



News & Views

A Monthly Publication Dedicated to the Feed, Seed, Grain and Farm Supply Industries of Wisconsin

Somebody Asked ■

Q.: My feed mill's dairy customers are seeing dairy prices below cost of production with the result that my accounts receivable are increasing. Is anything being done to turn this situation around?

A.: There are different responses being offered to counteract the price collapse and, in theory, keep such extreme volatility from occurring again. The problem is the responses vary and depend on individual points of view as to what caused the price collapse.

Some believe a perfect storm of events including the end of the drought conditions in New Zealand and Australia (which are major world dairy exporters), the world wide economic collapse that has reduced demand for milk products in many other countries, and excessive build-up in the United States' capacity to produce more milk in response to two years of very high prices.

The high milk price was a signal to dairy producers to make more milk which they did by expanding their herds. When the world economy began shrinking last fall, people began to eat fewer dairy products and dairy farmers found their barns overflowing with cows to meet demand which has now vanished.

On the other hand, there are groups which wholly reject this thought process. These groups believe, "Until we deal with the reality of a broken pricing system, massive imports and corruption in our dairy cooperatives, we will never be able to obtain fair prices for farmers that cover our cost of production." This viewpoint believes the dairy pricing system is prone to manipulation due to thinly traded markets at the Chicago Mercantile Exchange (CME) which determine farm milk price. Their data shows demand for dairy products was still up and the US importing

massive amounts of dairy products even as milk prices began to slide for farmers late last year. They maintain milk prices have nothing to do with market demand and everything to do with the manipulation of cheese prices traded at the CME.

So you see; we have two very different perspectives on the genesis of the price volatility and current prices. The latter position described above believes the long-term solution is to reform the pricing system. They would also have set milk prices based on a national average cost of production with an inventory management program to deal with overproduction were that to occur. In the immediate near term, they also believe the USDA Secretary currently has the authority under the 1937 Agriculture Act to fix dairy prices to reflect farmers' cost of production. This viewpoint holds that current problems have been caused and worsened by not enough government oversight and involvement in the pricing system.

The other side of the aisle believes in the near term a quickly contracting national herd will make the low price short-lived. While that may solve the supply side of the equation, others believe that worsening global economies could prevent people from consuming more milk products for many months to come. The one point of agreement for this side of the argument is that the only way milk prices will increase is through a three to five percent reduction in milk supply.

The path to a reduction in milk supply has generated different opinions on how best to achieve that. Some producer groups are proposing herd buy-outs or "cow kills." Other groups are looking at marketing order-based allotment programs. Under this system, producers would be assigned a limit to the amount of milk their operation could produce based on past

production, similar to the tobacco allotment program.

All of this discussion doesn't do anything immediately for the feed mill manager watching A/R levels continue to rise or the dairy producer wondering how to pay the fuel supplier demanding cash *before* delivery. Over the top of all this lay the credit crisis regarding banks providing credit to the dairy producer. The bank is facing the problems of the potential questionable longer term financial viability of individual dairy customers, and the question of lending them funds. In addition, the bank has to face increased regulatory scrutiny which may result in greater capital demands to maintain current loan levels. The bank can at least partially solve this latter problem by cutting back on outstanding loan levels and thereby satisfy regulators looking to maintain capital-to-loan ratios. We have heard from ag lenders who are looking at making case by case decisions on extending production credit to dairy producers. In other words, the decision to get out of dairying may be made for the producer.

Lastly, the boom and bust cycle of all agriculture, not just the current dairy situation, is based on each individual producer deciding in their own terms what is best for them. Much like baseball owners who realize if they overpay to get a free agent for their own team, the result will be ever higher salaries for all players, raising costs for everyone. But the desire to reap short term gains by the individual team signing that new record salaried free agent overcomes the longer term view. The same process occurs here. We don't know what the answer might be, but we are reminded of the quote of the philosopher Voltaire from over 200 years ago, "No snowflake in an avalanche ever feels responsible."

It would also seem the answer to the price volatility dilemma might be somewhere between the two extremes of the government either all-in or all-out. But with what we are seeing regarding government involvement in other areas of the nation's economy, the days of a relatively hand's off approach may be something we shouldn't expect to see.

E15 Waiver Comment Period

The U.S. Environmental Protection Agency (EPA) announced a 60-day extension in the comment period – to July 20 – on the petition submitted by Growth Energy and 54 other fuel-ethanol manufacturers urging the agency to permit up to 15 percent ethanol (E15) by volume to be blended into gasoline. Currently, EPA allows a maximum of a 10 percent blend for gasoline. The EPA could approve the waiver request for a blend of ethanol up to E15 or modify the EPA rule of "substantially similar" fuel to allow for higher blends to be used in non-flex fuel vehicles. (This does not affect E-85, which is 85 percent ethanol and 15 percent gasoline.)

