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PDMPPROFESSIONAL DAIRY
MANAGERS OF PENNSYLVANIA

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Long-term viability of the dairy industry

A Position Paper from the Professional Dairy Managers of Pennsylvania

The Professional Dairy Managers of Pennsylvania is driven by a very clear mission. It is on all PDMP documents, and it is central to all that the organization does: **PDMP exists to advance the dairy industry in Pennsylvania through improved productivity and profitability.**

Dairy producers who choose PDMP membership, want to be in a position to be in the business for the long haul.

The industry is at a critical juncture. In the current economic climate, and with the growing pressures on how dairy farms operate, the future of the industry is at stake.

PDMP leadership believes it is this organization's responsibility to examine what it will take to ensure that our members can realize their dreams. The industry must act to guarantee that it will continue to be a leading force in the U.S. and World economies, and that consumers will continue to have access to a supply of dairy products produced within its own borders.

Many forces have come into play to create a situation where dairy producers are not able to make enough money on their production to support the basic costs of doing business.

In keeping with the positive, progressive-minded attitude of this association's membership, the Board of Directors is making recommendations on dairy policy.

Given these desperate times, many solutions are being proposed by various sectors of the industry. Some of these solutions would provide immediate short-term relief from our current problems; however, they are not long-term solutions for the industry.

The PDMP Board has been guided by the overall philosophy that it is in the best interests of the industry to make constructive changes based on a desire to create permanent, long-term solutions that will ultimately make the dairy industry stronger.

In a meeting on September 24, the PDMP Board of Directors established the following four position statements that summarize our core beliefs:



2009 PDMP Board of Directors—front row (from left): Rod Hissong, Mercer Vu Farms, Mercersburg, president; Logan Bower, Pleasant View Farms, Blain, past president; Dina Zug, Zugstead Farm, Mifflintown, secretary; Lisa Holden, Penn State University liaison. Back row (from left): Alan Novak, PDMP executive director; Glenn Gorrell, Gorrell Dairy, East Smithfield, board member; Mike Hosterman, AgChoice Farm Credit, board member; Jeff Harding, Elanco Animal Health, board member; Gary Kline, Y-Run Farms, Troy, treasurer; Dale Hoffman, Kar-Dale-Acres, Shinglehouse, vice president. Not pictured is board member Duane Hershey, Ar-Joy Farm, Cochranville.
Photo by Sherry Bunting

► **1. PDMP believes that, in general, the dairy industry would be best served if the government stopped purchasing excess dairy products, many of which are not made to world specifications. These products need to be replaced by products that can be sold on the world marketplace.**

Government purchase of excess products in the past provided a safety net and allowed our industry to grow. Today, this safety net continues to allow our industry to grow, but it has caused manufacturers to become complacent in the products they produce. Manufacturers are not producing products that meet the world demand, which has resulted in world markets looking to the United States as a last stop for what they need.

As long as the government continues to purchase our products (i.e. butter, cheese, & powder) that are not made to world specifications, the dairy industry will not change what it makes. Manufacturers will keep making what

they always make because they know eventually their products will be bought by the government at a profit. It would be better for the long-term prosperity of our industry to make products that strengthen our ability to compete in international markets.

While it is agreed that certain issues are best maintained as part of the government regulatory process, the dairy industry should be allowed to operate in a free market system just as other businesses do. If the government ceases to buy the products that no one wants, then manufacturers will stop making them. They will instead produce products that everyone wants and that can be sold in the growing world marketplace that is in need of dairy products.

► **2. PDMP believes that the Federal Pricing System needs overhauled.**

The \$350 million Dairy Assistance proposal is a short-term bandage with no long-term solutions. We believe funds should be earmarked for the overhaul of the Federal Order System.

Currently our milk is priced using the Chicago Mercantile Exchange (CME), a mechanism through which only 1% of the nation's milk production is sold. This market is thinly traded and has very few buyers and sellers. Yet, this mechanism is allowed to price all of our milk, and it is being viewed by many as the future of how we price milk and how we either lock in our profits or losses.

The industry will be better in the long-term if we stop reliance on the CME and develop a more transparent pricing system that pays producers for what they produce and takes into consideration the cost of producing it.

