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Report of the Kansas Dairy Marketing Advisory Board
to
the Standing Agriculture Committees of the Kansas Legislature

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The Kansas Legislature created the Dairy Marketing Advisory Board in 1994 with the enactment of K.S.A. 74-555. This board reports annually to the Senate and House Agriculture Committees.

The Kansas Dairy Association may make nominations to the governor for consideration as appointments on the board. The members of the board shall be appointed by the governor and is made up of two dairy producers, one dairy processor, one consumer and the secretary of agriculture or his or her designee. The current board members are: Steve Ohlde, producer; Lynda Foster, producer; Rabecca Harris, dairy processor; Kerri Ebert, consumer; and Acting Secretary of Agriculture Dale Rodman.

The dairy marketing advisory board is tasked with three duties: 1) to study and evaluate the need for establishing a statewide milk marketing order; 2) to make recommendations as to the implementation of milk marketing orders; and 3) to prepare and submit to the standing agriculture committees of the legislature a report of its findings and recommendations.

The Kansas Dairy Industry

The Kansas dairy industry continues to change. As we have reported the last few years, the state continues to have fewer dairy farms but with higher milk production per cow and per farm. The increase in production since about 1999 has been dramatic, with Kansas showing a 12.3 percent increase in total production in the reporting period of 2004 to 2009. This is attributed to not only the growing industry in western Kansas but the overall increase in dairy farm size throughout the state.

For benchmarking purposes, we can compare the early 1980s dairy picture with present numbers. There were 1,327 Grade A dairies and 738 manufacturing grade operations in 1981. Those dairies had 123,000 cows that produced nearly 1.4 billion pounds of milk. By the end of 2010, Kansas was down to 345 Grade A dairies and 42 manufacturing grade dairies. Those dairies had approximately 121,000 cows that produced more than 2.4 billion pounds of milk. Kansas ranks 9th in production per cow and is in the top 20 milk producing states, coming in at 16.

The Kansas dairy manufacturing industry has been relatively stable. Dairy processing plants in Kansas have not grown as much as milk production from Kansas dairy farms. Kansas is a net exporting state for raw milk. Total dairy farm production in Kansas is approximately 135 tankers of milk each day. Kansas dairy processing plant capacity is approximately 26 tankers each day. There is some interest in building a large cheese plant in western Kansas to process some of this excess production, however regional processing plant capacity must be considered. When one considers the dairy manufacturing plant capacity within 300 – 400 miles of southwest Kansas, we see that there is a demand of more than 1000 tanker loads per day to fill currently existing dairy processing plants. The economics of investing millions of dollars in a new processing plant must be weighed against milk transportation costs before a new Kansas cheese plant becomes a reality.

Changing National Picture

Nationwide, United States milk production has increased 10.8 percent from 2004 to 2009. Nationally, the dairy growth areas continue to be in the west and southwest, including New Mexico, west Texas, west Oklahoma and southwest Kansas due to favorable environmental conditions. Southwest Kansas is benefitted by the drier climate with the added advantage of nearby dairy feed sources. The nationwide trend to larger regional processing plants continues.

Dairy product consumption has changed substantially over the past several decades. These changes have important implications for all involved in production, processing and marketing of milk and dairy products. A strong positive trend in per capita consumption of all dairy products has been shown since the mid 1970s, increasing by some 72 pounds per person (+13.4 percent). When one examines this increase in per capita consumption we see that cheese consumption has increased 130.3 percent while fluid milk and cream consumption has decreased 21.5 percent. The popularity of Hispanic foods and pizza, both utilizing large amounts of cheese, has fueled this overall increase in dairy consumption.

Milk Prices

Federal milk marketing orders have been an integral part of the U.S. dairy industry for many years. Milk orders were first implemented in the 1930s and have been a fixture ever since. They have been continually amended and updated, however, to accommodate industry modernization and changing marketing conditions. Fluid milk markets are inherently unstable due to the uncoordinated nature of fresh milk supply versus demand, which is compounded by milk's perishability and seasonal production variability. Federal milk orders were conceived and implemented with the goal of counteracting the inherent instability in fluid milk markets. The primary objective is to provide a framework to make buying and selling milk a more orderly process for producers and processors.

