Opportunities and Challenges for the Northeast Dairy Industry

We are in an unprecedented, at least in my time, period of change in the dairy industry in the Northeast. And, also the Upper Midwest, for that matter. Articles in this month’s The Manager highlight the significant growth in dairy products manufacturing capacity over the past several years and look to more coming online over the next several years.

Clearly, dairy manufacturers are bullish in their infrastructure investments in the Northeast, and the overall atmosphere regarding dairy processing in the Northeast. Northeast Dairy Foods Association’s Executive Vice President Bruce Krupke reinforces this in his article about confidence in the Northeast milk supply.

Dairy production in the Northeast and Upper Midwest continues to grow as well. Wisconsin, Michigan, and New York ranked first, second and third, respectively in total milk production growth from 2011 to 2012 in the US. They were also in the top five US states for milk production growth over the three-year period of 2009 to 2012. As Ed Gallagher, President, DFA Risk Management, predicts in his article, New York’s total milk production should increase again in 2013, reaching nearly 13.5 billion pounds. Gallagher further predicts that dairy manufacturing capacity in the Northeast could exceed regional production by 1 to 2 billion pounds sometime in 2014, thus tightening up milk markets.

It seems appropriate to take stock of the Northeast and Upper Midwest dairy industry’s strengths and challenges as we consider emerging opportunities. My perspective and familiarity is mostly centered in New York and other parts of the Northeast, but many of these characteristics apply broadly within the eastern region of the US.

Top five strengths of the dairy industry in the Northeast and Upper Midwest:

1) A renaissance in dairy manufacturing capacity in the Northeast and Upper Midwest. This is clearly a strength that geographically connects farm-level production, processing and consumers. Given our milk pricing system, there are some real considerations at the farm-level to shift utilization from fluid to other classes of milk. This is discussed more under “challenges.” However, in my view, we are much better off having growing opportunities for dairy production, rather than the other way around.

2) Resources, including water, forages, land, and overall environment for dairy production. This is a big strength of the Northeast and Upper Midwest compared to other regions. In most areas we generally have enough water of sufficient quality to support both crops and livestock. Yes, I realize that some years we don’t have quite enough at the right times, and there are certainly years such as 2013, when we have too much at the wrong time. Both of these situations have dramatic influences on forage quantity and quality. Further, the Northeast has a remarkable number of rainfall microenvironments. In many areas land is well-suited to grow high-quality forages and increasing acreage is devoted to corn and soybeans to support dairy needs in part. Finally, our overall climate, at least for much...
of the year, is conducive to dairy cows. Summertime heat stress, however, is a real issue. Getting adequate heat abatement into dairies continues to be a priority area, as the impacts of heat stress extend well beyond what a dairy farmer sees in the tank. The real impacts come from effects of heat on health, reproduction, lameness, and the fluctuation in calving patterns that can cause ripple effects through the entire dairy.

3) Progressive mindset of many dairy producers and dairy producer-led organizations. The Northeast, Upper Midwest and Southeast have many outstanding, progressive and business-oriented dairy producers. They have reinvested in and grown their dairy businesses, developed their next generation of management, maintained high levels of profitability, been active in developing policies related to key issues such as environmental regulations, and been active in farm organizations. There are excellent, forward-thinking dairy producer organizations, such as Northeast Dairy Producers Association (NEDPA), Dairy Business Association (DBA), Professional Dairy Producers of Wisconsin (PDPW), and Professional Dairy Managers of Pennsylvania (PDMMP), among others. The roles of these producer-led organizations range from advocacy at the state and federal levels for policies that impact the climate for dairy business to the conduct of educational programs that help their members be more competitive in the dairy industry, to promoting modern dairy production to the non-farm public.

4) Excellent allied support professionals and connections with land-grant universities. In my job I occasionally have the opportunity to travel and have some exposure to the dairy industry around the world. While the vast majority of my focus is our own dairy industry, of course, these opportunities help me see what others are doing that we should consider, and frequently helps me recognize some of the strengths of our own dairy industry.

I recently returned from a week-long overseas trip with another Cornell faculty member to an area that had excellent cropland and overall natural resources to support dairy production. On the surface there were many similarities to the Northeast and Upper Midwest. Two of the four farms that we visited had freestall barns with Holstein cows and one had a 72-stall rotary parlor. We saw bunker silos filled with corn silage and alfalfa haylage, sugar beet pulp and wet brewers grains, and TMR mixer wagons. Yet production levels on the highest producing dairy that we toured were between 55 and 60 pounds per cow per day. Several of the farms had significant opportunities in nutrition, reproduction and health aspects of management. This scenario is not unique to this location. I have seen similar scenarios in other parts of the world that I would consider to be developing their dairy production.

I came away with the impression that the agriservice professional support network was somewhat rudimentary compared with our own, and that there really was not any meaningful connection of dairies at the farm-level with the university. The land-grant concept that the university should be directly engaged with agricultural industries is uniquely American. Speaking from a strictly Cornell perspective, there are many programs here, including PRO-DAIRY and related programs, FarmNet/FarmLink, Quality Milk Production Services, Nutrient Management SPEAR program, Dairy Farm Business Summary and Analysis program that have linkages with dairy farms and their allied industry professionals. We have regional- and county-based Cornell Cooperative Extension educators. We have an excellent fabric of agriservice professionals in the private sector, including nutritionists, veterinarians, lenders, crop consultants, CAFO engineers and other consultants who work actively with their dairy farm clients to bring fresh ideas and to help them be successful. I realize that there are differences among universities, and also within the private sector, in terms of the availability and emphasis on these efforts. But, overall, this is a significant strength of our dairy industry in this region and in many other regions of the US.

