New study adds to debate about milk standards

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A proposal to adopt California fluid milk standards nationally is earning new life, as the dairy community considers policy alternatives to reduce market volatility and improve prices for dairy farmers.

California has had its own higher minimum standards for fluid milk since the 1960s, when milk bottlers began fortifying milk with nonfat solids to add nutritional value to the milk when fat is removed to make a lower-fat product. The additional solids provide more protein, calcium and milk sugar.

Since the 1980s, producers have tried unsuccessfully to implement California’s higher fluid milk standards across the U.S., saying it would create a more uniform and nutritious product, increase milk consumption and reduce the surplus of nonfat solids that has weighed down milk prices.

Processors have long opposed the idea, citing the capital costs involved in milk fortification as a main concern, and saying more recently that higher product costs will lead to lower fluid milk consumption.

Now, a new economic analysis by the Food and Agricultural Policy Research Institute at the University of Missouri considers the potential effects of mandating California fluid milk standards on a national level.

Done at the request of the Congressional Dairy Farm Caucus, the report determined that requiring higher nonfat solids in fluid milk would boost prices to dairy farmers, but said those gains would diminish over time as markets adjust to the higher prices.
Although not mentioned in the study, there’s an additional benefit to California, said Michael Marsh, chief executive officer of Western United Dairymen, because the Golden State produces most of the nation’s condensed skim milk used for fortification.

“This almost immediately would provide new market opportunity for a substantial portion of product that we produce just here in California,” he said.

To make whole, 2 percent, 1 percent and fat-free milk, processors separate raw milk into butterfat, solids and water, then reconstitute the components to meet the minimum standards set by the U.S. Food and Drug Administration.

The study indicated that fortifying the nation’s milk to California standards would remove an additional 350 million pounds of nonfat solids per year. That would drive nonfat dry milk prices higher and increase farm milk prices by 27 cents per hundredweight during the first year. Those price increases would then slip to 17 cents in the second year and narrow to 9 cents by the seventh year, the study said, as farmers increase milk production in response to the higher prices.

The study also estimated that the retail price of a gallon of milk would rise about 17 cents, as processors pass on to consumers the additional cost of fortification. According to the study, the jump in retail price would lead to a slight drop in milk consumption. Increased milk production and reduced consumption would also drive cheese and butter prices lower, according to the analysis.

### Comparison of California and U.S. Fluid Milk Standards

<table>
<thead>
<tr>
<th>Product</th>
<th>California</th>
<th>U.S.</th>
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<tbody>
<tr>
<td>Fat</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whole</td>
<td>3.5%</td>
<td>3.25%</td>
</tr>
<tr>
<td>Reduced Fat</td>
<td>1.9%-2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Low Fat</td>
<td>0.9-1.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Non Fat</td>
<td>0.2%</td>
<td>0.2%</td>
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<tr>
<td><strong>Solids Non Fat</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whole</td>
<td>8.7%</td>
<td>8.25%</td>
</tr>
<tr>
<td>Reduced Fat</td>
<td>10%</td>
<td>8.25%</td>
</tr>
<tr>
<td>Low Fat</td>
<td>11%</td>
<td>8.25%</td>
</tr>
<tr>
<td>Non Fat</td>
<td>9%</td>
<td>8.25%</td>
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*Source: Food and Agricultural Policy Research Institute, University of Missouri*

Although the new report mirrors previous studies, it noted “the market situation is very different today than when those studies were conducted.” One key difference is that the U.S. dairy sector has now become a major exporter of skim milk solids.

Past studies were done when there were large government stocks of nonfat dry milk, and adding more solids to milk was thought to be a way to reduce that surplus. Today, the effect of fortification would reduce exports,
the study said, as fewer nonfat solids become available.

But Rick Michel, a Stanislaus County dairy farmer and vice chairman of the California Milk Advisory Board, said he believes any impact on the availability of product for export would be short-lived, as farmers ramp up production to meet demand.

“Milk producers, if profitable, have the ability to make milk and if given the green light, we will make more milk—and we can make a lot of it,” he said. “So I don’t see anything interfering with exports.”

Dairy farmers largely support higher, mandatory fluid milk standards because they see it as a win-win for both producers and milk drinkers, said Ray Souza, a producer in Stanislaus County who’s also on the U.S. Department of Agriculture Dairy Industry Advisory Committee, which is currently discussing the plan.

By putting “more milk in the milk” at a cost of about a penny per 8-ounce serving, he said, consumers would not only benefit from the added nutrients but they would also notice a better-tasting product.

“Because the milk will taste better, that will help us also expand the market,” Souza said.

Marsh said taste tests currently being conducted around the country suggest consumers prefer the fortified milk.

But Rachel Kaldor, executive director of the Dairy Institute of California, which represents the state’s processors, said consumers don’t care about fortified milk, and they won’t pay the extra money for it if they have a choice.

She said to retrofit every processing plant in the United States to do the fortification would be a huge investment for short-term gain. She said producers would be better served using the nonfat solids as ingredients or value-added products to capture new export sales.

Kaldor said she believes the proposed change in fluid standards “gets us nowhere and it ends up hurting producers in the long run. Basically, you’re pushing a rock uphill when you really should be looking at expanding markets and using those solids outside this country.”

Mary Kay Thatcher, public policy director for the American Farm Bureau Federation, which supports the higher standards proposal, noted that it faces a challenge in Congress: Because the plan would leave fewer surpluses available for federal nutrition programs, it could add cost to those programs.

“I think in this time of deficit, even though this is not going to be a real pricey option, it’s going to cost something, so we’re going to have to find a
way to offset it,” she said.

Souza said the plan fits well with the Obama administration push for improving the nation’s health and reducing childhood obesity. He said he thinks there is a broader array of interest in the proposal now than in the past and “a willingness in Congress” to consider it.

“And we’re going to try to sell the White House on that,” Thatcher said. “We are working on it.”

(Ching Lee is an assistant editor of Ag Alert. She may be contacted at clee@cfbf.com.)

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