



Extension FactSheet

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Questions Pertaining to Large Dairy Enterprises in Ohio: General Information About the Dairy Industry

Why is the dairy industry in Ohio undergoing change?

There are presently less than 50% of Ohio's dairy herds remaining in the state compared to 20 years ago (Figure 1), and the number of farms continues to decline. The number of dairy cows in the state decreased by 55% over the 30-year period from 1965 to 1995 (Figure 2). Currently there are approximately 260,000 dairy cows in the state. The average number of cows per farm has been increasing, but in 2001, Ohio was recorded as having the lowest average herd size in the United States, averaging 58 cows per farm. Milk yield per cow has increased by about 2% per year in Ohio because of genetic selections, advancements in feeding practices, availability of new technology, and changes in management and housing practices that have resulted in better animal health and comfort.

These trends are similar in almost all traditional dairy states. The number of farms is decreasing because of increasing job opportunities for young people, the level of physical labor and long hours associated with farming, increasing cost of operation for smaller dairy farms, and the lower family income often associated with small farms. The limited capacity

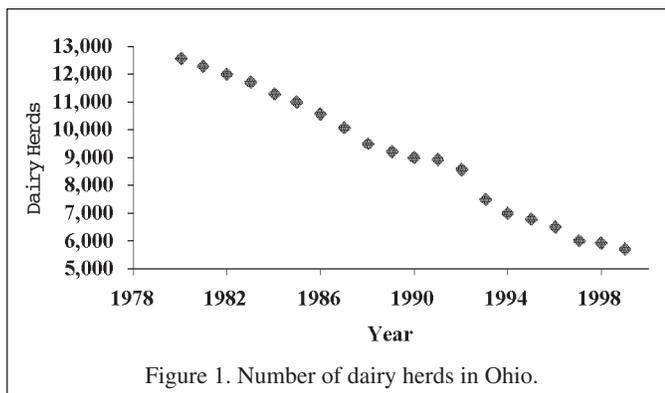
of smaller farms to provide an acceptable standard of living gives rise to the increasing size of present farms. Costs of farm inputs have been increasing along side inflation without similar increases in prices for farm commodities, thus the profitability per producing unit (e.g., cow) has been declining. Thus, to be profitable and provide for at least a moderate standard of living, dairy farm size (cows per herd) has been increasing. Crop farmers are faced with similar problems; for an enterprise to remain profitable, an increasing number of acres are needed per farm.

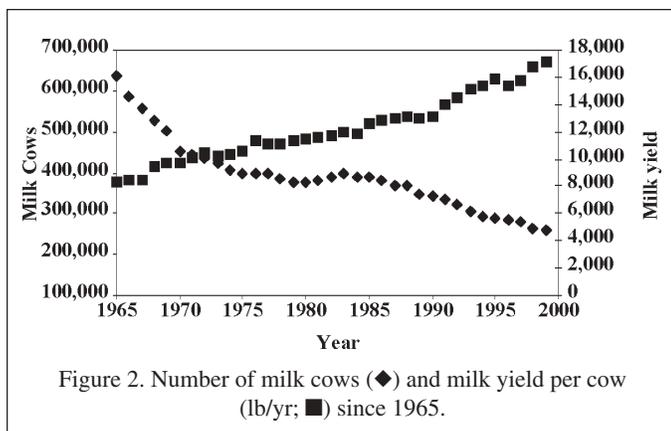
In Ohio, the major concentrations of dairy farms have traditionally been in the northeastern and west central areas of the state. However, pressure from increased population growth and rising land values in northeastern Ohio has reduced the favorability of the area for livestock farms. Large farms have been locating in northwestern Ohio because of large land bases, lower population density, availability of natural resources, and the proximity to feed sources.

Why do we need more milk anyway?

We need more milk to keep up with the growth in consumer demand. Consumption of milk used in all dairy products grows about 2.2% every year. In the United States, we need to at least maintain this same rate of growth in production of milk if we do not want demand to outpace supply and the occurrence of ever-rising consumer prices for milk and dairy products. If we do not increase the production by this level, we will develop a demand-supply imbalance, prices will rise, and more imports will begin to come into the United States to correct this imbalance.

Ohio has 76 milk processing facilities that employ approximately 7,600 people. The average wage of the employee in the milk processing industry ranges from \$13 to \$16 per hour, not including benefits. Ohio has lost four dairy manufacturing expansion projects in the last 4 to 5 years due to a lack of





milk supply in Ohio. We also lost the opportunity for approximately 1,000 new jobs in Ohio as a result of these expansion projects not occurring in Ohio. Simply put, in order to retain and increase the capacity of the milk manufacturing industry in Ohio, we need more raw milk produced in Ohio. Potentially large portions of our dairy infrastructure will relocate to other states unless additional milk is produced in this state. The state's infrastructure of dairy veterinarians, equipment supply firms, feed manufacturers and dealers, consulting nutritionists, agricultural lenders, etc., serves dairy farms of all sizes.

Why has the government tried at different times to decrease milk supply?

