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FUTURE OF THE DAIRY INDUSTRY IN MINNESOTA AND THE UPPER MIDWEST

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I would like to begin my presentation today by giving you a brief history of the dairy industry in Minnesota and then spend some time talking about what has happened and what the future might hold.

Dairy farming moved into the midwest in the middle 1800's as farmers moved west. The dairy industry itself began as towns sprung up and cattle herds expanded. This area was earliest known for it's butter production with the first butter plant opening in Iowa in 1871. The invention of the continuous centrifugal cream separator by Dr. Gustav De Laval in 1878 really opened the way to farm-separated-cream and the growth of many local creameries. By the turn of the century, butter became the major product in Minnesota and Iowa while the cheese industry was developing all around Wisconsin.

The earliest records in Minnesota indicate in 1901 there were a total of 690 plants; 527 co-op butter plants and 163 independents. The earliest milk production figures we have are from 1905 which show a little over 3 million pounds but indicate over 60% of this milk was used on the farm. Of milk or cream sold off the farm, 66% went into butter and 26% to fluid uses.

The largest number of creameries ever to exist in Minnesota was in 1935 when there were 876 butter plants of which 635 were co-ops. Milk production, at that time, was 7.3 million pounds with 60% still being used on the farm and, of the milk sold, 63% was in butter and 20% in fluid products. Unfortunately, our early records do not indicated the number of farms producing this milk. Most milk and cream was purchased from farmers on an irregular basis and total farm numbers were difficult to obtain, but the industry remained relatively unchanged from the early 1900's until the late 1930's and early 1940's.

It was after World War II that the dairy industry in Minnesota really began to change and records became more accurate. In 1942, Minnesota had nearly 100 cheese plants; the most ever in the state's history but these numbers dropped quickly and by 1950 only 50 remained. Minnesota's cheese industry was taking on a different form than Wisconsin's small individual specialty plants and was moving toward larger plants making mostly cheddar type cheeses.

During World War II, the government supported the construction of more dry milk plants as the importance of this product became evident during the war. By 1945, the use of milk in the manufacture of dried products had increased almost 30% in Minnesota, thus reducing the milk used in butter by that amount. This increase in production of dried milk continued to occur until it reached its high point in the late 1960's making up about 53% of the milk utilization. At that point, the change over to cheese production began as the cheddar market increased and pizza was becoming more popular. This change was also reflected in the changes of numbers and types of dairy farms.

In the late 1940's, Minnesota had 133,000 dairy farms; 52,000 Grade B and 81,000 cream farms

but these numbers dropped quickly over the next 30 years and by 1985 all cream producing farms were gone and about 22,000 dairy farms were all that remained.

The first Grade A farms were established in Minnesota in the 1940's and numbered about 5,000. This number remained stable until 1970 when pricing changes made it more attractive to ship Grade A milk and the instillation of bulk tanks through the 1960's had promoted a higher quality milk and brought on premium programs for producers who made the switch from cans to bulk. The largest number of Grade A farms in Minnesota, 10,600, was recorded in 1983, just prior to the "Whole Herd Buy-Out Program". Since that time the number of Grade A producers has fallen to the current number of just over 9,000. While this does not indicate much of a drop in a 12 year period, the real loss was in manufacturing or Grade B producers which went from 14,000 in 1983 down to less than 3,000 today.

What impact has this loss in farm numbers had on our milk production? Again our highest annual milk production in Minnesota was just short of 11 billion pounds in 1983 and has slowly declined to 9.3 billion pounds for 1994. Minnesota today produces only slightly over 5% of the nation's milk supply.

The number of cows has dropped from well over a million to just over 600,000 but we have seen a slow but steady increase in the production per cow. An important trend to the future of Minnesota's dairy industry. The number of cows per farm has also risen.

So farms are getting larger and more efficient but the dairy industry still struggles in Minnesota. Why? Let's look at the impact of these changes and where it all might lead.

As the number of family farms has declined so have the rural communities which for years were necessary to provide services to these many families and their dairy farms. The hundreds of old town creameries are now restaurants, boat dealers and other businesses and dairy farmers ship their milk longer distances to larger, more efficient, processing plants. It has been difficult for many farmers to adapt to the rapidly changing technology of milk production as a business rather than a way of life. I have seen dramatic change on my own farm and in my own community. My sons and their families have converted the old home farm into a true agri-business and our milk is now sold to a co-op whose offices have moved hundreds of miles away. Dairy farming is still a wonderful way of life. We enjoy its many ups, and some downs. We realize there is a real future for the dairy business in Minnesota, but recognize there are more changes and adjustments which will have to be made.

The average age of Minnesota dairy farmers is rising to the upper 50's rather quickly. This means mom and dad want to retire but who will take over the farm? Often times the children have gone to college and looked to other employment opportunities because they don't see the efforts of dairy farming being a worthwhile way of life. The Minnesota Department of Agriculture has been very active in promoting low interest loan programs and other incentives to young farmers through our Rural Finance Authority. It is difficult for an older dairy farmer to sell his farm to a younger non-family member because of our tax laws. We are actively working to make the necessary changes so this turnover process is advantageous to all parties. This is not the only old

law we are struggling to change.

