GUEST COLUMNIST CMN Exclusive!



Perspective: Dairy Markets

Mike McCully is owner of The McCully Group LLC, South Bend, Indiana, and contributes this column for Cheese Market News®

Billions in plant investments across the country support milk growth

U.S. milk production continues on a long-term growth trajectory with a 13% increase in the last decade. However, growth in milk supplies is concentrated to not just a small number of states, but actually areas within those states. Yes, Texas grew 72%, but nearly all of that growth was in the Panhandle. It is the same with South Dakota, where the growth was along the eastern border. In all, one can claim there are less than 10 major milk supply growth areas in the country.

It is also important to note where milk is not growing. California, the No. 1 milk-producing state, saw only a 1% increase in the last decade with a similar outlook going forward. The Southeastern quadrant of the country continues to see losses in dairy farms and milk production with only Georgia, off a small base, bucking the trend. This area of the country is seeing strong population growth, thereby increasing demand for milk and dairy products. However, in the future, more of that product will come from outside the

As milk grows in these areas, it is attracting investments in milk processing. As the map shows, with a few exceptions, most of the current plant projects, either new or expansions, are in the areas with strong milk growth. In total, there are over \$5 billion in new plant investments and expansions occurring from last year through 2025. The largest investments are in cheese plants, particularly the five new plants in the Southwest. These five plants will process more than 20 million pounds of milk per day or the output of around 250,000 cows. And that milk is coming mostly from new farms that are being built, and not taking milk away from existing plants.

NEWS/BUSINESS

Hidden Springs announces new ownership

WESTBY, Wis. - Dean and Brenda Jensen, owners of Hidden Springs Creamery, announced they sold their farm and business to Amy and Travis Forgues on April 3.

"Building Hidden Springs has been an exciting, meaningful and wonderful ride for Dean and I, but we are looking forward to finding inspiration in our next adventure, says Brenda Jensen.

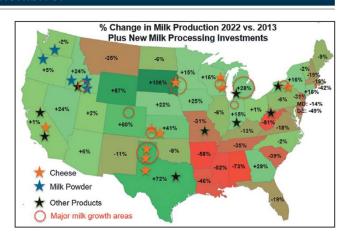
Amy and Travis Forgues come from a farming background, and Amy has made cheese in the past and currently is taking classes to sharpen her cheesemaking skills. Brenda also is mentoring Amy and sharing her knowledge and cheesemaking experience.

"I am thrilled to be the new owner of Hidden Springs farm and creamery. I have been in the agriculture industry my entire life, farming with my husband on his family farm in Vermont

for 17 years and since then working in the organic industry," says Amy Forgues. "It has long been a dream of mine to make farmstead cheese. I am a true believer in serendipity, and the fact that Brenda was looking to sell Hidden Springs at this time was just that.'

Hidden Springs Creamery will continue to produce award-winning artisan cheeses that are healthy, good for the environment and keep its flock happily grazing the hillsides of the driftless region in Wisconsin,

The creamery will continue producing the same cheeses it is known for, with a few new additions coming in the future. Hidden Springs also is in the process of updating its website, and once updated; it will allow for online sales of its products. For more information, visit https:// hiddenspringscreamery.com. CMN



After cheese plants, there is a wave of investment in fluid milk processing, but in extended-shelf-life (ESL) and aseptic packaging, not gallon jugs of white milk. These plants are capitalizing on growing demand for specialty dairy and non-dairy beverages, which are commonly packaged for longer shelf life. Several of these plants are positioned along the periphery of the Southeast. As noted before, the Southeast milk deficit grows each year, so one solution will be shipping in extended-shelf-life milk to consumers in the region. There is some concern that the proliferation of ESL and aseptic plants will overwhelm demand and bring margins down. Each firm's business model will determine how successful they will be in an increasingly competitive environment.

The ownership structure of the new plants looks different than in the past. For one, there are only a couple plant investments from cooperatives, with two of them being re-builds after fires. The two major greenfield plants being built by cooperatives are the Darigold milk powder and butter plant in Washington and the aseptic beverage plant in California with California Dairies Inc.

