Chewing the cud with Kevin Brewer

California dreaming

Arnold Schwarzenegger in his latest role as Governor of California was the star attraction at World Ag Expo, an appropriate venue given the Tulare show's claims to be the World's biggest! But it was the State's agriculture secretary A. G. Kawamura, a produce grower and shipper from Orange County, who made the most relevant comments.

His family recently terminated their specialist celery growing enterprise as despite always getting very good yields and excellent quality, they had become uncompetitive against lower cost producers. 'It's not about producing something and then hoping to sell it,' said Kawa-mura in his keynote address. 'Production has to be driven by the market.'

The following day I ran into a delegation from China, in Tulare to review the latest developments in milk production technology and identify techniques, equipment and products appropriate to their country.

Chinese government policy calls for a rapid increase in milk and cheese consumption and the aim is to drive this by establishing a modern and significant dairy industry on home soil, more or less from scratch.

Visiting Korea recently, I gained an insight into the scale and pace of the Chinese ambitions when I was informed of proposals for an initial import of half a million Holstein cows, just for three provinces in the south-east! The impact on world dairy markets and therefore the milk price for the rest of us, depends on whether they get the cart before the ox or vice versa.

Clearly if production runs ahead of consumption, any surplus may displace Australian and New Zealand dairy products from Asia, increasing the competition both with, and within, the USA and Europe. But if growth in Chinese consumption runs ahead of their ability to produce, there will be export opportunities and upward pressure on prices.

Tulare County must hope for the latter as in addition to the World's largest farm show, it also probably has the World's highest concentration of the dairy products industry. In stark contrast to Europe, where thousands of farm jobs have been shed, Tulare's 400 or so herds, most with cow numbers measured in thousands and average yields above 22,000lb (10,000 litres), put on 830 additional staff between 1997 and 2000.

And there is no sign of any halt to expansion, with the county adding over 15 million pounds (7M litres) of daily milk processing capacity in the last 18 months. Cheese production in California as a whole, has doubled in the last 10 years and the State is now home to almost half of the World's 10 biggest cheese plants.

Milk production in Europe is quota capped, but this does not seem to have reduced farmers' aspirations to increase output. In a survey of 500 UK producers last autumn, 70% reckoned they had the opportunity to expand and 40% declared a definite intent to do so as a direct response to the current mid-term review of the EU dairy regime. The impending regulatory changes are specifically designed to increase Europe's dairy output, with quota enlargements pending for 2006, 2007 and 2008.

But parallel reductions in market support seem highly likely to result in lower prices at the farm gate as there appears no significant action planned for consumption.

Back in Ceredigion, we are struggling with our heaviest snowfall in 20 years and working to clear a route for the tanker to reach our dairy, the sunshine of California seems a world away. Concentrating on the shovel in hand, our focus is on keeping the milk flowing with no consideration as to where it will go or who will consume it. Like most producers the world over, we have too many days like this.

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Internal shareholders

In the next few days we will find out which company will be supplying us with feed through the grazing season and at what price.

Together with other local producers, we fix prices twice a year, contracting forward for six months, a move that has provided significant savings this winter given the rise in grain prices between autumn and new year.

As usual, several suppliers have tendered for the business, but for the first time, there is not a single plc amongst the contenders and as far as I am aware, there are none left in the industry. Less than a decade ago plcs (Public Limited Companies listed on the stock exchange) dominated the cattle feed industry in the UK. Dalgety, BOCM, Bibby, RHM were all household names and all stock exchange listed, or at least a significant division of a plc parent.

Some of the brands remain prominent in the animal feed market and some of the former parents, or former subsidiary in at least one case, can still be found in the Financial Times, but through a succession of divestments, closures and management buy-outs, the UK feed business has gone non-plc.

Although BSE may have been the instigator of this process as some boards took very early decisions to distance shareholders from any threat of compensation for trucking the disease around the country, it seems to me that more recent actions are part of a general withdrawal from agriculture by investing institutions. This has been driven by a failure of agriculture divisions to deliver the rate of return demanded by investors and a fear that underperforming agri-interests will drag down the share price of the whole plc.

If you do not believe this, look at what is currently happening in the European fertiliser industry. Major players, despite securing significant price rises at the farm gate, are hiving off their fertiliser interests into separate entities entirely divorced from the rest of the activities of the company. This financial revolution in agriculture investment is not confined to the supply industry.

