Report and Proposals

by the

Arkansas Milk Stabilization Board

December 2008

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The Arkansas Milk Stabilization Board was authorized by Act 754 of the 86th Arkansas General Assembly's during the 2007 Regular Legislative Session.

The board includes the following five members appointed by Governor Mike Beebe: Woody Bryant, a milk producer from Lonoke County representing milk producers; Mike Fisher, a milk producer from White County representing milk producers; Michael Flagg, Coleman Dairy of Little Rock representing milk processors; Steve Wheetley, Affiliated Foods, Inc. of Little Rock representing retailers; and Brownnie Ledbetter, a consumer activist from Little Rock representing consumers.

All five members have experience directly related to Arkansas milk production and processing, including Mr. Wheetley and Ms. Ledbetter. Mr. Wheetley at one time managed a milk processing plant for Affiliated Foods, Inc. Ms. Ledbetter grew up on an Arkansas dairy farm.

At the board's initial meeting, it elected the following officers: Mr. Bryant as chairman, Mr. Wheetley as vice chairman and Ms. Ledbetter as secretary.

The board has met monthly beginning in September 2007. It has met 15 times through December 2008. Board attendance averages 97 percent.

In accordance with the enabling legislation, Richard Bell, secretary of the Arkansas Agriculture Department (AAD), and Senator Jon Fitch, executive director of the Arkansas Livestock and Poultry Commission (ALPC), serve as advisors to the board. Dr. Jodie Pennington, dairy specialist for the University of Arkansas Cooperative Extension Service, provides invaluable technical expertise and knowledge to the board.

The goals of the board, according to the enabling legislation, are to take steps to assure the continued viability of dairy farmers in Arkansas; assure consumers of an adequate, local supply of pure milk and encourage greater milk production to meet state's need for quality milk.

In carrying out its duties, the Arkansas legislature directed the board to research programs in other states to determine how they support their dairy industries, including investigating methods of milk production, milk and dairy product pricing and other support for the dairy industry.

The board reviewed milk programs in the following states: Louisiana, Kentucky, South Carolina, Georgia, Pennsylvania, North Dakota, Vermont, Maine and Wisconsin.

The board met with the following to discuss federal and state milk support programs: USDA's Gayle Ely, assistant market administrator, Federal Milk Marketing Order at Atlanta; Sonia Fabian, chief operating officer of the Southeast Council of Dairy Farmers of America (DFA), a milk marketing cooperative; the Arkansas Grade "A" Milk Advisory Committee of the Arkansas Department of Health and John Weisgerber, director, North Dakota Milk Marketing Board.

The legislature also directed the board to create a plan to assist Arkansas diary farmers. The plan is to be equitable to all parties in the state's dairy industry and withstand legal challenges. The plan is to be submitted to the Arkansas Legislative Council following a public comment period. The board is to promulgate rules to implement the plan and monitor progress once the plan is implemented by the Arkansas Agriculture Department.

Arkansas Milk Situation

Arkansas milk production declined sharply during the past decade. Production was 540 million pounds in 1998. It is projected to be less than 200 million pounds in

2008. The number of milk cows on Arkansas farms was 49,000 in January 1998. The number was less than 17,000 in January 2008. Only 142 Arkansas dairy farms are registered with the Arkansas Department of Health to produce Grade A milk as of mid-2008.

Dr. Zelpha B. Johnson, Professor of Statistics, Department of Animal Science at the University of Arkansas, conducted a regression correlation analysis for the board using recent trends in Arkansas milk production. Dr. Johnson's analysis reveals if there are no changes in Arkansas and federal milk policies, and recent trends continue, there will be no dairy farms remaining in Arkansas by 2015.

Arkansas' milk production covers less than 25 percent of the state's overall needs for bottled milk and dairy products. If all were used for bottled milk, it would supply less than 40 percent of the state's needs for bottled milk.

