Industry-Driven

Dairy Herd Retirement

It isn't a government buyout, but will it hurt the cattle market?

by Troy Smith

A couple of months ago, rumors of a dairy herd buyout caused discontent in cattle country. Talk was that federal lawmakers sympathetic to the plight of the dairy industry wanted to allocate some $200-$300 million, through the economic stimulus bill, for that very purpose. The proposal raised hackles among cattlemen remembering the last time U.S. taxpayers were asked to fund a dairy buyout, and the consequences.

The National Cattlemen's Beef Association (NCBA) and several state affiliates were quick to state opposition to any action like that which occurred in 1986. NCBA reminded lawmakers of how a flood of dairy cows coming to market caused cattle prices to nose-dive. A 25% decrease in cattle prices caused beef producers to lose an estimated $1 billion.

The new proposal never gained much traction and did not become part of the stimulus bill. Actually, there were few cries of despair. Dairy industry spokesmen said they had not lobbied for a government program, even though dairy producers were hurting badly. They still are. There has been an oversupply of milk, and the low prices received by dairy producers don't come close to covering costs of production.

Privately funded plan

However, representatives of the dairy industry say they favor their own privately funded plan for downsizing the nation's dairy herd and reducing milk production. Spokesman Christopher Galen says the National Milk Producers Federation launched Cooperatives Working Together (CWT) for that purpose, in 2003, long before Capitol Hill started ruminating over another buyout.

According to Galen, who serves as senior vice president of communications, member cooperatives and individual producers voluntarily support CWT to the tune of 10¢ per hundredweight (cwt.) of milk produced to fund two programs for stabilizing milk prices. To help increase demand, the Export Assistance Program promotes development of foreign markets for milk and milk products. The Herd Retirement Program was designed to lower total U.S. milk production by reducing the number of cows in the national dairy herd.

To participate in the Herd Retirement Program, a dairy farmer submits a bid that, in essence, states what payment (per cwt. of milk he or she currently produces) the farmer will take to quit milking cows and exit the business. If a bid is accepted, the farmer must permanently remove the herd from production. In other words, the cows must go to harvest.

To most beef producers, this sounds better than using tax dollars to help one industry, while hurting another. However, some wary cattlemen wonder if this program has similar potential for sending huge numbers of dairy cows to market. If that happens, it likely would drive cattle prices lower.

"Our message to beef producers, given the dire economic situation of dairy producers," Galen says, "is that it's better to have CWT help the (dairy herd reduction) process along in orderly fashion than have a willy-nilly rush to market because the whole industry collapsed."

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>
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Cows retired

According to Galen, CWT has executed six herd retirements since 2003, removing a total of 276,000 cows. The most recent round of retirement, completed in February, removed almost 51,000 cows. CWT advocates say the numbers of cows going to slaughter, at any given time, have not been so large as to have a severe negative effect on the market.

CWT has announced that it has received,

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from producers representing almost 70% of the nation's milk supply, commitments to a two-year program through December 2010. CWT will borrow money, against the promised 10¢ per cwt., to fund additional herd reduction. There is much speculation that it will be big, involving anywhere from 200,000 to 400,000 cows.

"There have been plenty of rumors about huge numbers, but they are just really wild guesses," Galen says. "At this time, there is no target for reduction in pounds of milk production or reduction in cow numbers. In large part, it will be a function of how many bids are received and accepted. Only economically realistic bids are seriously considered."

Jeff Stolle, of the Nebraska Cattlemen Market Reporting Service, says dairy cows have been coming to town in fairly aggressive fashion since the first of the year. It has generated a flurry of incoming calls with questions about the impact. But Stolle says it's hard to tell what future herd retirement will mean to the market.

"Certainly, culling dairy cows adds pounds of product to the marketplace, at a time when we are struggling from a demand standpoint," adds Stolle. "How many cows might come and, more specifically, when they will come are the big questions. It is a concern."

North Carolina State University livestock economist Geoff Benson says, at current production levels and milk prices, the U.S. dairy industry is not sustainable. He is certain that CWT management is under considerable pressure to remove a large number of cows and do it quickly. He's heard rumors that it will remove as many as 500,000 head. Benson says he doubts it will be that many, but they are likely to come on a fast track.

"Even retiring 250,000 head would be roughly 10% more than the normal annual dairy cow harvest. What probably matters most is the time frame — whether they go to slaughter over a period of weeks or months," Benson explains.

He doesn't expect the damage to cattle markets to be devastating, but there will be an effect — mainly a softening of the cull cow prices. Benson expects very little effect to fed-cattle prices as a result of another dairy cow retirement.

"But if I were a beef guy thinking about culling cows during the next few months, I'd take all of this into account," Benson warns. "If I had some grass and could wait until the market works through some of these dairy cows, I might try to keep my beef cows for awhile." **AJ**