Take a look downstream, at those who are buying and/or processing your milk and see if you can spot any of the following household names, not all plcs but certainly big noises in dairy processing very recently – Parmalat, Unigate, Northern Foods, Express, Nestlé, ACC, Glanbia, Wiseman, Dairy Crest.

Remember how many you got today and try it again in five years, I suggest there may not be more than you can count on two fingers.

One result of this investor exodus should be increasing opportunities for farmers to take control of their milk further down the line as exiting companies offer up their plants to those happy to operate on tighter margins. There is certainly a gulf between the requirements of farmers and stockbrokers in terms of return on capital and if becoming plc-free means a dairy sector paying dividends to producers rather than the City I am all for it, but when investors go AWOL, it usually signifies a lack of confidence for the future.

Few farmers seem to share that view judging by the number of new milking parlours, dairy buildings and quota purchases invested in over the last 12 months. Dairying in Europe is on the brink of its biggest shake-up in 20 years, yet for every producer I know getting ready to quit, there are three expanding, with banks queuing up to lend them the money to do so.

Drawing plans for our own new building, I wonder if milk producers are inherently unreasonably optimistic.

From seed capital to bull markets, agriculture was important enough in the past to provide the financial world with much of its vocabulary. The idea that our industry is now so unattractive to the outside investor that it may soon be supported entirely from within, gives feed for thought. ■

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Environmental equation

The profession of farming has suffered a steady decline in profile over the last 20 years, both within the establishment and amongst the population in general. In the UK, it is no longer even a feature of government since the dismemberment of the Ministry of Agriculture, Fisheries and Food and creation of the new Department of Environment, Food and Rural Affairs.

There has been a similar cull of agriculture correspondents in the mainstream press such that today there is not a single member of the Guild of Agricultural Journalists on the staff of any national newspaper and very few UK regionals still retain an agriculture editor. As a result, many important farming issues do not get coverage. Those that do are often handled by environment or political correspondents, frequently sensationalised, regularly inaccurate and almost always from a pre-determined agenda lacking in knowledge and understanding of farming.

A driving factor is our declining numbers. Although the thousands of jobs lost in agriculture each year derive fewer column inches than a single factory closure, farmers have lost their political clout, the farming vote having minimal impact on elections in most countries and many regions. In fact, where the countryside does become an electoral issue, more votes are likely to be garnered by backing measures that make farming more difficult and less economic. It is ironic that the removal of agricultural input into education and media corresponds with a period in which the urban population has become more divorced from farming and food production. Little wonder many city kids do not know that milk comes from cows. But does that matter?

As a profession, farmers the world over are entering an unprecedented period of regulatory control. In Europe, the Commission has been steadily piling up directive after directive, a legislative time bomb set to explode over the next decade that has the potential to put just about every producer in the continent on the wrong side of the law. In North America too, increasing application of industrial based legislation is likely to increase costs and prosecution of farmers as the USA's Environment Protection Agency looks set to take a hard line on gas emissions from cow manure.

Agriculture has always had a significant impact on the environment, not surprising since a major skill requirement is an ability to manage nature. But few seem to recognise that the wonderful countryside we enjoy today is not a natural phenomenon, but has been created by generations of farmers. It has always been a dynamic landscape and sometimes it is difficult to understand the urge to freeze it at this point in time.

That does not mean the environment should not be protected, it is, after all, the only one we've got. But rules and regulations need to be developed and applied from a more practical and realistic standpoint rather than knee-jerk responses to single issue pressure groups or the guy in the new house down the road.

I am fed up of seeing news items that begin: "Environmentalists say ….." with everything that follows reported unchallenged. When I was a kid, the man waving a placard declaring: "The end of the World is nigh!" was not considered to be a reliable source of information.

European producers are now facing a major shake-up from the Mid-Term Review. One effect will be a concentration of cows into larger herds, increasing the likelihood of environmental issues. A second will be yet another wave of lost jobs and a further reduction in farming's voting power. Unless those city kids grow up understanding what it takes to produce the food they eat and shape the country they live in, who's going to stop the lobbyists from making it impossible to farm? ■

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Flying trapeze

A high degree of flexibility and acrobatics has been necessary for many producers to keep their businesses moving forward in the current climate and according to German economist Folkhard Isermeyer, in Europe at least, the safety net is about to be pulled away.