Few Arkansas parents are aware that only one out of every three glasses of milk their children drink is produced in Arkansas. They would be shocked to know that milk for the other two glasses may be coming from as far away as New Mexico.

The state must take action if it wants to assure Arkansas parents that their children will have a fresh and pure supply of milk. If nothing is done, Arkansas milk production will continue to decline and the cost of milk and other dairy products will rise as a result of transportation costs to bring milk and dairy products from out-of-state.

It will be less costly for the people of Arkansas to act now and avoid future higher costs if no action is taken. Many other states are taking actions by offering their milk producers "incentives and/or premiums" for the milk produced in their states. The state premiums are over and above payments provided by the Federal Milk Marketing Order serving their states.

There are reasons for the rapid decline in Arkansas milk production: urbanization in Arkansas' traditional dairy counties; low productivity among some Arkansas milk producers; the state government's low commitment of resources to the state's dairy industry; and management of the Federal Milk Marketing Order governing the marketing of milk produced and consumed in Arkansas.

Arkansas' urbanization during the past decade has occurred in the principal milk producing counties of Washington, Benton, Faulkner, Conway and Lonoke. Urbanization has provided opportunities for families with dairy farms in those counties to sell their pastures and other assets at attractive prices. Few have reinvested in dairy farms elsewhere in the state.

Productivity of some Arkansas dairy farms is low compared with that in major dairy states. Arkansas' milk production per cow is less than 60 percent of that in states with mega dairy farms such as California, Arizona, New Mexico, Texas, Colorado and Idaho.

Several reasons are cited for Arkansas' lower productivity: high humidity, low pasture quality, poor climate for silage production and small herd size. These could be partly overcome by higher milk prices to Arkansas producers. Florida has high humidity but also an average milk yield 28 percent above Arkansas. Florida's average herd size is more than eight times that of Arkansas and Florida has much higher milk prices for both producers and consumers.

The state has not made the same resource commitment to dairymen as it has to other agricultural enterprises. The University of Arkansas has less than one man-year devoted to dairy extension, while row crop agriculture has many extension specialists devoted to rice, cotton, soybeans, wheat and feedgrains. Admittedly, Arkansas milk producers have no state checkoff funds to bolster the university's efforts to assist dairymen. They contribute to the National Dairy Promotion and Research Board, but few if any of those funds find their way to help with research in Arkansas.

With Arkansas being “milk deficit,” prices to milk producers should rise to levels to encourage more milk production, but this does not happen due to the manner which the Federal Milk Marketing Order is administered. Arkansas milk prices to producers are based on prices in large market areas in the Southeast such as Georgia and Florida, and then “backed-off” for freight costs for moving Arkansas milk to those markets. The pricing issue is further complicated by the Federal Order forcing Arkansas milk producers to pay part of the freight for milk brought into Arkansas from mega dairies in New Mexico and Texas.

Arkansas Milk Processing

Milk processing is an important part of the Arkansas dairy industry. It provides many jobs and payroll dollars by processing, packaging and transporting milk produced within the state as well as milk brought in from out-of-state or shipped to other states. It adds an estimated $400 million annually to the state’s economy.

Although Arkansas will produce less than 200 million pounds of milk in 2008, the state has a milk processing capacity of one billion pounds. It has plants which process fluid milk as well as plants which produce cheese, ice cream and other dairy products.

Processing plants are situated in two regions of the state, northwestern Arkansas and central Arkansas. Production capacity is fairly evenly divided between the two regions.

Plants are located in northwestern Arkansas at Bentonville, Fayetteville and Fort Smith. The plant at Bentonville is a cheese manufacturing plant. About one-third or the milk processed in Arkansas is used for cheese production. Few people are aware of the fact, but one-half of the milk consumed in the United States is consumed as cheese. The other two plants in northwestern Arkansas process fluid, or bottled milk.

Central Arkansas has a large milk processing plant located at Little Rock. It processes fluid milk provided by Arkansas milk producers as well as milk from out-of-state. It also ships large volumes of milk to other states as a result of the Federal Milk Marketing Order. Central Arkansas also has a sizeable ice cream manufacturing plant located at Searcy.