The price we are paid for our milk is still based on a system established in 1937 and, as I spoke of earlier, the farm and plant picture has dramatically changed over the past 50 years. Federal Milk Marketing Orders have been a concern to farmers in this region of the country for many years. Minnesota's Federal Order #68 receives the lowest Class I differential in the country. These price differentials are based on the distance from Eau Claire, Wisconsin. Many years ago this could have been considered the central point for the production of surplus milk, but not today. The surplus is now in the west and southwest; thousands of miles from Eau Claire and transportation methods and costs have also changed dramatically. Former Commissioner Jim Nichols made efforts to get USDA to consider changing these pricing systems but met with no success. In 1988, he decided to ask farmers to contribute money for a lawsuit against the Secretary of Agriculture. Almost \$150,000 was collected and turned over to the Minnesota Milk Producers Association (MMPA), who agreed to carry out the lawsuit. Their efforts have been strong but the rewards have been slow in coming over the past 5 years.

The first decision by the courts gave the dairy farmers the right to file for action. As a result, the Secretary of Agriculture scheduled hearings on Federal Orders in 1990. The hearings were broad based and held all over the country, with little agreement on exactly how changes should be made to the orders. The result was only a change in the classification and use of reconstituted dry milk. No Class I changes were proposed. An appeal of this decision was filed by MMPA and in April of 1994, the Secretary's decision was ruled arbitrary and capricious and he was ordered to provide better justification for his action based on the record. The Secretary's revised decision recommended no change, so MMPA is back in US District Court seeking another order to strike down the Secretary's decision.

Frustrated by the slowness of the court action and the ineffectiveness of the USDA milk order hearing held in 1990, the state legislature tried to help by setting up an over-order premium payment program to return more money to dairy farmers in Minnesota. This program placed an assessment on dairy processors for every cent that the Federal Order Class I price dropped below \$13.20 per hundred weight of milk. This additional money was to be redistributed to all dairy farmers based on their production during that month. It was in effect for 9 months in 1992 and 1993 and did return almost \$6,000,000 to dairy farmers. However, the dairy processors filed a lawsuit against the MDA to stop the assessment because they felt it was unfair to producers in other states. The Federal District Court ruled the law was unconstitutional and did violate the interstate commerce clause of the US Constitution. At the same time a similar law in Massachusetts was headed to the US Supreme Court where it was eventually declared to be unconstitutional also. The result of this action made it quite evident that states were not going to be able to change milk pricing systems which affected producers, particularly those whose milk might cross a state border. As a result, Minnesota did not appeal their earlier Federal District Court decision and the over-order premium law ended in 1993.

Where does this leave us as far as federal programs are concerned? Well, the lawsuit is still active and a motion for summary judgment will be heard May 26, 1995 in Federal District Court. A number of Midwest states have filed briefs in support of this action and hopefully MMPA will

receive a positive response from the court. Even if this should occur, it is likely that the new Secretary of Agriculture, Dan Glickman, might again appeal or at the most, offer to open new hearings to look at the problem. In either case, the ultimate solution will be slow in coming. Not something for which I believe our dairy industry can spend too much time waiting.

The other hope for some federal change is the 1995 Farm Bill. Representative Steve Gunderson from Wisconsin, Chairman of The Livestock, Dairy, and Poultry Subcommittee of the U. S. House Agriculture Committee has indicated a real interest in changing milk orders. He has held hearings around the country, including one I testified at in St. Paul. He has taken a lot of "grass roots" testimony and indicates he will be using these findings to help formulate his position.

During the hearing April 19 in St. Paul, we presented Governor Arne Carlson's seven-point plan for reforming the federal order system. I stressed that one of the most important reforms for which we are advocating is to adopt a Class I differential that is uniform for all orders. The Class I differential is an amount added to the base Minnesota-Wisconsin Series Price for fluid milk. It establishes a value difference between fluid milk and other milk used for manufactured products such as cheese. There is no longer any rational basis for dairy farmers in the Southeastern Florida order to receive a differential of \$4.18 per hundredweight for their milk, while Minnesota farmers receive a differential of only \$1.20 per hundredweight.

I also stated public then, and will repeat now, that if we cannot achieve meaningful reform of the federal dairy policy in the 1995 Farm Bill, we will strongly consider advocating the elimination of the federal milk marketing order system.

However, before we endorse the elimination of the federal order system, we need to know the impact such a move would have on our dairy producers.

Governor Carlson recognized that fact and recommended money in his fiscal year 1996-97 budget to support a study to determine this impact and also provide support for the on going lawsuit should that continue to be necessary.

