Despite what the picture on the package suggests, the dairy products you buy probably don’t come from a local dairy farm that supplies a local processing plant. Over the last 20 years, the dairy industry has transformed from a local network of farms and processors to mega-dairies that sell their milk to a tiny number of corporate-style milk cooperatives and processing companies. Consolidation in the dairy industry has increased the size and power that large dairy cooperatives, fluid milk processors and dairy product manufacturers exert over dairy farms. There are now fewer companies at each step of the dairy supply chain and they are coordinated into powerful corporate alliances. These larger market players increasingly source their milk from industrial mega-dairies. But this increased scale and intensified production by farms, processors and manufacturers has not benefited farmers or consumers — farmers receive lower prices for their milk and consumers pay more at the grocery store.

Consolidation in the Dairy Industry

The United States is hemorrhaging dairy farms and farmers: Between 1997 and 2007, about 5,000 dairy farms disappeared every year. Even with the loss of 52,000 farms, milk production has remained constant because the remaining farms have added more and more cows. From 1980 to 2004, the average size of a dairy more than tripled, from 32 to 111 cows. The number of farms with over 2,000 cows more than doubled between 2000 and 2006. More than a quarter of all milk now comes from industrial dairies with over 2,000 cows, nearly 20 times larger than the national average herd size.

These new mega-dairies can house over 10,000 cows on high-density feedlots. The cows do not have regular access to graze on pasture and are milked in round-the-clock shifts. These operations must manage vast quantities of manure, which can pollute groundwater, contribute to airborne particulate pollution, and lead to excess phosphorus and nitrogen runoff to streams and rivers.

As dairy farms have grown larger, they have also moved westward. The shift to larger dairy farms is most pronounced in states like California as well as Arizona, Idaho, New Mexico, Texas and Washington. The emergence of western mega-dairies has contributed to the decline of lo-
Consolidation and coordination between big milk processors and the largest, corporate-style dairy cooperative has given industrial milk buyers significant power over dairy farmers. Dairy Farmers of America (DFA), a marketing “cooperative” with more than 18,000 members and ties to big processing companies, collects from farms and markets over a third of all U.S. milk. DFA was created in 1998 by the merger of four large cooperatives. DFA is the primary — and in some regions, the exclusive — supplier to Dean Foods, a processing company which controls around 40 percent of the nation’s fluid milk supply, 60 percent of all organic milk, and 90 percent of soymilk. In many parts of the country, dairy farmers effectively are required to market their milk through DFA to access the marketplace and take whatever price DFA offers.

Dean Foods began buying strong regional milk brands in the 1980s. Between 1997 and 1998, Dean bought 14 fluid milk companies. In 2001, Dean Foods merged with Suiza Foods. This merger of two of the largest fluid milk processors created a company with more than a third (35 percent) of the market. The U.S. Department of Justice estimated that the merger would give the company between 43 and 100 percent market share in 22 cities and would likely “result in unilateral price increases.” The merger was approved after Suiza divested 11 milk processing plants and changed its exclusive arrangement with DFA to allow the divested dairy processors to buy fluid milk from non-DFA sources. But after the merger, the new Dean reestablished an arrangement with DFA that effectively created an exclusive, long-term deal. Dean then stopped buying milk directly from independent producers, who then had to sell to DFA to sell to Dean.

The third-largest milk processor, HP Hood, has shared management with National Dairy Holdings, which is half owned by Dairy Farmers of America. Smaller cooperatives that once sold milk directly to HP Hood and opposed the joint management of HP Hood and National Dairy Holdings have been effectively forced to market their milk through DFA to sell it to HP Hood.

The extreme perishability and constant production of milk makes dairy farmers especially dependent on their buyers. Dairy farmers have to move their milk while it is still fresh, which gives buyers considerable leverage over farmers.
Consumer Prices Go Up, While Farmer Earnings Go Down

So if the price paid to farmers for their milk has been driven down by changes in the industry, basic economics would suggest that the price consumers pay for dairy products should have decreased over the years, too. But basic economics doesn’t account for the amount of control held by the players in the middle of the dairy supply chain — the processors and retailers who stand between farmers and consumers. Over the past decade, dairy farmers have faced three periods of collapsing farmgate milk prices, but retail milk and dairy product prices have fallen much less than steeply or remained steady.

During the summer of 2007, the price farmers received for milk reached a record $21.70 per hundred pounds of fluid milk, known as a hundredweight. Over the next two years, the prices farmers received for milk fell by nearly half from $21.60 per hundredweight in July 2007 to $11.30 in June 2009. Although milk prices fell, the costs to produce milk did not. The cost of feed rose 35 percent, and the cost of energy rose by 30 percent during 2008. Many dairy farmers were losing between $100 and $200 per cow every month in 2009. Low milk prices have persisted into 2010, with many dairy producers losing the farms that have been in their family for generations.

But as the price farmers receive for milk began falling in 2007, consumers have not gotten a better deal in the supermarket. The price consumers paid for dairy products has fallen modestly — if at all. Between July 2007 and June 2009, the real price farmers received for milk fell by 49.3 percent, but the retail price for fresh whole milk fell only half as fast, declining by 22.6 percent, and the price of cheddar cheese actually increased by 5.8 percent.

In 2009, farmers only received 97 cents for every $2.99 gallon of milk and less than $1.00 for every $4.99 pound of cheddar cheese. Where does the rest of the money paid by consumers end up? It’s captured by retailers and dairy and food processing firms.

Price Manipulation

In addition to having few options for selling their milk, farmers are also disadvantaged by the rules that determine what their milk is worth. The price of cheddar cheese blocks traded on the Chicago Mercantile Exchange (CME) serves as the basis for the government’s formulas for determining the price of milk, no matter what milk is used for or where it is sold. The few dairy industry traders at the CME can effectively exert control over the price paid to farmers by selling or buying cheese. The cheese commodity futures trade occurs for half an hour a week, is estimated to involve 40 or fewer traders working for half a dozen firms, and covers 80 percent of the cheese marketed in the United States. The very small number of traders representing huge dairy companies can actually influence the price of cheese at the CME — and thus the price paid to farmers for their milk — by holding or selling cheese at strategic moments. The Government Accountability Office (GAO) determined that cheese prices at the CME were prone to manipulation. In 2008, the DFA and two of its former executives were fined $12 million for attempting to manipulate the price of fluid milk through cheddar cheese purchases at the CME.
What You Can Do

The U.S. Department of Agriculture (USDA), the Department of Justice and Congress have allowed concentrated agribusiness power to reach these unprecedented levels. They should take concrete actions now to curb market power that harms consumers and farmers.

Dairy farmers are in the middle of a crisis. They need help now to restore fair milk prices. Congress and the USDA need to revamp the federal milk pricing system to ensure that farmers get a price for milk that covers at least their cost of production and a fair return.

In 2010, the USDA and the Department of Justice held a series of workshops around the country to investigate competition in agriculture markets. Dairy farmers need urgent action into unfair practices in the dairy industry. You can tell the Department of Justice to:

- investigate anti-competitive behavior by dairy processors;
- promptly finish and release the dairy investigations it has already started;
- place a moratorium on any proposed dairy mergers; and
- re-examine the Dean Foods-Suiza merger to determine what effect the merger had on the marketplace, consumers and farmers.

To learn more about how to restore competition in agriculture and our food system, go to www.foodandwaterwatch.org/fairfarmbill.

Endnotes

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