► **3. PDMP believes that the industry should be focused on economic growth rather than supply management.**

It's essential for our industry to be operating under a growth model. Growth is a key business concept for our dairy producers and industry infrastructure because a business that is not growing tends to be moving backwards. We need to encourage our system to be developing new products and models that allow growth in the industry.

We may need to operate under a more controlled growth, and rely more on the world market versus the domestic market. Thus, PDMP's points 1 & 2 are essential to having growth occur.

Supply management gives unfair advantages to certain geographical locations and certain size farms. We believe in letting the marketplace decide who has cows and who doesn't. Given the honest opportunity to compete on the world marketplace, the dairymen in the industry that can adapt and manage effectively will succeed.

► **4. PDMP believes that direct government payments are short-term solutions to long-term problems.**

Continuation of programs that provide direct payments to farmers does not provide for any long-term relief.

Direct payments are viewed as welfare for the dairymen and do not reflect well on the dairy industry. These funds would be better used to help provide long-term solutions and plans that help our industry compete on the world marketplace.

It is the intention of the PDMP Board to solidify these concepts through bi-weekly conference calls over the coming months leading to development of action steps for the industry and for government regulators.

Comments and questions are welcomed by emailing PDMP at info@pdmp.org.

President's message

A critical time for positive solutions

By **ROD HISSONG, PDMP President**

This year in the dairy industry reminds me of a story Donald Trump told in one of his books. (By reading it, I was hoping to get rich fast; but funny how it said nothing about dairy farming!) In it, he talked about the 1990's New York City real estate crash and the subsequent crash of his real estate portfolio and balance sheet.

As he was walking down the street, he walked by some homeless people and thought to himself: 'There's a group of people who, on paper, are worth more than me.' I'm sure after 2009 many of us would feel better with breaking even as opposed to swimming in red ink.

While I'm not saying we should aspire to be Donald Trump, there is a lesson to learn from his tenacity and resiliency to fight for a better day and to guide his own destiny. Like Donald Trump, we will see better times. I believe years like this will make those who survive better in the long haul. It will make us smarter, savvier businessmen and women. It will give us an edge that we hopefully will keep sharp even as things begin to turn around.

We all have come to realize that it has become impossible to manage a business on the roller coaster that the dairy industry has become. Some things need to change.

I applaud the groups and the individuals who have worked tirelessly to push for change in our industry. Whether I agree or disagree with their positions on what needs to be done, I appreciate that they have been willing to stick their necks out to make a difference.

PDMP has, to this point, sat on the sidelines trying to make heads or tails of all the issues before us. We have tried to educate ourselves about where we are, what has caused us to get here, and what we need to do to keep us from getting here again.

PDMP leadership has discussed, over the past year, what our role in these changes needs to be. We didn't want to make decisions in crisis mode, and make short-term decisions that may hamper our long-term viability and competitiveness.

It is easy to be an armchair quarterback instead of getting in the game. At our last board meeting, PDMP leadership decided that we must get in the game.

As a result, we have come up with a position paper that is published here on this week's PDMP page in Farmshine. These are four points that we feel are important to the long-term viability of the dairy industry.

We realize some of these points do not coincide with some others in the industry. We realize we have made some bold statements that

may not be popular with all dairymen. However, we feel these are the issues that need to be worked on to keep this industry viable, not only for next year, but for years to come.

With some gains and momentum changes already happening in the dairy markets, any short-term solutions, at this point, have already missed the downward curve of the cycle.

One thing we did not want to do, when publishing this position, was to put it out there and expect it would solve all of our problems. We all know things like this are only as good as the paper they are written on unless we follow it up with some hard work.

We are committed to using our networking and communications to work with other dairymen, our friends in allied industries, and those in government to see that these four points are considered when looking for solutions.

PDMP has always been a group of action, and we plan to be no different in this instance. If you are not a PDMP member, we invite you to become one and to help us as we move forward at this critical juncture.

We thank our current members and long-time supporters and look forward to your feedback and contributions as we look for positive solutions that will guarantee a strong and viable dairy industry for Pennsylvania farm families.