food&water watch

FOOD

Dairy Crisis 101

Fact Sheet • August 2009

You're not getting what you pay for in the dairy aisle these days. While shoppers are led to believe that the milk they purchase comes from tranquil pastures, where farmers watch over happy milk cows grazing on green fields, the reality is not so idyllic. Today's dairy industry doesn't work for consumers, who pay more than ever at the grocery store, or for small and mid-sized family farmers, who aren't paid enough for the milk they produce to break even. It seems like everyone is losing, except for the processors and retailers who skim off all the cream.

Industrial Milk Production

In recent years, small and mid-sized dairy farms have been disappearing, squeezed out by the consolidation of industrial mega-dairies that now dominate milk production. The United States is hemorrhaging dairy farms and farmers: Between 1997 and 2007, an average of 5,000 dairy farms were lost annually, for a total loss of over 52,000 dairies in just a decade.[1] Right now, historic low prices mean that tens of thousands of dairy farmers are on the brink of losing their farms.

Even with the loss of farms, milk production has remained constant because more and more cows are pushed onto the farms that remain. As late as 1998, the majority of milk produced in the United States came from small farms housing fewer than 200 cows. A short 10 years later, that breakdown has flipped and the majority of U.S. milk is produced on large dairies with over 500 animals each. In fact, 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.[2]

These new mega-dairies, some of which house 10,000 cows or more, hardly resemble the placid family farms many consumers imagine or that dairy processors still show on their packaging. Cows are crowded into high-density feedlots with no access to grass and are milked in round-the-clock shifts. More than 40 percent of cows in industrial dairies are injected with an artificial growth hormone called recombinant bovine growth hormone (rBGH) to increase their milk yields.[3] When their udders become infected and swollen from the unnatural rate of milk production, they are treated with the same antibiotics needed to combat human illnesses, contributing to the growth of antibiotic-resistant bacteria.

What's the Difference?

Small dairies generate less manure and usually apply that manure to cropland as a fertilizer. Big dairies generate far more manure than they can use as fertilizer, so they must store it in giant lagoons — or apply it to cropland at excessive rates, where it leaches into groundwater and runs off into nearby rivers and streams. Large dairies have also received a major discount on their feed bills thanks to federal policies that have kept the price of feed grains, such as corn, extremely low. Until 2007, dairies could actually buy feed on the market at a price lower than what the grain cost to produce. Research shows that industrial dairies saved a total of $6.5 billion between 1997 and 2005 because they were able to buy feed at below-production cost.[4]

Consolidation Squeezes Dairy Farms

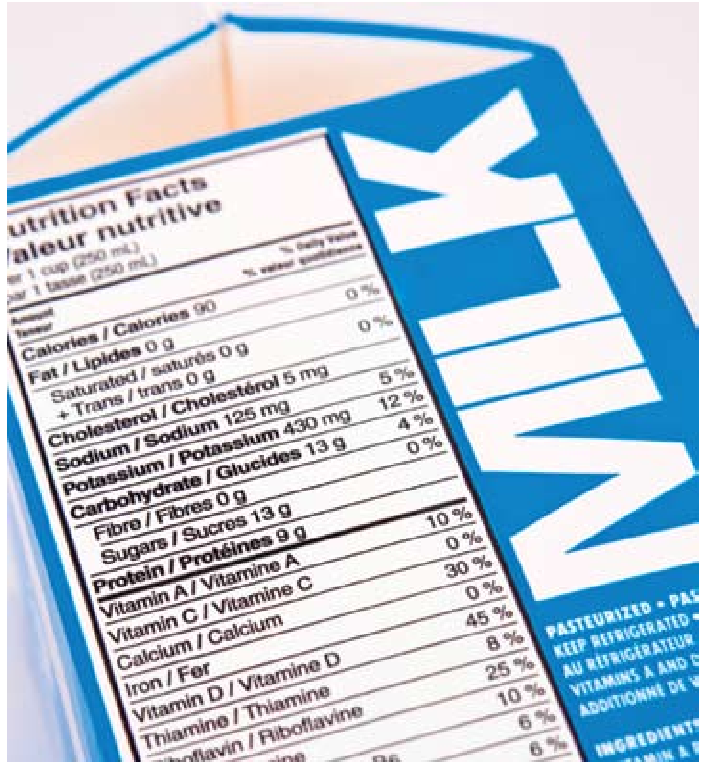
Not so long ago, most milk was sold by dairy farms to local milk processors that supplied the dairy case at local grocery stores. Today, a tiny handful of companies buy the majority of milk from farms and process it into dairy products and industrial food ingredients. Dairy Farmers of America (DFA), a marketing "cooperative" with ties to big processing companies, collects and markets over a third of all U.S. milk.[5] DFA is the primary — and in some regions, the exclusive — supplier to Dean Foods,[6] which controls around 40 percent of the nation's fluid milk supply,[7] 60 percent of all organic milk[8] and 90 percent of soymilk.[9] That means that a dairy farmer who wants to access that market will most likely have to go through DFA — and take whatever price he or she is offered.[10]

