experienced over the last several years.

As dairymen, we have been told that the future lies in exports of dairy products. My hay growing neighbors really believe this. Their prices for alfalfa hay doubled overnight as it was going offshore to China and the Middle East.

We export 13 percent of our product now, with no demonstrated enhancement in pay price. Indeed, we have been allowed to work harder to produce more milk for even greater price volatility.

It appears to me that until dairymen cooperate and unite as businessmen with similar interests and goals, we will continue to have no positive influence over our milk prices. We will forever have to take what we are given for milk, which is just enough to make us think that better days may be coming.

There are a lot of sharp minds in our industry. Are they up to the challenge to help us take control of our destiny rather than it controlling us? 

The author is a Utah dairy producer.