

**“Forces Shaping Dairy Industry Workshop”**  
**Research Questions**  
**September 25, 2002**

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Comments welcome!

The discussions at the workshop both explicitly raised questions for research, as well as revealed areas of disagreement about future directions of the industry and policy impacts that might motivate research. The questions raised and discussions are summarized below.

1. What is the aggregate supply response of the dairy industry? Bruce Gardner raised this question as fundamental to understanding the impacts of dairy policies and any policy changes.
2. What is the long run direction of farm structure? Everybody agreed that farm size is getting bigger and that small dairy farms (less than 100) would not survive in the long run and 13,000 small dairy farms have gone out of business over the past 2 years. There was not a consensus on:
  - Is farm size inevitably heading towards 600+ size farms
  - Is there long run viability of medium size farms. Recent evidence from Wisconsin shows growth in these farms and competitive costs.
  - The long run geography of dairy will be driven by costs broadly defined to include environmental regulations. There was disagreement on the role of marketing orders in defining the geography of production.
3. Is the dairy industry moving inevitably towards an industrialized production, processing, and marketing system? Several factors that are generally cited as reasons for industrialization of pork and poultry were mentioned.
  - Overall trends in the economy where structural change is driven by technological change, including information technology.
  - Demand for a high volume of consistent quality of product
  - “Building food” reduces the importance of location of production and increases the value of having access to different markets (e.g., example of selling chicken parts around the globe increases total return to industry)
  - International market pressures/opportunities (although there was disagreement over the importance of international markets for the US dairy industry)
4. What is the optimal policy for the dairy industry?
  - Differences in opinion as to the impact of current policies such as marketing orders
  - Views of optimal policies conditioned by views of the world. If you believe industry is headed in the same direction as pork, then how to facilitate transition?

The group discussed what makes the dairy industry unique and the characteristics discussed are listed. Any comments on what's included or missing would be appreciated.

- Dairy is a flow of product, similar to eggs, but different from animals raised for meat.
- Dairy requires a high labor input. Farmers commonly cite not wanting to manage the required labor as a reason for not expanding.
- Dairy requires constant labor input with milking 2 – 3 times daily. This limits lifestyle choices for small farms. However, medium size farmers are successfully experimenting with new management arrangements.
- High labor input in dairy farms makes them key elements of rural economies.
- The required investment in land and animals is high relative to other livestock industries. It's most similar to cattle where the cost-calf operations also continue to have a large number of small and medium size farms.
- Dairy cows require intensive management given the long productive life relative to other livestock.
- Integrators would find dairy less attractive because of the large investment in animals and land and the high risk related to management of dairy cows.
- Similar to cattle, diet contains large amount of forages which are not easy to source through markets. This is different from poultry and pork industries.
- Milk is bulky (high transportation costs) and highly perishable.