Previously, the comment period was scheduled to expire May 21. EPA said an extension of the comment period would not delay the Dec. 1 deadline for it to make a decision on the petition. By law, EPA has 270 days after submission of the petition (which occurred March 6) to decide whether to grant, deny or modify the current E10 ceiling. Under the Clean Air Act, EPA is required to determine that ethanol blends exceeding the currently allowed limit do not affect adversely vehicle emission-control systems, including catalytic converters that would cause vehicles to violate air-emission standards. When publishing its initial notice announcing receipt of the petition, EPA had stated that "one potential outcome" after reviewing scientific and technical information on the impact of an increase in the ethanol blend rate "may be an indication that a fuel up to E15 could meet the criteria for a waiver for some vehicles and engines, but not for others." EPA also said at that time that it wanted to be "assured that prior to granting a waiver, sufficient testing has been conducted to demonstrate the compatibility of a waiver fuel with engine, fuel and emission-control system components."

Submit your comments a) identified by **Docket ID No. EPA-HQ-OAR-2009-0211**, b) with your name and contact information and c) by one of the following methods:

Email your comments to: a-and-r-docket@epa.gov

Fax your comments to (202) 566-1741.

Mail your comments, please include two copies and send them to:

Air and Radiation Docket

Docket ID No. EPA-HQ-OAR-2009-0211

Environmental Protection Agency

Mailcode: 6102T

1200 Pennsylvania Avenue, NW

Washington, DC 20460

Source: NGFA

Bin Rescue Training for EMS

The University of Wisconsin School of Medicine and Public Health, the UW Hospital and the UW Health Emergency Education Center are jointly sponsoring their Emergency Care and Trauma Symposium on June 24 through 26 of this year. For the first time the symposium will include a session and demonstration on grain bin rescue and extrication. The training is designed for emergency medical personnel to improve their performance in the field and is designed to benefit all levels of Emergency Medical Services (EMS), nursing, and other health professionals.

This program, which will include a grain bin simulator, is not designed for grain or feed facility personnel, as the program doesn't cover bin entry or safety procedures. Instead the program will cater to the needs of emergency responders faced with the task of rescuing the trapped individual. Too often, we have heard of instances in which emergency personnel faced with one of these situations saying they weren't aware of the special problems confronting a grain bin rescue. This symposium is the chance to remedy that situation. We strongly urge you to share the linked brochure with your local EMS staff and suggest they attend this event.

http://www.ocpd.wisc.edu/Documents/Program_Documents/file2117.pdf

The training will be held at the Glacier Canyon Lodge at the Wilderness in Wisconsin Dells. All the details, including costs and schedule, are included in the brochure. This is the training that you want your local responders to know in the unfortunate case when you need them.

Various Issue Updates

- The White House Food Safety Working Group conducted its first listening session last week in Washington, DC. The federal interagency working group is co-chaired by the Secretaries of Health and Human Services and Agriculture, and is charged with submitting recommendations by July to President Obama on ways to further improve the U.S. food and feed safety system. During breakout sessions involving private industry and regulatory representatives that were observed by administration and congressional staff members, the Food Safety Working Group particularly sought input on five key areas of their anticipated report: **1) prevention of food safety incidents; 2) strengthening surveillance and risk analysis; 3) expanded risk-based inspection and enforcement; 4) rapid response to outbreaks and facilitating recovery of affected companies and industries; and 5) efficient targeting of government resources.** This is the future of feed regulations that you are witnessing being developed. Change is coming and it's in one direction, more regulation.
- You may have heard the EPA last month published a proposed rule that would require facility-level reporting of greenhouse gas (GHG) emissions by facilities that emit 25,000 metric tons or more per year of GHG emissions. These operations would be required to submit annual reports to EPA. Just FYI, by industry calculations, and unless there is some very special circumstance, we are unaware of any feed mill or grain facility that would be affected by this proposed rule. Were this to change, we'll keep you informed.

Source: NGFA

Looking Down the Road

**June 10-11 4 State Dairy Nutrition and Management Conference
Dubuque, IA**

**Sep. 10 WASA Golf Outing
Northern Bay Golf Resort, Arkdale**

Route:

- General Manager
- Feed Department
- Grain Department
- Agronomy
- Safety Director
- Personnel
- _____

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***WASA Office will be closed
Monday, May 25.***



***Please take a moment to
remember all those who have
given their lives in service.***