Milk prices received by dairy farmers hit a 30-year low in March 2009. The year 2009 was a difficult one for dairy producers. Plummeting prices in the dairy industry coupled with rising feed, energy and other input costs left many producers financially weaker. Producers who survived 2009 looked forward to a predicted milk price recovery in 2010. However 2010 milk prices did not recover to the extent expected.

For historical purposes we can compare late-year statistical uniform prices (SUP) in Central Federal Order No. 32. We see $20.36 for December 2007; $18.63 for December 2008; $14.96 for December 2009 and $15.29 for December 2010. In recent years the Cooperatives Working Together (CWT) program has tried to stabilize prices in a voluntary effort by producers to take cows out of production to help boost milk prices. The recent reduction in the number of Kansas dairies can mostly be attributed to CWT buy-out programs. Late in 2010 it was announced that the CWT programs would discontinue dairy buy-outs and focus more attention on increasing demand and sales of dairy products both domestically and exported.

The outlook for 2011 farm prices is somewhat better. Even though the future looks brighter, it is going to take time for dairy farmers to gain back the equity that they lost in past years.

Dairy Consumer Issues

Consumers of milk and dairy products have never had as many choices as today. Prices for whole milk in retail stores are currently averaging just over three dollars per gallon. Milk labeled "natural" or "rbST free" command higher prices and organic milk is priced even higher in the stores. Consumers are confused by the many labels they are confronted with in stores. Furthermore, processors sometimes label milks as "antibiotic free", "pesticide free" or "milk from cows not treated with rbST". All milk is tested repeatedly to assure it to be completely free of antibiotics and pesticides. The U.S. Food and Drug Administration approved the use of rBST in 1993. However, many dairy farmers and producer groups believe these label statements are misleading to consumers. Some producers fear that approved technologies such as rBST that allow them to efficiently produce milk may not be available to them in the future. The dairy industry has learned that it must listen closely to consumers and provide innovative ideas, products, ingredients and packaging to meet their needs.

Several Kansas dairy producers are pasteurizing, bottling and packaging dairy products on-farm in an effort to take advantage of consumer demand for "natural" dairy products. The success or failure of these operations will depend on the producer's ability to successfully compete with regional dairy processors in the market place. Small on-farm dairy processors trying to establish niche markets must somehow reach confused consumers trying to do the right thing while managing food budgets in a down economy. In the end high quality dairy products, produced locally can still command premium prices.

Regional Dairy Compacts

The Kansas Legislature acted in 1999 to allow the Kansas secretary of agriculture to enter into a southern interstate dairy compact if it was determined it would benefit Kansas producers. The Kansas Dairy Association supported this action. The goal of compacts was to stabilize prices paid to farmers for fluid milk, thus reducing business uncertainties and stabilizing the regional milk supply. There has been no action to form such a compact in the past year, and none is expected in the near future.

Conclusion

The dairy industry continues to change at a fast pace. Historically, dairy markets were local with farm produced milk being processed and marketed in the nearest city of any size. However with the advent of better refrigeration and transportation, the dairy industry has become regionalized. Global markets now affect even the smaller producers as evidenced by the pressure on United States milk regulators to lower somatic cell count levels. Kansas is adapting with many positive changes. Increases in total milk production improves the state's chances of attracting a new processing plant with jobs and economic benefits. Also, several smaller producers are developing ideas to produce cheese or bottled milk for niche markets.

At this time the Kansas Dairy Marketing Advisory Board does not see a current need to establish a statewide milk marketing order and respectfully recommends to the Kansas Legislature that it continues to monitor these issues and their impact on the production practices and the milk prices paid to the Kansas Dairy Industry. We thank the Kansas Legislature for its interest. The Board stands ready to appear before the Senate and House Agricultural Committees, if appropriate, to discuss these ongoing issues and any recent developments.