A Path Forward

Challenges and Opportunities for the Midwest Dairy Industry

March 2014
Growth and Prosperity for the Midwest Dairy Industry

The mission of the Midwest Dairy Association is to expand the marketing opportunities for its dairy farmer funders. The rapidly changing dynamics of the dairy industry both domestically and globally have caused us to step back and examine our position in the world dairy economy.

Through this project, we have taken a hard look at whether the Midwest is prepared to be a competitor five, ten, and even fifteen years into the future. In addition to looking at the market opportunities, how the Midwest sits relative to other milk producing regions was carefully examined. In short: are there steps that the Midwest dairy industry should be taking to lay the groundwork for growth and prosperity for future generations of Midwest dairy farmers?

In seeking an answer to this question, we chose to start with the following assumptions:

1. Short of some unforeseen economic, environmental or social calamity, global demand for dairy products will grow substantially in the years ahead. Domestic consumption should continue to stay on trend, but real, dynamic growth will be driven by the emerging economies and the large populations of China, the Pacific Rim, India, the Middle East, and, to some extent, the second tier countries in Africa.

2. No area of the world is better prepared to take advantage of this market growth than the US dairy industry. We have the human expertise, technology, processing capacity, financial capability, land, and natural resources to meet this need for more dairy products than anywhere else in the world.

The question that needs to be addressed here at home is whether the Midwest and, particularly, the Upper Midwest is prepared to claim its share of this domestic and global oppor-
tunity. Can we compete with other regions of the US and even other areas of the world in meeting these new marketing opportunities? Can we identify the demand...make the products...and produce the milk to capture these new markets? And, can we do it in a way that allows our dairy farmers to grow and prosper?

Fulfilling this vision of growth and prosperity will take a comprehensive and candid review of our industry’s capacity for meeting this challenge and the development of a plan to take advantage of the opportunity. The intent of the enclosed report prepared by Blimling and Associates is to do just that...provide an objective view of the challenges and opportunities that lay ahead for the Midwest dairy industry if we are to achieve our potential. Hopefully, it will serve as a catalyst for industry-wide discussions on identifying ways that we can work together to benefit our producers, processors and the economy of the entire region for years to come.

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Blimling and Associates, Inc. is a widely respected dairy consulting and research firm based in Madison, Wisconsin. The Blimling team combines extensive dairy/commodity market experience with economics/finance backgrounds. Intimate working knowledge of the marketplace, detailed data analysis, exceptional critical thinking skills, numerous relationships around the world and a demonstrated commitment to robust but clear communication power the Blimling client services platform.

The organization delivers information, analysis and strategy solutions across the global dairy supply chain. Clients include foodservice, retail, consumer packaged goods, farmer-owned cooperatives, individual dairy producers and investment companies.

Founded in 2000, Dairy.com powers supply chains with leading software-as-a-service solutions. It acquired the Blimling companies in 2013 to create a “right team, right technology” combination to deliver customers a full suite of integrated, intelligent services.

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Table of Contents

Section I .............................................................................................................................................. 1
The Opportunity Facing the Midwest Dairy Industry
   Chapter 1: Global Opportunities for Dairy
   Chapter 2: Global Milk Production
   Chapter 3: The US Grows Into a Global Supplier

Section II ........................................................................................................................................... 37
Midwest Resource Availability and Use
   Chapter 4: Midwest Dairy Industry
   Chapter 5: Grain and Other Enterprises
   Chapter 6: Financial Returns
   Chapter 7: Midwest Milk Production Potential

Section III .......................................................................................................................................... 73
Producer Perspective
   Chapter 8: Milk Price and Revenue
   Chapter 9: Feed Costs and Availability
   Chapter 10: Construction Costs and Lending Practices
   Chapter 11: Labor
   Chapter 12: Environmental Regulations
   Chapter 13: Producer Thoughts

Section IV ........................................................................................................................................... 135
Processor Perspective
   Chapter 14: Milk Price Policy and Industry Structure
   Chapter 15: Freight and Transportation
   Chapter 16: Business Climate
   Chapter 17: Economic Climate
   Chapter 18: Tax Climate
   Chapter 19: Labor Market
   Chapter 20: Energy Costs and Infrastructure
   Chapter 21: Regulatory Environment
   Chapter 22: Public Incentives

Section V .......................................................................................................................................... 195
Findings and Conclusions
   Chapter 23: Summary of Findings
   Chapter 24: Takeaways
List of Figures