Instead of cooperatives, individual dairy farmers are investing in milk processing, a trend that started with the Hilmar Cheese owners in the 1980s and gained momentum 15 years ago. New plants and expansions being built by farmers include Idaho Milk Products, Suntado, Valley Milk, Panhandle Products and Cayuga Milk Ingredients. This trend is expected to continue as large farms outgrow existing processing capacity and decide to forward integrate into milk processing. In some cases, limits to growth have been put on the farms, so their solution is to build their own plant. These farms do not need cooperatives, federal orders or other industry constructs from the past. Instead, they are developing business models that are common in other animal agriculture sectors with vertical integration like poultry and pork production.

Another observation is where the plants are being built. The beverage plants in the eastern half of the country are positioned closer to major population areas. In contrast, most cheese and milk powder plants are being built in the Southwest and Idaho, regions that are either unregulated or lightly regulated by the federal order milk pricing system. This gives these plants more flexibility in how they value the milk. In addition, the plants in the western region are likely to have more export market focus, while plants in the middle and eastern part of the country will produce mostly for the domestic market.

The growth in milk and plant investments is a great story for the U.S. dairy industry. Demand for dairy products continues to grow, both in the U.S., and more importantly, globally. At a time when future milk production in Europe and Oceania will be flat at best, or possibly declining, this presents an opportunity for the U.S. to grow market share. In some respects, this has already been happening with Europe and New Zealand ceding some of the commodity product space to the U.S. as they focus on producing and selling more value-added products.

As milk supplies continue to grow in the U.S., what will the next wave of plant investments look like? Given that most of the milk growth is being generated by large farms, it is expected more investment in vertical integration will occur. As long as cheese demand continues to grow, the country will need a new large plant about every year. For fluid milk, in the last five years, over 25 fluid milk bottling plants have closed. With declining sales, and overcapacity, more plants will close in the future. In their place, plants producing longer-shelf-life dairy and non-dairy beverages will continue to grow. The pace of growth will likely slow over the next few years as these plants come online and the market absorbs the new supply. The cost of constructing a plant has skyrocketed in the last few years, so companies may choose to hold off for a while to see if costs come down. But as milk continues to grow, the plant investments will follow. CMN

The views expressed by CMN's guest columnists are their own opinions and do not necessarily reflect those of Cheese Market News®.

NEWS/BUSINESS

Dairy, ag and food industry stakeholders urge action on ongoing shipping challenges

WASHINGTON — Several dairy, ag and food industry trade organizations including the International Dairy Foods Association, National Milk Producers Federation (NMPF) and U.S. Dairy Export Council (USDEC) recently sent a letter to the Biden administration expressing concerns about the ongoing West Coast port labor negotiations between the International Longshore and Warehouse Union and the Pacific Maritime Association. The labor contract now has been expired for more than eight months. Negotiations have been ongoing for more than 10 months, with little to no progress toward a new long-term agreement. Stakeholders say it is imperative that the administration work with the parties to quickly reach a new agreement and ensure there is no disruption to port operations and cargo fluidity.

Stakeholders previously shared concerns on July 1, 2022, when the contract initially expired.

"At that time we called upon the ad-

Comment period extended on child nutrition standards

WASHINGTON—USDA's Food and Nutrition Service (FNS) in the March 31 Federal Register announced it is extending the comment period on proposed long-term school nutrition standards for, among other things, fluid milk, sodium and added sugars.

The original comment deadline for the proposed rule, which was released in early February, was April 10. The comment period has been extended to May 10, 2023. Online comments may be submitted at www.regulations.gov referencing docket number FNS-2022-0043.

USDA's rulemaking proposes new added sugars standards for the school lunch and breakfast programs, including for yogurt and flavored milk, and also proposes gradually reducing school meal sodium limits.

USDA also is proposing two alternatives for the current fluid milk standard: Alternative Aproposes to allow flavored milk(fat-free and lowfat) at school lunch and breakfast for high school children only; and Alternative B proposes to maintain the current standard allowing all schools to offer fat-free and lowfat milk, flavored and unflavored, with the new proposed added sugars limit for flavored milk

USDA received requests to extend the deadline for submitting comments. As of March 31, USDA has received almost 53,000 comments on the proposed rule. More than 8,000 of those comments address, at least in part, issues related to fluid milk, the agency says.