5) Overall state support for the development of the dairy industry. I believe that overall state support for dairy industry development has been strong, at least in parts of the Northeast and Upper Midwest. In New York, development of dairy manufacturing and farm-level support is supported through new programs such as the Dairy Acceleration Program (DAP). In this issue PRO-DAIRY’s Caroline Potter’s outlines that DAP provides funds for business planning and facility/farmstead plan development along with funds for environmental planning. These funds are in addition to longstanding state programs that New York has supported as part of its relationship with Cornell. New York also has provided financial support for farm-level based research and extension projects through the New York Farm Viability Institute. In Pennsylvania, the Center for Dairy Excellence is very active with programs to support development of the dairy industry. Wisconsin has had many state programs during the past 15 years focused on providing funds to support dairy planning, low interest loan programs and tax credits. Other states within the circulation of the magazine also likely have programs these areas.

Of course, we also have our challenges for success of the dairy industry.

Top five challenges to development of the Northeast and Upper Midwest dairy industry:

1) Volatility of milk price at the farm-level. This is a longstanding issue within the dairy industry that has a number of facets, many of which are beyond the scope of this article. In the Northeast, we have long depended upon high Class I utilization to contribute to a relatively high pay price. The shift away from Class I to manufacturing use in the Northeast must be compensated for by some combination of potentially increased premiums and potentially decreased hauling costs as occurred in Wisconsin with very high (>90%) Class III utilization. In addition, multi-year contracts between producers and their cooperatives with processors might take out some marketplace volatility, which may lead to more stability at the farm-level.

2) Immigration/labor availability issues. This is another longstanding issue within the dairy industry that simply
must be addressed through reform of our immigration system. Discussions of growth at the farm-level are silenced pretty quickly if there is concern about the availability of employees and the stability of the workforce. This issue has varying importance across the region, mostly as a result of the level of Immigration and Customs Enforcement activity. In parts of New York, this activity has been very high and farmers live with the daily threat of loss of their workforce. For them this issue is number one. In other areas of the region, the root issue is the same, but less active enforcement activity lessens the urgency of fixing the problem.

3) Land resource limitations. In some parts of the Northeast and Upper Midwest, land availability issues exist and are constraints to growth at a single site. These issues can comprise some combination of cost, especially in areas where land use for dairy competes with housing development or cash crops, quality, and simply proximity to the dairy. It is not unheard of for dairy farms in Eastern NY to travel 15 to 20 miles, with travel times of up to 45 minutes to reach some of their land. In these regions, a multi-site dairy operations model may be attractive. At least in some parts of the Northeast and Upper Midwest, this land proximity and availability also makes it difficult to assemble enough land to capture economies of scale at a single site that are possible in some other areas of the country.

4) Business climate. Dairy producers continue to deal with increasing regulations and enforcement related to environmental issues, occupational health and safety, permitting (in some areas). The intent of many of these is reasonable, but the processes involved are often burdensome and efforts need to be made at the state and federal levels to develop ways to achieve the goals without increasing the burden on individual farms.

5) Mindset and approach. Despite the many producers and allied industry professionals who I consider progressively minded about their businesses and their clients, there remain many farmers and people within the dairy industry who are traditional in their thinking and cling to the past rather than focusing on the future. Hockey Hall of Famer Wayne Gretzky was once quoted as saying that the secret to his success was that he “skate(s) to where the puck is going to be, not where it has been.” I think that we need to consider this approach within the dairy industry. Do the models of how we have done business in the past fit with our current and future dairy industry in the Northeast and Upper Midwest?

As outlined in another article in this issue, members of Cayuga Milk Ingredients LLC think that a different model will yield better returns. In the Northeast, how much dairy farmer resources should be devoted to recapturing fluid consumption versus enhancing consumption of dairy products in general? In our dairy states in the Northeast that are integrated with large segments of our population who do not understand where their food comes from, how important is it that our dairy industry actively seek to educate the public regarding modern dairy farming practices?

A time to invest

I believe that the time is now for the dairy industry in the Northeast and Upper Midwest to invest. I think that it is time for the industry to invest in modernizing its facilities and management practices to ensure efficient, profitable production of high quality milk to meet growing overall demands for dairy products led by the increases in dairy manufacturing. Cornell University and the State of New York have made the investment in infrastructure, with a $105 million renovation and construction of new Food Science building and Dairy Plant by New York State; $8 million construction of new Teaching Dairy Farm with 180 cows adjacent to campus for use by the Cornell Veterinary College and the College of Agriculture and Life Sciences by New York State; and $8 million construction of the new Cornell Dairy Research Center with 550 milking cows funded internally within the College of Agriculture and Life Sciences at Cornell.

Dairy producers invest large amounts of money through their milk promotion checkoff to support postharvest research and dairy product development. Yet, at least in New York, there is not a mechanism for dairy producers to invest directly in applied research and education efforts that will return to their bottom line. Innovation at the farm level has been one of the true hallmarks that has been a competitive advantage for our Northeast dairies and will be critical for continued success of this industry at the farm level. Dairy producers need to develop mechanisms to fund the best ideas that will have the biggest impact for dairies in our region. In turn, that will direct the work that is done to the best interest of the industry. ■