

INTERVIEW: GEORGE R. DAVIS

Give Dairy Farmers a Fair Price; Save the Milk Supply

Oct. 13—*The California Farmers Union (CFU), comprised of more than 1,400 farmer, rancher, and fishermen members, is a state chapter of the National Farmers Union, which represents more than 250,000 members nationwide. George R. Davis, Vice-President of the CFU, is active with the California Dairy Campaign, an affiliate of the CFU. Davis, from a family dairy farm background, currently operates a vineyard in northern California. He was interviewed Oct. 9, 2012 by Marcia Merry Baker.*



declared bankruptcy, or are in some form of receivership or other status.

Davis: Yes, that's true. Around me—I'm in wine country, and we don't have a [large] number of dairies here—but within two miles from me, three dairies have gone out of business.

In a more intensive dairy area, say in Turlock or Hanford, one of our members [of the California Farmers Union] has a dairy there, and six dairies have gone out of business within a three-mile radius. That's in the Central Valley, which is a major production area.

Dairies in Crisis

EIR: California is ground-zero for the turmoil now generally taking place among farmers, ranchers, and in the food supply itself, because California is the leading milk-producing state in the United States and a world center for milk; and because the dairy sector all across the country is being slammed in so many ways. California accounts for over 20% of U.S. production, and we're in crisis. Would you describe the scale and nature of what is happening in your state?

George J. Davis: Well, to give you an example, Wells Fargo Bank, a primary funder out here, for dairies, says that within 60 days, about 25-30% of our dairies will be out of business.

EIR: I understand, from the figures, you have about 1,600 operating dairies in the state—some of them are very large, and over a 100 or more of them have already

EIR: On the so-called math involved, the prices the farmers have been receiving for their milk, are just way below the costs. I understand that there's probably a million dollars being lost a day in dairy farming in California, if you add up losses from individual operations.

Davis: Oh, some people are losing \$40, 50, 60,000 a month; and larger ones, even more.

To give you a real snapshot of what the economics is, if you look at dairy prices for the last 60 years, up until 1970, the price that the producer—the dairyman—got, pretty much tracked with what the consumer was paying. You know, one would go up, and the other would go up. And one would fall a little bit, and the other would fall. That's how supply and demand is supposed to work.

Starting in 1970, the pricing of milk was changed—

the way the price was set. And right now, our farmers are receiving the same price they were in 1970. And this is in real dollars, not dollars adjusted for inflation. They are receiving the same amount of money that they were in 1970. And you look at the intervening years—that line, what the dairymen have been receiving, is pretty much a flat line. I mean, there have been a couple of ups and downs, and a couple of spikes, but in general, that is the price they've been getting—1970 prices. And of course, the consumer has been paying the normal increases that everything accrues all throughout those years. You know, it costs the farmers the inflation, the increased insurance, and regulatory costs, to stay in business—that has all been going up.

EIR: Right. And even in the last few years, since there is deregulated, out-of-control speculation, fuel costs, power costs for the dairy operations have all shot up, not to mention veterinary and other things you need; and then, with the drought impact on the quantity and pricing for the feed.

Davis: Yes, of feed available. The immediate thing that is precipitating this crisis, is the price of feed, corn-based feed, because of the drought. And the increased utilization of corn for ethanol—that has been a factor in it.

But in the long term, it has been the price-setting mechanism, that has been grossly unfair, and totally balanced toward the monopolies.

Monopolies Set Unfair Prices

EIR: Really, it has become quite outstanding, the domination of a very few firms, internationally as well as domestically in the United States.

Davis: You have, basically, three buyers for all the milk in the United States. There are some little niche markets here and there, but the overall market is controlled by three large entities. One of them controls the cheese.

EIR: Kraft.

Davis: Kraft. We all know that. One of them controls what we call fluid milk, which is the milk you drink: Dean Foods.

EIR: They had merged with Suiza, and there was a whole history.

Davis: They had bought up all the little guys. Like here in California, we had Berkeley Farms and Carnation. Sometimes you'll still see these brands, but



Irish Farmers Association (IFA)

The Irish Farmers Association led a protest demonstration of 20,000 in Dublin, Oct. 9, against measures pending by the EU Common Agriculture Policy, threatening financial ruin across farm sectors of EU member nations. Milk is the foremost category of Ireland's farm production, accounting for 34% of the nation's Gross Agricultural Output, with beef, second at 32% of GAO.

they're really owned by Dean Foods.