Speaking at the European Dairy Farmers' Congress at Gelli Aur College in South Wales, he said impending changes to industry support within the EU will increase internal market pressures, causing an initial decline in milk prices, followed by a recovery as smaller and unprofitable farmers quit production and supplies tighten.

Right now the EU is about 120% self-sufficient in milk, disposing of half the surplus through subsidised internal markets such as calf and cattle feed and dumping the remainder on the rest of the world.

Only a 10% reduction in supply is therefore needed to make export subsidies totally redundant, so the EU's zero subsidy stance at the latest round of World Trade Organisation is perhaps less of a threat than initially perceived.

More of a concern is the future of import tariffs. Currently both the USA and EU operate strong border controls, protecting home producers from the low cost milk washing around on the open market.

Milk at a world price of €0.16 per litre rises to €0.30 once the EU tariff is paid, which coincidentally is the current average production cost for UK producers. Cut the tariff by half and the import base price falls to €0.23-0.25, a level at which only half of Europe's producers could survive, remove it altogether and we will be turning somersaults.

Isermeyer, head of the German Institute of Farm Economics, says Europe's big problem is that it has too much milk and the faster farmers quit production, the sooner we will achieve market equilibrium and price recovery.

The positive impact of a closer balance between supply and demand on returns has been clearly demonstrated by events in the USA this year. Class I milk prices hit an all time high in June on the back of just a small drop in production caused by a shortage of heifers. With BSE concerns reducing the usual supply of heifers from Canada, US cow numbers are still down on 12 months ago but, encouraged by record returns, farmers have boosted cow yields sufficiently to lift July production almost 1% ahead of last year and the milk price is coming down.

Forecasting the future is difficult at the best of times and with so much detail still subject to political wheeling and dealing at the WTO, Europe has yet to provide progressive producers with a clear strategy for its dairy industry.

That said, a reasonably sustainable price of €0.33 per litre has been predicted for the USA in 2013 and it was suggested at the conference that Europe could deliver something similar, so long as enough producers quit.

Isermeyer's view is that the best 50% can continue to invest in their businesses and increase production but that some European regions will see significant declines in their industry.

As individual farmers our future, it seems, relies on staying ahead of the average, both in terms of technical and economic performance.

A major difference between Europe and the USA is the much maligned quota system. If the economists are right and sustainable prices depend on a 10-20% fall in EU production, then quota will become an irrelevance and its capital value will plummet.

Isermeyer suggests it will be so cheap from 2006 onwards that the door will be open for Europe to exit the quota system altogether. The irony is the biggest losers would be the best and most progressive farmers that have invested heavily in quota at high prices to expand their businesses. Oh, what a circus! ■

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Got milk?

Mornings are not my thing. I have always been something of a night owl, regularly working into the twilight hours and often, right through the night.

Given the time differences involved in my international role with Ecosyl it is a useful attribute and on the farm, midnight calvers are my responsibility, but my attendance record at morning milking is decidedly poor.

Irrespective of what time I get to bed, it is difficult to get much sense out of me first thing, until I am on to at least my third or fourth cup. Tea at home, coffee when away – our tea making ritual and spring water means tea anywhere else never tastes quite the same.

So, my first action early on the first day of World Dairy Expo, in Madison, Wisconsin was to make a bee-line for the coffee stand. The coffee was great, but there was no milk available, only non-dairy creamer!

Congratulations to the organisers for a rapid response. It may not have had anything to do with my quiet word, but by the time I returned for a second cup, real milk was on the counter.

It is often claimed that the market responds to customer demand, but where milk is replaced, it seems more often due to supplier convenience or higher margins on non-dairy alternatives.

Milk producers in the Netherlands are amongst the most advanced and efficient in the world yet on KLM, their national airline, it is standard practice to provide both coffee and tea drinkers solely with powdered creamer.

I always ask for and, after some delay, usually get fresh milk and have noticed on several flights that once the milk becomes visible, many passengers choose that option. Returning from Madison, there was no milk at all on the plane from Amsterdam to Cardiff and mine was not the only voice of complaint. I overheard air-hostesses pointing out to several passengers the KLM branded packet of whitener, but my aim is that next time, they will have milk.

