Feed Hyperinflation Wiping Out Dairies

Testimony to the Agriculture Subcommittee hearings was provided by Dr. Eric Erba, senior vice president of administrative affairs for California Dairies, Inc.; and by Philip Greene, vice president of Foster Commodities in Fresno, Calif., on behalf of the American Feed Industry Association (AFIA), Arlington, Va.

Dr. Eric Erba: Our producer-members [450, located throughout California—ed.] collectively produce almost 42% of the milk supply in California and 9% of the total U.S. milk supply.... The basic theme for dairy producers since 2009 has been one of survivability, and a huge piece of the equation is the cost of production. Feed costs represent almost 65% of the cost of producing milk, and the skyrocketing costs of feed since 2007 have caused dairy producers to question the very manner in which they operated their dairies.

Let me explain what I mean. The hallmark of dairying in California is a Western style of dairying, in which dairy producers buy a high pecentage of feed bulk quantities instead of growing the feed on or near their dairy. This model for dairying relied heavily on almost all of the grains and some of the forages being shipped into California from other states. High-priced land and lack of affordable water in California's agricultural areas represent insurmountable obstacles that prevent California dairy producers from becoming more diversified as crop farmers, in addition to being dairy producers....

The California Department of Food and Agriculture collects and publishes cost of feed data obtained from California dairy producers. The data reveals that California dairy producers' cost of production is dominated by feed costs, responsible for 65% of the cost of producing milk. Prior to 2008, the cost of feed made up less than 50% of total milk production costs. The recent price increases for rolled corn and alfalfa hay are even more dramatic. California dairy producers paid an average of $300 per ton and $275 per ton for rolled corn and alfalfa hay, respectively, in 2011. From 2000 to 2008, the same commodities averaged $125 per ton and $160 per ton, respectively, which computes to an increase of 145% in the corn price and an increase of 60% in the price for alfalfa hay....

[Moreover], there truly has become an issue with the availability of hay, no matter what the price.

[In response to the argument that dried distillers grain (DDG) from corn-ethanol distillation is an alternative feed source:]

That is a hollow argument. DDG is a lower-quality feed that lacks the starch that corn contains and makes corn such an important ingredient in dairy rations. Also, the conversion rate is horrible—dairy producers give up three pounds of corn and get back one pound of DDG. Finally, current DDG prices are about the same as for corn, even though DDG must be supplemented by other starch and energy sources to be used effectively as livestock feed.

Texas AgriLife Extension Service/Kay Ledbetter

The feed industry faces the "perfect storm," as the cost of ingredients ratchets higher, as a result of artificial inflation of feedgrain and oilseed prices. Shown: High Plains dairy cattle feed in better times.

Feed Industry Faces the 'Perfect Storm'

Philip Greene: Today—and for the forseeable future if Federal policies do not change—the feed industry faces the "perfect storm" of influences that will weigh heavily on ingredient availability, with the cost of ingredients ratcheting higher due to artifical inflation of feedgrain and oilseed prices based on competition with U.S. biofuel production, record export demand, adverse growing/harvesting conditions, and commodity futures markets which continue to be plagued by speculation.

More than 55% of corn produced in the U.S. historically has gone to animal feed uses for livestock and poultry—in 2012 USDA estimates, this will drop to 37%—with less than 10% of the U.S. field corn crop used for direct domestic human consumption in corn-based foods such as corn meal, corn starch, and corn flakes, USDA reports. Beef production has the greatest feed use of corn, followed by poultry and swine. However, current USDA estimates show ethanol use of corn is now taking nearly 40% of the domestic corn crop, and this increase in ethanol use shows no signs of abating. The other competitors are exports at 13.8% of use, forecast by USDA to drop to 12.9% in 2012, as well as seed, and other industrial uses....

But far and way, the biggest impact on corn availability and price is the use of corn as the feedstock of choise for ethanol, or as the industry views it, food has become fuel....

The cost of feed to livestock and poultry producers doubled from 2006 to 2008, retreated slightly in 2009, but resumed its upward march in 2009-2010 and through 2011 to date. While the Administration continues to assert only 4% of current corn price increases can be attributed to competition between feed/food use and ethanol use, indpendent studies show 30-40% of the spike in corn prices can be attributed to corn demand for ethanol....

What the poultry and livestock industry predicted in 2005, is now coming to pass. When the RFS [renewal fuel standards] was debated and ultimately enacted, poultry and livestock interests warned lawmakers all it would take to create market price chaos, herd/flock liquidations, and serious consumer food price inflation, going through the roof, would be "one bad crop year, one drought, one major disaster...."