So Dean Foods controls all the liquid milk, and they can set the price pretty much where they want, because they have so much buying power. And a farmer can't go anywhere else to sell his product.

And the third large entity is Fonterra, which used to be called New Zealand milk. About 25 or 30 years ago, they entered the international market, and really they control the caseinates, and all of what we call powdered milk—milk protein concentrate, things that are added to cheese—all kinds of food additives now contain these proteinacious substances derived from milk.

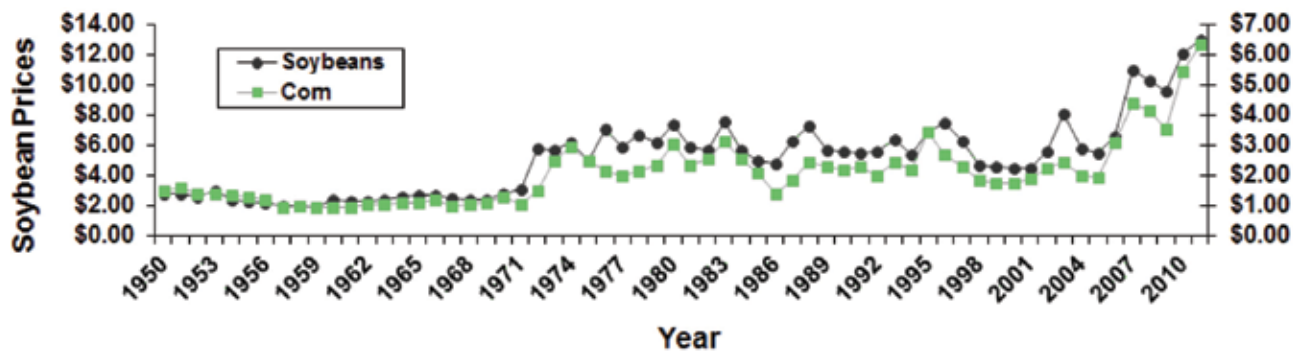
And there's quite a bit of stuff going on in the international marketplace, where they control the international marketplace, and they're actually selling powdered milk into the United States at a price that's lower than the international price. That doesn't make economic sense. Why would somebody buy high and sell low, except to impact the domestic market here, and keep the prices down?

So you're seeing this tremendous consolidation within the industry. It's the same thing that happened to pork and poultry, where you have only a few processors, and they're vertically integrated, and they control the whole thing.

EIR: Absolutely, and we can say more on that. But let's look a bit at, then, the action that's necessary—and some of what you're involved in—that is, the National

FIGURE 1

Average Iowa Corn and Soybean Prices, by Marketing Year, 1950-2011



USDA National Agricultural Statistics Service

After the 2012 drought, corn prices hit over \$8 a bushel. This graph was presented to the Environmental Protection Agency Oct. 11 by the National Pork Producers Council, co-signator with dairy organizations and dozens of other livestock groups on a July 30 request for a waiver of the Renewable Fuels Standard. On Oct. 11, the NPPC appealed to the EPA again, saying that the feed supply shock causes “explosively higher prices, crippling credit and liquidity shortfalls and the frightening prospect that some producers ... cannot assure stable access to corn ... to feed their animals.”

Farmers Union and the California Dairy Campaign.

Davis: Yes. The California Farmers Union and their affiliate, the California Dairy Campaign.

Dairy Farmers Rally

EIR: Among other things, you say that there should be intervention. There’s an Oct. 18 rally in the state capital in Sacramento, for emergency pricing.

Davis: Yes, that’s right. The California Dairy Campaign is organizing its members to get a little more vocal. You know, traditionally farmers have been just taking what the government has to offer, and now they’re getting activated. It’s really been something to get them to this point, where they are ready to go out on the streets and raise a little hell. And it’s about time.