In addition to the in-state milk processors, bottled milk and dairy products enter Arkansas from adjacent states, particularly, Tennessee, Missouri, Oklahoma and Texas; and as far away as Colorado and Arizona.

Proposals

All the problems facing Arkansas milk producers must be dealt with, but solving them will not happen unless Arkansas producers can be assured of pricing opportunities and incentives to give them a fighting chance to cover production costs and hope for a profit above those costs.

The board offers three programs it believes will help provide incentives for Arkansas milk producers to increase their milk production during the next several years.

Investment Tax Credits

The board proposes investment tax credits patterned after a successful Wisconsin program and a successful water reservoir program administered by the Arkansas Natural Resources Commission in eastern Arkansas.

The program will be designed to spur investments on dairy farms to upgrade equipment, technology, increase the size of dairy herds and the number of dairy farms.

It will provide for tax credits up to 10 percent of the amount invested by a milk producer on dairy farm modernization and expansion. It is intended to reduce the net cost of durable assets. The maximum credit that may be claimed is $50,000 per year for 10 years or an overall maximum of $500,000 per producer.

Tax credits will cover money spent to construct, improve or acquire buildings or equipment for dairy animal housing, feeding, milk production, waste management, milking parlors, freestall barns, milk storage and cooling facilities, feed storage and handling equipment, manure pumping and storage facilities, scales, fences, digesters, robotic equipment and facilities for replacement dairy heifers. The program will not cover the purchase of equipment for raising crops for sale if more than 25 percent of the total crop production is sold off the farm or for vehicles licensed for highway use. The program will include investments in irrigation facilities to improve pasture, hay production and potential silage production.

Production/Quality Incentive

The board proposes a program aimed at encouraging Arkansas milk producers to increase both their production and quality of milk. The prime purpose of this program is to prevent Arkansas milk production from continuing to decline.

The program will provide each producer an opportunity to receive an incentive payment of 50 cents per cwt. for each cwt. produced above the producer’s average annual production during the previous two years and an additional 50 cents per cwt. if all milk production contains less than 400,000 somatic cell count. New producers would be required to have only one full year of milk production history to be eligible for payments. Annual payments to each qualifying producer will be limited to $50,000 per year.

Milk Stabilization Payments

The board proposes a program to assure Arkansas milk producers they will recover a prescribed percentage of their costs of producing milk. It is obvious that such an assurance is not being provided by the Federal Milk Marketing Order governing milk production and utilization in Arkansas. Other states are taking similar steps to provide assurances in order their states have an adequate and safe supply of milk for their citizens.

The board proposes a system of monthly payments to Arkansas milk producers whenever the monthly price of milk received by Arkansas producers is less than 70 percent of the average monthly cost of producing milk in the adjacent states of Missouri and Tennessee as estimated by USDA. No similar cost data are available for Arkansas.

A limit will need to be placed on the payment rate in order to limit the state's financial exposure for the program. If annual funding is $4 million, payments would need to be limited to an annual average of $2 per cwt. of milk and a maximum monthly payment of $5 per cwt.

Funding

The board proposes a checkoff program on milk and dairy products to fund the proposed programs. Checkoff programs are common in the dairy industry. Milk producers have an array of checkoffs from their milk checks.

The board feels strongly that all products of the dairy industry, not just bottled milk, should participate in helping stabilize the Arkansas dairy industry and increase milk production in the state.

The board proposes checkoffs of up to 30 cents per cwt. on bottled milk, (2.4 cents per gallon), 2.6 cents per pound on cheese and 1.5 cents per pound on other dairy products to be collected at the wholesale level and submitted to the Arkansas Department of Finance and Administration (ADFA). The board estimates the checkoff rates will generate $4.1 million annually. The board recommends that ADFA establish a dairy fund, and collections continue annually until a level is reached to provide funding for an ongoing program.