



## Cooperatives Working Together Works for Dairy Farmers

Here we are in January 2009, thankful to be welcoming a new year but wondering what lies ahead. Some of us (most of us) are still asking what happened in 2008. A year that started with a questionable economy ended with an unquestionably very weak economy. Have we reached bottom and now face the long climb back to economic security, or will we still be looking for the rainbow this time next year? What will the domestic auto industry look like a year from now? Of more immediate importance to us—what will our dairy industry look like a year from now?

The outlook for milk prices doesn't look very good at this point in time. We have just gone through the second round of Cooperatives Working Together (CWT) herd retirements in 2008 and have removed approximately 86,000 cows in the two herd retirements combined. Couple that with the export assistance portion of CWT, and we have moved or removed nearly four billion pounds of milk from our domestic milk supply. Despite this, prices are still quite weak. Does that mean that CWT doesn't work anymore? Is it a poor return on our investment?

I believe the programs of herd retirement and export assistance still do work even though they don't guarantee constant high pay prices. The intent of CWT has not been to reap continual high prices but rather to soften the price drops and to shorten the time of low prices. To that end, it has been successful.

Now, however, we find our dairy world caught in the perfect storm. We've left a period of a dramatic increase in demand for milk produced in the U.S. to fill the needs of an expanding global middle class, particularly in Southeast Asia, at a time when the supply of milk was cut dramatically in New Zealand and Australia due to a severe drought. Prices rose with the shortened supply and expanded demand. Production increases followed price increases in the United States, and we were able to fill the dairy product shortage in the world market.

Through April 2008, the future looked pretty good, but after that the unraveling started as production continued to rise domestically, although at a slow pace. In New Zealand, Australia and to a lesser degree, the European Union, production rose at a faster pace just as the world economy started to falter. With the weakening economy came a weakening demand for many commodities, not just dairy. Suddenly we find ourselves looking at overproduction in all the major milk producing areas of the globe resulting in major—not minor—oversupplies of milk throughout the world.

CWT was not developed to solve a problem of this magnitude, and it will require considerably more money to solve this than the approximately \$120,000,000 voluntarily contributed to the CWT program annually. CWT will still help, and we will continue to receive a

good return on our investment. The return is calculated to be 55 cents per hundredweight over the five-year span of the program. The two components of the program—herd retirement and export assistance—made possible by these contributions, complement each other very well. Export assistance has helped open doors to countries not normally interested in dairy, but once they have experienced our dairy products they have returned to the market for unassisted purchases.

Still, the CWT program cannot quickly turn the dairy economy around by itself. That is probably going to mean lower pay prices than we would like for longer than we would like. But at least the majority of our industry has worked together formulating a self-help program that is still working five years after its inception, and that action is monumental. Now if we could just convince the minority of producers who are not involved to pitch in also, that would be awesome.

Looking forward, 2009 appears to be difficult to predict. Today it doesn't look like it will be an economically rewarding year. At least we are attempting to improve the outlook by working together through programs like CWT. It's going to be another interesting year, of that we can be sure.

*Ken*