EIR: I understand too, that the day after the Farm Bill Now rally Sept. 12 in Washington, D.C., with multiple groups, in Sacramento, there were 400 farmers demonstrating. I heard it was kind of a pre-rally. It was in front of the Food and Agriculture Department of the state, over this impossible pricing situation, where the gap between what the dairy farmers are getting and what they’re paying out is impossible.

Davis: Yes. Let me tell you a couple of things. California has its own pricing system, which is different from the Federal Marketing Order. The Federal Marketing Order, which is the price that is set on the CME—the Chicago Mercantile Exchange—the cheese price, and that influences the other prices to a great extent.

California has its own marketing order, and it’s also set on a cheese price. Well, when a California farmer sells his milk to a dairy, or a cheese processor, that por-

tion of the milk which is rendered into whey, used to be considered a waste product, and the farmer was not paid for this—the whey that was taken out of the milk, in order to make the cheese. And that’s the way it still is. Although at this point, almost all the processors utilize that whey; if they can’t process it themselves and turn it into sports drinks, they sell it on the open market. So they’re getting fair gain from it.

And this would raise the price in California—if farmers were paid for their whey, that portion of the milk which is rendered into whey—the price of milk in California would jump by \$2.00 [to the farmer] a hundredweight, which would be a big deal for them. It would keep them out of the hole. It would get us on a par with the rest of the country.

Food Supply at Stake

EIR: Well, whatever reasoning, it’s the food supply at stake. So it isn’t as if it’s someone’s lifestyle, as some peabrains might make one think, about what kind of price-setting is necessary to keep these milk operations going.

Davis: Farmers would like nothing more than supply and demand. And right now, we’re in a situation where a big thumb is on the scale. There is actually a shortage of milk over the entire United States, and the price to the farmer keeps going down. That doesn’t make sense. We have plants that are running at 30%, 20% capacity.

EIR: Meaning processing plants. In other words, they can’t get the raw milk in.

Davis: Processing plants. They can’t get the milk in to process, and yet they’re holding the price down. Be-

cause that's a good deal for them. They'd rather, you know, make a little less, so they can make more profit off of the difference.

EIR: Let me throw in here, that it's a coincidence, that today in Dublin, Ireland, 20,000 farmers and supporters rallied over their Common Agriculture Program of the European Union. Some of the specifics are different, but the same principle applies: They are being put into an impossible situation, with some changes in pricing, and, of course, they are part of this same "one-world market," so-called, which you just described, in which there are operations like Fonterra—which is a little like the old British (Empire) Commonwealth—out of New Zealand. Ireland knows a lot about that too, and so do we. So this is a world crisis.

You mentioned ethanol. The California Dairy Campaign was one of the co-signers—with the National Pork Producers Council and dozens of other groups this Summer, July 30, appealing to the Environmental Protection Agency, the Obama Administration, to have the Federal government waive partially or fully, the requirement of the Renewable Fuels Standard, that corn go into ethanol, because of the drought impact here.

I say that, because Ireland was too wet, and cut 20-50% of their wheat and barley, which they rely on. Here we lost corn, soy, hay, and alfalfa. Would you say more about that? California is very dependent on bringing in feed.

Davis: We are, and from the Midwest. They grow corn better than we do. And we have a more intensive type of agriculture out here. So that's what's shaped up, given the cost of transportation and everything, is that we buy our corn from the Midwest, and we produce more milk out here.

In a situation where we had a sane government, we would have a Renewable Fuel Standard, and a certain portion of our corn would go to that, according to market conditions and need—those are coupled.

What has happened is that people are afraid to reduce that standard for ethanol, to respond to the [conditions], for the fear that once they do it, the government will lock in a lower level [of mandated ethanol], and so then the corn farmers will be up the creek. This is something that should be a no-brainer.

You store more corn in years of high harvest, and you take out of that storage, in years of drought and low crop yields. This is what Joseph advised the Pharaoh to do in Biblical times. It still makes sense now, but we

have a government that's so locked into ideology and politics that we can't do what Joseph did 2,000 years ago in Egypt.

EIR: You mean the seven lean years and the seven fat years.

Davis: That's right.

EIR: And in this context, go back to what you said before, about the use value of sound milk marketing orders. People should appreciate, that we are dealing with a perishable product—fluid milk.