The U.S. government has attempted to directly reduce the production of milk on farms with two major programs, both occurring in the 1980s. The first was the Dairy Diversion Program, enacted with the 1983 farm legislation, and the second was with the Dairy Herd Buyout Program, enacted with the 1985 farm legislation. The first program attempted a temporary diversion-type program, idling production from dairy cows but not removing cows from the national dairy herd. The second program attempted a complete production termination program by government purchase of entire dairy herds and sending these animals to slaughter. These two programs were enacted to reduce the amount of milk produced on U.S. dairy farms. By reducing the growth in milk production and letting demand catch up, there would be a reduction in the quantity of dairy commodities (butter, cheese, and nonfat dry milk) that the government would have to purchase to maintain the minimum price support level in effect at that time. In essence, these milk production programs were enacted to reduce the burden on the U.S. taxpayer by lessening the quantity of dairy products that had to be purchased by the Commodity Credit Corporation (CCC) and placed in storage. At the time these programs were enacted, the dollar cost of the price support program had become very large and appeared to be growing. However, with the inability of these two programs to significantly reduce the growth in milk production, the final action was to initiate a

reduction in the milk support price. The national scene has now changed in that the milk price support is lower, and the amount of milk available relative to demand is very much in balance. Also, regardless of the national scene, local economic advantages can exist for increasing milk production in certain areas because of local economic advantages for milk production and the presence of a local milk processing industry, resulting in the provision of milk and milk products for other areas of the country that are in a milk deficit.

Why do certain milk processors sometimes encourage less production of milk?

Milk processors may encourage dairy farms to produce less milk for two primary reasons. First, milk processors like to have a balanced supply relative to demand and may encourage less milk shipments on a seasonal basis. Second, milk processors may at times encourage less total milk production (thus fewer cows) in an attempt to decrease supply relative to demand and thus increase price for milk paid to farmers. These strategies, if attempted by individual processors, are often unsuccessful. Dairy cooperatives that follow this path are representing their dairy farmer members and not necessarily representing the processors of milk. Efforts employed by nationally based milk procurement companies to decrease milk supply will likely disregard the economic advantage of additional milk in some more localized areas.

Is the government presently subsidizing milk production?

Dairy farmers do not receive direct market price adjustment payments or deficiency payments as are currently paid to some crop farmers. However, they do receive a form of subsidy to the extent that there are a number of provisions within U.S. federal agricultural policy that place a lower limit on market prices for milk or encourage large crop production which lowers market feed prices. These are indirect subsidies to dairy farmers. Also in 1999, 2000, and 2001, dairy farmers received emergency Dairy Market Loss Assistance payments to offset the negative impacts of adverse weather and market conditions.

The primary form of government involvement at the farm level is the price support program. This program is designed to place a floor under the milk price by authorizing the Secretary of Agriculture, through the CCC, to purchase cheddar cheese, butter, or nonfat dry milk powder for the purpose of supporting the milk price received by dairy farms. The CCC does not purchase milk directly but instead purchases these products at prices determined to keep the milk price at the stipulated price floor. The current support price floor is set at \$9.90 per hundredweight of milk. Because the supply and demand for milk is in substantial balance with the exception of nonfat dry milk, the CCC does not purchase any sizable quantity of either cheese or butter.

Why are some of the new farms to Ohio choosing 650 cows as a size?

Many livestock facilities — just like any manufacturing or business operation — are being designed on an integrated basis, taking into consideration all aspects of the production flow of materials. It is more efficient for a processor to fill an entire semi tanker with milk from a single farm, and this further results in less hauling costs being charged to the dairy farmer. A farm with 650 cows will provide about enough milk to fill a tanker.

Farmers also must spread the costs of an operation most efficiently. For example, a modern milking center designed for one operator has the capacity to milk 100 cows per hour. A parlor of this design costs in excess of \$500,000. This large amount of fixed costs must be spread over as many hours of operation as possible (20 to 21 hours per day to allow for cleaning and repair time). Thus, a modern milking center will allow 650 cows to be milked three times per day with only one operator at any one time in the center.

Dairy operations with 700 mature dairy cows must file for a Permit to Install (PTI) and a Permit to Operate (PTO) from the Ohio Department of Agriculture (ODA). Therefore, some farms have 650 cows or less, so that filing for these permits is not required.

Why might a large farm operator choose to relocate to a new community?

There are many personal and business factors that are involved in a decision to relocate. Frequently, the farm must expand to make room for additional family members to join the business. In instances where local conditions, such as land availability, preclude an expansion at the current site, the family must look at other areas for establishing a new dairy. Urban encroachment also can force farms to relocate because most

commercial farms cannot operate profitably with small tracts of land sectioned by housing and commercial developments.

How can I be sure the farm will be managed competently, so safety and nuisance problems will be kept to a minimum?

It is almost impossible to guarantee absolute compliance in any activity all the time. However, all producers have a stake in following recommended practices to protect their families, the health of the dairy herd, their investment, and the environment. The efforts of everyone, both regulators and neighbors, are needed to bring those few producers who cause the majority of problems back into compliance with water-quality goals. See Fact Sheet AS-8, *Questions Pertaining to Large Dairy Enterprises in Ohio: Regulations*, for additional information (<http://ohioline.osu.edu/as-fact/0008.html>).

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