Increasingly, I find myself playing the role of awkward customer in any sort of catering situation where milk is not visibly on offer and sometimes when only the wrong sort of milk is provided. A recent supper stop at a roadside café in the heart of Welsh dairy country ended in a 10 minute sit-down conference with the manager.

We discussed the current plight of local producers, the nearby location of two major dairies and that the café offered only imported milk and cream.

Producer investment in milk marketing campaigns has increased significantly in recent years with the memorable Got Milk and The White Stuff slogans gradually breaking into the general vocabulary. Sadly, such promotional activity is rarely matched by the processors and retailers who take the vast majority of the margin. One UK supermarket even having the nerve to use milk carton labels to promote a special offer on soya milk!

Farmer funded milk promotion will become even more important in the years ahead and we will need to step-up the level of investment to ensure milk and dairy products retain a prominent position. It is a sad fact that many retailers and caterers would rather do without the hassle of handling fresh product, no matter what the health benefits.

Increasingly, they will have the option of synthetic alternatives with extended shelf-lives, higher margins and backed by multi-million marketing campaigns and we will have to fight to stay in the game.

The actions we can take as individual consumers is equally valid and sometimes more directly effective. Become an awkward customer. Challenge supermarket managers who place non-dairy products in the dairy cabinet and, whenever it is not automatically on offer, demand real milk. ■

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Fishbowl farming

In the past few weeks my foreign travels have taken me to a number of dairy farms across the mid and south west of England where, as in the rest of Europe, producers are trying to interpret the new regime that commenced on 1st January 2005 and is timetabled to be fully in place by 2007.

As with most EU initiatives, it is a boon for bureaucrats, will force farmers to spend yet more time in the office and adds a multitude of new phrases and acronyms to the rural vocabulary. My favourite so far is the designation of land that fails to qualify for the new payment scheme as 'naked acres'.

Also, as usual, the regulations are in place before there is any real understanding of the fine detail and what it means in simple practical terms for the besieged producer.

To date, the primary focus has been on the Single Farm Payment (SFP), already renamed the Single Payment System (SPS). Designed with the twin aims of meeting Europe's WTO obligations to remove trade distorting subsidies while still maintaining a rural workforce to manage the land and ensuring the EU is not bankrupted by its eastern expansion, this element of the new wave is easy to support.

All livestock and the majority of crop production subsidies will be removed, together with much of the market intervention structure that supports them. This is particularly evident in milk where the artificial EU floor price, established by intervention buying of butter and SMP, is already in the second of five year's of cuts that should bring an end to the subsidised dumping of surpluses.

The new SPS is entirely decoupled from production, but recognises both the parlous state of farm incomes and the danger of land dereliction. The payments aim to keep farmers in business, by providing partial compensation for the lost subsidies, and ensure continued management of land, without encouraging increased output or distorting market prices. Despite some justifiable gripes on the transitional effect on milk quota prices and variable implementation dates and methods between States and regions, the overall policy seems reasonable. The devil is in the detail and the late arrival and lack of clarity of those details is concerning many.

Excepting the Commission, there is no such thing as a free lunch and most producers reasonably expect a requirement to deliver tangible benefits to the taxpayer in return for their annual payments. But the number, content and extent of regulations, obligations, Statutory Management Requirements (SMR) and standards of Good Agricultural and Environment Condition (GAEC) currently flying out of the bureaucratic machine under the general heading of Cross Compliance seems much more than reasonable.

One section of SMR 17, for example, could easily raise arguments for outlawing certain breeds or crosses, GAEC A1 looks set to cause headaches on much marginal land and, with requirements in some sections still to be determined, the new system can only reduce European farming's ability to compete on the world market.

As with all legislation, it will come down to how it is interpreted and applied. Ensuring that common sense reigns must be a primary objective of new agriculture commissioner Mariann Fischer Boel.

An appropriate name given that producers will now be farming in a fishbowl with environment, welfare and wildlife interest groups looking in, boosted by the power their influence on individual farmers' qualification for SPS will give them.

There is every possibility that 'freedom to farm' will be replaced with a 'license to farm'. Certainly, Big Brother has arrived on the European farm. The question is, how heavy will he be?

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