Davis: Yes. Milk is something you can't store, except if you make into caseinate or something. But you can definitely store grain.

EIR: But in the time before the change in milk marketing orders, before the 1970s, we might have on hand, even butter, or powder, and so did other nations. As long as it wasn't used to undercut the price to the farmer, this was a good thing for the food supply.

Davis: That was the traditional method of agriculture and the role of government, since before the 1930s, but it came into being in the '30s, when it was formalized. We had a strategic grain reserve, and we set aside certain quantities of various crops in those years of high yield, and consumed them in various times of low yield. It just makes sense. It stabilizes the price for the consumer and the farmer. And so, a housewife can do her budgeting, and the farmer can do his budgeting, and live a predictable and peaceful life.

EIR: And I'm sure that's the point of having a farm bill. There can be discussions of merits or demerits of particular sections of it—titles as they're called—but you need the continuity and stability.

Davis: That's right.

Parity Pricing, Emergency Intervention

EIR: Another word for the principle involved in farmers having a price on which they can plan and get credit and so forth, was parity, as it was called in the 1930s. But however you want to call it—a floor price, for example—I'll quote from your California Farmers Union release on your policy on your website. It says:

"Congress should provide mandatory funding for a safety net program to allow producers to earn the cost of production, plus the opportunity for a reasonable profit from the marketplace."

So that's what you're talking about here, with emergency pricing relief, right?

Davis: Yes. We're talking about a couple of things: one, on the state level. The California Secretary of Food and Agriculture has the power to raise the price of milk that is sold to cheese-makers, to account for that whey that is not being paid for currently. And that's about \$2.10.

Thus far, she's offered 10 cents. That's not really going to help many people. There are people that are going out of business right and left, people that were prosperous farmers in the '50s, '60s, '70s, '80s, and up into the '90s, that are now filing for bankruptcy. People who are running good operations. People who are as efficient as any farmer can be. And they're filing for bankruptcy. It's not right.

And then on the Federal level: A group of us have presented a petition to the Secretary of Agriculture. The Secretary has the power to convene hearings on the price of milk, and as the result of those hearings, if he so finds, to set the price at a level of parity—about where the cost of production is at, and where the market is set. He has that power. And we're trying to mobilize support in Congress right now, to give some support to the Secretary to do just that.

EIR: It will be good to not wait until after the elections, and have Congress convene, and go for that, given how much is being lost every day.

Davis: I know.

Glass Steagall, Food Reliability

EIR: The National Farmers Union and others, have, in their yearly policy statement, addressed the general context of the deregulated marketplace, and banking and credit, because what we need now is, obviously, emergency credit and loans, to make sure that no operations shut down. Even in the beef sector, hogs, pork producers—some of the family-sized operations are losing \$40 a head—this is not possible.

So one of the game-changers, is to restore the Glass-Steagall Act, that was the 1933 act that was repealed in 1999—

Davis: That separates the banking and mortgages from speculation. We're very much in favor of restoring the Glass-Steagall Act. We're very much in favor



USDA/Lynn Betts

A dairy farm in Stanislaus County, San Joaquin Valley, Calif., 2001. The state's highly productive herds, mostly Holstein, account for over 20% of U.S. milk production.

of keeping balanced markets, wherever we can make them.

EIR: You have given a very clear snapshot, and all eyes around the world are on this, just as on the 20,000 people demonstrating in Dublin today: This is the food supply. We'll look forward to talking with you again, and to forcing successful policies.

Do you want to say anything else?

Davis: Yes. I think this issue affects consumers, it affects the price of their milk, it affects the quality of their milk, it affects the quality of the environment.

We've got to make a choice, whether we want our food to come out of one great big plant, or do we want it to be integrated into the countryside, with the wildlife and streams and forests. Or do we want these big megafactories that pollute like crazy, and that have enough power to buy the legislature, and to have their own way? There is something critical about farming and the way of life, that's a value that we lose as well. It really means a lot to this country.

If you look at the military, 40% of those serving in the military come from farm backgrounds. These people believe in America. They want to make it work. They've been putting their shoulders to the wheel, and working all their lives. There are no finer people. And that's really where our best future is, to support them, and to support an honest and just society.