For more information, contact Tina Namian with FNS' School Meals Policy Division at 703-305-2590.

ministration to engage with the parties as well as urged the parties to agree to a contract extension while negotiations continued. We applaud the engagement from former Secretary of Labor Marty Walsh through the negotiations. Now that he has departed the administration, it is critical that a new administration point person be named to continue engagement with the parties as they negotiate," the letter says. "With the lack of progress to date, we would also encourage the administration to offer mediation services to the parties in their negotiations."

Stakeholders note significant cargo flows have shifted away from the West Coast ports because of the uncertainty related to the labor negotiations.

"While there certainly are other issues impacting the West Coast ports, many cargo interests have expressly stated that they shifted cargo as a result of the negotiations. That cargo will not return to the West Coast until after a contract is final and approved by both parties. The longer there is no ratified contract only increases the probability that some portion of the freight will never return to the West Coast ports," the letter says.

Stakeholders add that businesses already have made their shipping decisions for the all-important peak shipping season, which will begin this summer.

"Even though cargo volumes have dropped, we continue to experience supply chain stress and challenges. While many continue to recover from pandemic-related issues, the ongoing stress of inflation and economic uncertainty continues to impact supply chain stakeholders as well," the letter says. "The lack of a labor contract adds to this uncertainty. While we appreciate

that the parties agreed not to engage in a strike or a lockout, we are aware of several instances of activities that have impacted terminal operations. We need the administration to ensure these activities do not continue or escalate.

"We know that significant issues remain for both parties to resolve," the letter continues. "However, the only way to resolve these issues is for the parties to remain at the bargaining table and actually negotiate. We encourage the administration to provide any and all support to the parties in their negotiations to reach a final agreement.'

Meanwhile, last week U.S. Reps. Dusty Johnson, R-S.D., and John Garamendi, D-Calif., introduced the Ocean Shipping Reform Implementation Act to build on the progress of the Ocean Shipping Reform Act (OSRA) that became law in June 2022. The Ocean Shipping Reform Implementation Act aims to crack down on the Chinese Communist Party's (CCP) attempts to influence America's supply chain, the bill's sponsors say.

Specifically concerning China, the legislation establishes a formal process to report complaints against shipping exchanges like the Shanghai Shipping Exchange to the Federal Maritime Commission (FMC) for investigation; bans U.S. port authorities from using the Chinese state-sponsored National Transportation Logistics Public Information Platform (LOG- INK) and similar state-sponsored malware; directs the U.S. Department of Transportation (DOT) to contract an independent auditor to examine the influence of the People's Republic of China (PRC) on the business practices of the Shanghai Shipping Exchange and report to Congress; and codifies the definition of "controlled carrier" under the Shipping Act to encompass state-controlled enterprises in non-market economies like the PRC.

In the area of data streamlining and port performance statistics, the legislation authorizes the FMC to streamline data standards for maritime freight logistics and use existing data standards or industry best practices, including contracting an expert third party to develop the new federal data standard if needed, and authorizes the Bureau of Transportation Statistics to collect more information on port operations, such as the total of incoming and outgoing containers and yard capacity.

The Ocean Shipping Reform Implementation Act is supported by, among others, NMPF, USDEC, the Agriculture Transportation Coalition and the Consumer Brands Association.

"The Ocean Shipping Reform Act was a key step in the right direction to correcting an ocean shipping market that has for too long disadvantaged U.S. dairy exporters," says Krysta Harden, USDEC president and CEO. "This bill gives the Federal Maritime Commission the full suite of tools necessary to return balance and certainty for American dairy exports."

Jim Mulhern, NMPF president and CEO, notes American dairy producers rely upon a consistent transportation network for their products to reach international customers.

"The legislation introduced (last week) builds upon the important steps initiated in the Ocean Shipping Reform Act to correct an ocean shipping market that put U.S. dairy exporters at a steep disadvantage over the past three years," he adds. CMN