Section I: The Opportunity Facing the Midwest Dairy Industry

Chapter 1 - Global Opportunities for Dairy
1.1 Middle Class Population Estimates
1.2 Global Exports
1.3 China Dairy Demand
1.4 Brazil Dairy Demand
1.5 Global Dairy Consumption
1.6 Fonterra Outlook to 2020
1.7 2012 Cheese Consumption
1.8 Global Cheese Imports Map
1.9 Global Milk Powder Imports Map
1.10 Asia Milk Powder Imports
1.11 Global Fat Exports
1.12 High Protein Whey Exports

Chapter 2 - Global Milk Production
2.1 Global Milk Production
2.2 South Island Sheep & Cow Population
2.3 North Island vs. South Island: Cow Numbers
2.4 Current Portfolio/Future Portfolio
2.5 NZ Dairy Products Production
2.6 NZ Cheese Exports
2.7 NZ Whole Milk Powder Exports
2.8 NZ Skim Milk Powder Exports
2.9 New Zealand and China Free Trade Agreement
2.10 EU Dairy Products Production
2.11 EU Cheese Production
2.12 EU Milk Powder Export Destinations
2.13 EU Butterfat Export Destinations
2.14 2008 EU Cheese Exports
2.15 2012 EU Cheese Exports
2.16 India Milk Production
2.17 China Milk Production
2.18 South American Milk Production
2.19 Brazil Milk Powder Imports
2.20 Argentina Milk Powder Exports
2.21 Argentina Cheese Exports
2.22 2012 Milk Powder Production

Chapter 3 - The US Grows Into a Global Supplier
3.1 US Exports as Percent of Milk Output
3.2 US Exports
3.3 US Export Market Share
3.4 US Cheese Exports
List of Figures (continued)

3.5 US Cheese Export Destinations
3.6 Cheese Exports
3.7 Share of US Cheese Exports (2008-12)
3.8 US SMP Exports (2012)
3.9 US Powder Export Destinations
3.10 Share of US SMP Exports (2008-12)
3.12 US Butter Export Destinations
3.13 Share of US Butter Exports (2008-12)
3.14 US WPC 80+ Export Destinations
3.15 US Infant Formula Exports
3.17 Cheese Market Trend Line Projections

Section II: Midwest Resource Availability and Use

Chapter 4 - Midwest Dairy Industry
4.1 Top 10 Milk Production States
4.2 Milk Production Chart
4.3 Milk Production Table
4.4 Midwest Milk Production Chart
4.5 2013 Dairy Cow Inventory
4.6 Forty Year Cow Inventory Growth (1972-2012)
4.7 Five Year Cow Inventory Growth (2007-2012)
4.8 Milk Cow Inventory
4.9 2002-2012 Cow Inventory Growth
4.10 Regional Cow Expansion
4.11 Dairy Farms By Size
4.12 Dairy Cow Inventory By Herd Size
4.13 Midwest Farm Structure
4.14 2012 Average Dairy Herd Size
4.15 2013 Dairy CAFOs
4.16 1972 & 2012 Dairy Cow Inventory
4.17 2012 Licensed Dairy Herds
4.18 2012 Dairy Statistics

Chapter 5 - Grain and Other Enterprises
5.1 Nearby Corn Futures
5.2 US Ethanol: Plants and Capacity
5.3 US Corn Production
5.4 US Corn Use
5.5 Corn Production
5.6 Pig Crop
5.7 Cattle On-Feed Inventory
5.8 Beef Cow Inventory
5.9 Midwest Cattle Industry Structure

Chapter 6 - Financial Returns
6.1 Midwest Agricultural Receipts
List of Figures (continued)

6.2 Midwest 2002 Farm Receipts
6.3 Midwest 2012 Farm Receipts
6.4 Minnesota Farm Costs and Returns
6.5 Median Income By Dairy Farm Size
6.6 2012 Minnesota Dairy Farm Income and Expenses
6.7 Commodity Price Index
6.8 Median Income - All Farm Sizes
6.9 Median Income - Average Size Farms
6.10 Monthly Hog Returns
6.11 Annual Cattle Returns

Chapter 7 - Midwest Milk Production Potential
7.1 Back to the Future
7.2 Growth to Reach 1.23 Million Cows
7.3 Minnesota Yield Changes
7.4 Dairy Cow Feed Consumption: 2012 and 1992
7.5 Dairy's Impact on the Economy