The Cost of a Carton

The price of milk at the grocery store rose 40 percent between 1998 and 2007.[11] Since 2007, retail milk prices fell, but not nearly as much as the price farmers receive for their milk. Between July 2007 and June 2009, the farm gate price for milk fell by nearly half (47.2 percent), but the retail price for fresh whole milk fell by less than a fifth (18.1 percent).[12]

This gap between what consumers pay for milk and what farmers receive is growing. For every dollar that consumers spend on milk, dairy farmers receive only $0.27, 25 percent less than they received in 1998.[13] Where does the rest of the money paid by consumers end up? It's captured by retailers and dairy and food processing firms.

For the past decade, the price that dairy farmers receive for their milk has been near or even below the cost of producing the milk, while the cost of fuel, labor and veterinary services has continued to rise. But because they have invested in animals, barns and equipment, dairy farmers cannot respond quickly to falling prices. They cannot simply "turn off the cow" until prices rise again. That leads them to continue to produce even more when prices are low, sending prices further south with the increased supply.



In the 1930s, Congress tried to break this vicious cycle by setting up complex formulas to determine a minimum price that farmers must receive for their milk. The policy was supposed to provide fair income to farmers, much like a minimum wage.[14] But in 1981, this approach was abandoned. Congress lowered milk minimum price levels, ending the "minimum wage" concept of pricing. The price farmers receive for their milk has declined steadily in real terms ever since, as the treadmill of overproduction and lower prices continued.[15]

Even worse, the remaining pricing formulas are now vulnerable to manipulation by large dairy companies like Kraft.[16] Here's why: The price of cheddar cheese blocks traded on the Chicago Mercantile Exchange (CME) serves as the basis for the government's milk price formulas. Because the trades take place between a very small number of huge dairy companies, Kraft and others 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. In 2008, Dairy Farmers of America paid a $12 million penalty to the federal government to settle charges that the company manipulated the price of fluid milk by buying bulk cheese on the CME in 2004.[17]

Paying More and Getting Less

It's not just farmers who pay the price when a handful of companies call all the shots. To cut costs, dairy processing companies have begun to import something called milk protein concentrate (MPC), a dried dairy byproduct produced in India, China, New Zealand and other countries.[18] MPCs don't have to come from cows' milk; in fact, they often come from water buffalo, yak and sheep. Although the Food and Drug Administration (FDA) has never approved MPCs as a food ingredient,[19] U.S. companies have been

integrating them into food products anyway, using them in place of powdered milk sourced from U.S. producers.

The "get big or get out" mentality has also driven the use of rBGH, an artificial growth hormone, in milk production. RBGH isn't good for cows or humans. Cows injected with rBGH have higher rates of mastitis, an udder infection that must be treated with antibiotics.[20] In turn, use of antibiotics in industrial dairies contributes to the growth of antibiotic-resistant bacteria, putting humans at risk.[21]

How to Fix It

The dairy industry doesn't serve consumers or dairy producers. It has led to a crisis for American dairy farmers that many may not survive. It is time for USDA and Congress to step in to prevent the loss of thousands of dairy farms and to address the structural problems in the dairy industry.

1. The Secretary of Agriculture should immediately set an emergency floor price for milk of $18 per hundredweight.

2. The Department of Justice must release the results of its investigations on the industry's major players and practices that have driven thousands of dairy farmers out of business.

3. The Department of Justice and the Federal Trade Commission must investigate dairy processors and supermarkets to determine why consumers' dairy dollars do not reach farmers.

4. Congress must 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. Congress should also safeguard the pricing system against easy manipulation by corporate interests.

5. Consumers should avoid products containing imported dairy ingredients such as milk protein concentrates and companies should stop using these unregulated imported milk substitutes in processed foods. The Food and Drug Administration should ensure that MPCs are not used in dairy products such as cheese, yogurt or ice cream.

Endnotes

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