This is very important support for dairy farmers but in and of itself, is not going to solve the problem of maintaining a viable dairy industry in Minnesota. Minnesota has gone from a surplus milk producing state, to a deficit milk producing state with plants not being able to operate at best efficiency because of inadequate supplies of milk. There is a real concern that should Minnesota lose more processing facilities, they would be very hard to get back even if milk production did take an upswing in the future.

As a result of this situation, it has become apparent that Minnesota's dairy industry needs to take some action on its own to see if this decline can be stopped before it is too late. In 1992, a group of industry leaders got together and formed the "Dairy Leaders Roundtable", a group of 32 individuals representing all phases of the industry; producers, processors, business, banks, the university and MDA. Led by Dr.'s Ed Frederick and Dick Goodrich of the University of Minnesota, this group set out to develop a list of tasks that could best address the concern of maintaining a viable dairy industry in Minnesota.

The Dairy Leaders Roundtable, on which I serve, adopted 13 recommendations for specific action to improve the future of dairying in the state and they are as follows:

1. Support a study to put dollar values on the impact of dairying on the state's economy, so that the public can recognize the importance of this sector in the state's overall well-being.
2. Encourage optimism on the part of dairy farmers by setting a specific production goal for the state and by showing producers how they can get an economic return sufficient to make dairying worthwhile.
3. Find new ways to procure financing in the dairy industry that don't depend on land equity.
4. Develop legislation to make it easier for dairy farmers to get debit-based loans.
5. Develop legislation to make it easier for dairy farmers to get equity-based loans.
6. Develop sound models of alternative dairy operations such as dairying without land or without forage production, contracting part of the operation, or ten-month dairying.
7. Find better ways to transfer ownership of dairy farms.
8. Minimize the need for additional regulation by educating farmers on environmentally sound ways to use manure and fertilizer.
9. Increase awareness of how zoning ordinances and other local regulations can discourage dairy farming.
10. Create a state ombudsman to help farmers deal with conflicting federal, state and local regulations.
11. Improve premium payment programs to better encourage quality milk production.
12. Create a statewide dairy resource center that would bring the expertise of all components - public and private - of the dairy sector together to meet the information needs of farmers and others.
13. Create a permanent dairy leaders group to continue the work of the Dairy Leaders Roundtable.

Many of these recommendations have been completed but there is much more that will need to be accomplished to meet the goal.

The University of Minnesota's "Dairy Initiatives" program is moving to help meet some of these recommendations. They have developed farm analysis programs and are assisting farm families in making good decisions about their future as dairy farmers. There are dairy reference manuals,

encyclopedias and diagnostics manuals now available through the dairy core groups. Computer software and educational videos on dairy management are becoming available in more and more areas. Case study farms are in operation and have proven to be very successful. These farms are open to visits from other dairy farmers to share ideas and to help them develop their own

operations. They identify ways to boost profit through the use of sound dairy practices and demonstrate the benefits of adopting new technology to make dairying a better way of life.

The Dairy Leaders Roundtable and the Dairy Initiatives have a collaborative process put together to enable the needed changes to be made on individual dairy farms. Now the skills or tools have to be furnished to make it all happen. The following are some of these important tools:

1. Establish a statewide program to mentor and assist new entrants into the business of dairying. The facilities are out there, we just need a means of getting the people together and the financial and management help to make it happen.
2. On-farm dairy education programs which can bring together the demonstration farm concept with the applied skills and best management practices on a one-on-one basis. This will enhance the productive potential and financial management of dairy farms in Minnesota.
3. Provide a benchmark for farm managers to compare their economic performance through accessible database information. Many of our dairymen do not know what it costs them to produce one hundred pounds of milk and, if they do, they may not know how good or bad it is in comparison to others in their area. Annual farm financial performance is a major requirement for future viability as a dairy farmer.
4. Rapidly developing technology requires a means to keep up. This can be accomplished by the development and use of informational videos which are readily available to all dairy farmers. These can come from many sources and you, no doubt, have some available through your clinics, but they do no good unless we get them out to dairy farmers.

As you can tell, I believe knowledge and its communication are the keys to the future of the dairy industry in Minnesota.

We have all learned there are a lot of positive things going for our dairy farmers in this state. Things which can make them as competitive as dairy farmers anywhere in this country, provided they are willing and able to make the necessary adjustments. The Dairy Initiatives and the Dairy Leaders Roundtable are headed in the right direction but support has been slow in developing. Hopefully that will change and Minnesota can remain a strong dairy state well into the future. A place where young farmers can start or maintain a business that will provide a good living and the type of life style that has been such an important part of Minnesota's past and should be of its future.

As you can tell, its hard to get dairy farming out of your blood, but it can bleed you to death if you let it. We want to see that this does not happen in Minnesota. A healthy dairy industry starts on the farm with those beloved cows and the people who really care about them. Everyone here is an important part of that success. By working together in every way possible, we will make it happen. As Minnesota's Agriculture Commissioner and a dairy farmer, I want to thank all of you for the help you have given in the past and the commitment you have made to bringing about change. The future of Minnesota's dairy industry rests with all of us, let's work together to make it a bright future. Thank you.