Section III: Producer Perspective

Chapter 8 - Milk Price and Revenue
8.1 All-Milk Price
8.2 I-29 Corridor Plants Map
8.3 I-29 Corridor Plants Table
8.4 Michigan Plants Map
8.5 Michigan Plants Table
8.6 Idaho Plants Map
8.7 Idaho Plants Table
8.8 Blend Price vs. Class I Utilization
8.9 Milk Pricing 2008
8.10 Milk Pricing 2013
8.11 Average PPD 2008-2013
8.12 PPD Comparison by Federal Order

Chapter 9 - Feed Costs and Availability
9.1 Iowa Corn Production Costs & Revenue
9.2 Purchase Feed as a Percent of Total Feed Cost Map
9.3 2007 Dairy Farm Acreage
9.4 2011 National Production Rankings
9.5 Corn Price Received
9.6 Alfalfa Hay Price Received
9.7 Soybean Meal Prices
9.8 Distiller’s Dried Grain Prices
9.9 Canola Meal Prices
9.10 Regional Feed Costs
9.11 Iowa Feed Costs

Chapter 10 - Construction Costs and Lending Practices
10.1 Estimated Construction Costs by Barn Type and Region
10.2 Land Costs
10.3 Facility and Equipment Costs
List of Figures (continued)

10.4 2004 Lending Requirements
10.5 2013 Midwest Lending Requirements (65% Loan-to-Value)
10.6 2013 Midwest Lending Requirements (50% Loan-to-Value)
10.7 New Dairy Capital Requirements
10.8 2013 Idaho/Colorado Lending Requirements
10.9 Collateral Needed Beyond 1,500 Cows
10.10 Collateral Beyond 1,500 Cows; No Land
10.11 20-Year Net Present Value Analysis

Chapter 11 - Labor
11.1 Livestock Worker Wage Rates
11.2 Hired Workers on Wisconsin Dairy Farms

Chapter 12 - Environmental Regulations
12.1 Environmental Regulation Scorecard

Chapter 13 - Producer Thoughts
13.1 Milk Shed Evaluation
13.2 Important Factors in Dairy Relocation

Section IV: Processor Perspective

Chapter 14 - Milk Price, Policy and Industry Structure
14.1 2012 SD Milk Production by Pool Status
14.2 PPD vs. Class I Utilization
14.3 2013 Milk Prices and Implied Premiums

Chapter 15 - Freight and Transportation
15.1 Freight and Transportation Map
15.2 Volume Split by Destination
15.3 Distance and Cost Per Load; Relative Freight Costs

Chapter 16 - Business Climate
16.1 Top Factors for Choosing Site for a New Facility
16.2 Category Impact on Overall Ranking: Forbes
16.3 Category Impact on Overall Ranking: CNBC
16.4 Overall Business Friendliness: Composite Rankings
16.5 Business Friendliness Scorecard

Chapter 17 - Economic Climate
17.1 Economic Climate Scorecard

Chapter 18 - Tax Climate
18.1 2014 State Business Tax Climate Index Map
18.2 Tax Climate Rankings Scorecard
18.3 Tax Climate Index for Most and Least Business Friendly States

Chapter 19 - Labor Market
19.1 State Unemployment Rates: August 2013
19.2 States with “Right-to-Work” Laws
19.3 Average Hourly Wage
19.4 Union Representation

Chapter 20 - Energy Costs and Infrastructure
20.1 Industrial Electricity Cost 2011
20.2 Natural Gas Price to Consumer 2011
20.3 Energy Cost and Infrastructure Scorecard
List of Figures (continued)

Chapter 21 - Regulatory Environment
  21.1 Regulatory Environment Scorecard

Chapter 22 - Public Incentives
  22.1 Success Rate of State Evaluation Incentives for Economic Development
  22.2 Development Incentives per Capita
  22.3 Development Incentives per Budget $

Section V: Findings and Conclusions

Chapter 23 - Summary of Findings
  23.1 2008-2012 Average Ration Cost
  23.2 All Milk Price
  23.3 Implied Processor Milk Premiums

Chapter 24 - Takeaways
Some luck lies in not getting what you thought you wanted but getting what you have, which once you have got it you may be smart enough to see is what you would have wanted had you known.

— Garrison Keillor

He not busy being born is busy dying.

— Bob Dylan “It’s Alright Ma (I’m Only Bleeding)”

Midwest dairy is...
...a small family farm that emphasizes good genetics and productivity advances to stay profitable...
...an immigrant family trading the restrictions of their homeland for the freedom found on the windswept plains...
...a father and his sons building a national ice cream business in a remote corner of Iowa...
...a modern manufacturing plant shipping high quality, high protein whey products to faraway lands...
...a farmer-owned cooperative building and preserving one of America’s iconic brands...
...sisters and brothers working side-by-side to develop one of the first large family farms...

In short, Midwest dairy is a storied, vibrant industry. A combination of producers and processors working hard every day to create products craved and consumed close to home and in far corners of the globe.

But Midwest dairy is also considerably smaller than it was just 20 years ago. Fewer farms. Fewer cows. Fewer pounds of milk produced. While hardly in out-and-out demise, the industry is at the crossroads, with stakeholders across the supply chain pondering the way forward. Where, exactly, does the Midwest fit in a global industry that has seen profound change over the past five years? What are the strengths that can be leveraged? The weaknesses to be remedied?

This paper addresses those, and numerous other questions. It looks at the current state of the Midwest industry and how it arrived at this place. It reviews world dynamics and trends in other premiere milk supply regions to ponder what the future may hold.
Introduction (continued)

Two motivating factors guide the research and commentary in the pages that follow: identifying the opportunity and outlining strengths and weaknesses. The research is divided five sections:

**Section I (Chapters 1 - 3): The Global Dairy Story**
The opening section lays a foundation around the global markets for milk and dairy products. It reviews the major world supply and demand centers and envisions what role the Midwest might play going forward.

**Section II. (Chapters 4 - 7): Midwest Dairy Past and Present**
The second section aims to explain how the region’s resources are allocated across agricultural enterprises, and how this allocation (primarily land) has shifted over the past 20 years or so. At the outset, it depicts the industry’s structure using cow and farm numbers as well as land used for milk production over time. An overview of competing industries, such as other animal or crop ventures is also covered. Given the look across agricultural industries, and the role grain and crops play in this analysis, this section will also include a discussion on current and longer-term corn market fundamentals. An interesting exercise emerges in Chapter 7 - especially for policymakers. There, the research considers what the industry would look like today if the same resources were being utilized from a generation or so ago. That is, if the region supported similar cow numbers as from 1992, at today's yields, how much processing capacity, farm income, and employment would exist?

**Section III (Chapters 8 - 13) The Midwest for Dairy Producers**
The third section begins to compare the Midwest - and specifically the I-29 corridor - to other key manufacturing milk regions. Milk pricing and policies, feed costs, access to capital, labor, environmental issues and producers sentiments are all reviewed, with an eye for comparing the Midwest to other regions in the US that would compete for new dairy investment.

**Section IV (Chapter 14 - 22) The Midwest for Milk Processors**
The fourth section evaluates the attractiveness of the Midwest to other regions from the processor’s perspective. Here again, everything from milk price, transportation costs and related business concerns such as tax policies, government incentives, and labor markets are considered.

**Section V (Chapter 23 - 24) A Path Forward**
The last two chapters tie the research together, summarizing the major findings and themes that emerged from this exercise, setting the stage for what comes next.
Each section features critical pieces to the Midwest dairy puzzle. When connected, the picture that emerges should help guide thinking and decision making for producers and processors alike. While research of this nature inevitably fails to capture every element, every nuance, great care has been taken to focus on factors most critical to charting a path forward.

Indeed, to say this work is foundational is to say that it contemplates additional layers. The research, analysis and commentary here should only be viewed as setting the stage for more to come. With the research, stakeholders have a clear view of the industry’s situation vis-à-vis other regions in the US, but stops short of contemplating or recommending an actionable strategic path. With that in mind, next level should seek to utilize the findings and conclusions within this report to provide a blue-print for the industry to follow should it choose to embark down one of the suggested paths.

One final note. The Midwest Dairy Association encompasses 10 states, but given the breadth of this endeavor, the research focuses on the area where growth has been most prominent. This includes the five-state region encompassing the I-29 corridor, including Minnesota, North Dakota, South Dakota, Nebraska and Iowa. Thus, for the purpose of this report, the term “Midwest” is defined only as this specific subset. However, the conclusions here will support and fuel future efforts to assess the conditions and opportunities in the other states represented by the Midwest Dairy Association.
Articles abound about rising demand for dairy products on a global scale. Where will that supply come from? The traditional European and Oceania powerhouses could struggle to sustain incremental growth. Emerging industries in India and China could provide some supply, but here too, some structural challenges may limit significant expansion. That leaves the United States. And, within those borders, the Midwest region seems better suited than other areas to assume a leadership—and larger—role within the rapidly evolving global dairy complex. Section 1 sets the stage for this entire research endeavor by staking out the size of the prize that is available to Midwest dairy industry. Global supply and demand trends are reviewed by region, all the while assessing how the Midwest best fits into this ever changing and complex global dairy market.