



DAIRY FARMS
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Milk war could take toll on North Texas producers

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Prices have dropped as much as 40 percent in the past year as the downturn has caused a glut.

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North Texas consumers are finding a rare silver lining to the recession.

A milk war has begun.

Competing supermarket chains are slashing prices on milk due to a worldwide dairy glut caused by factors including the economic downturn and import cutbacks by China. And milk producers in Texas' big dairy producing areas near Stephenville, Sulphur Springs and in the High Plains are being hurt.

In some cases, retail milk prices have dropped 35 percent to 40 percent from a

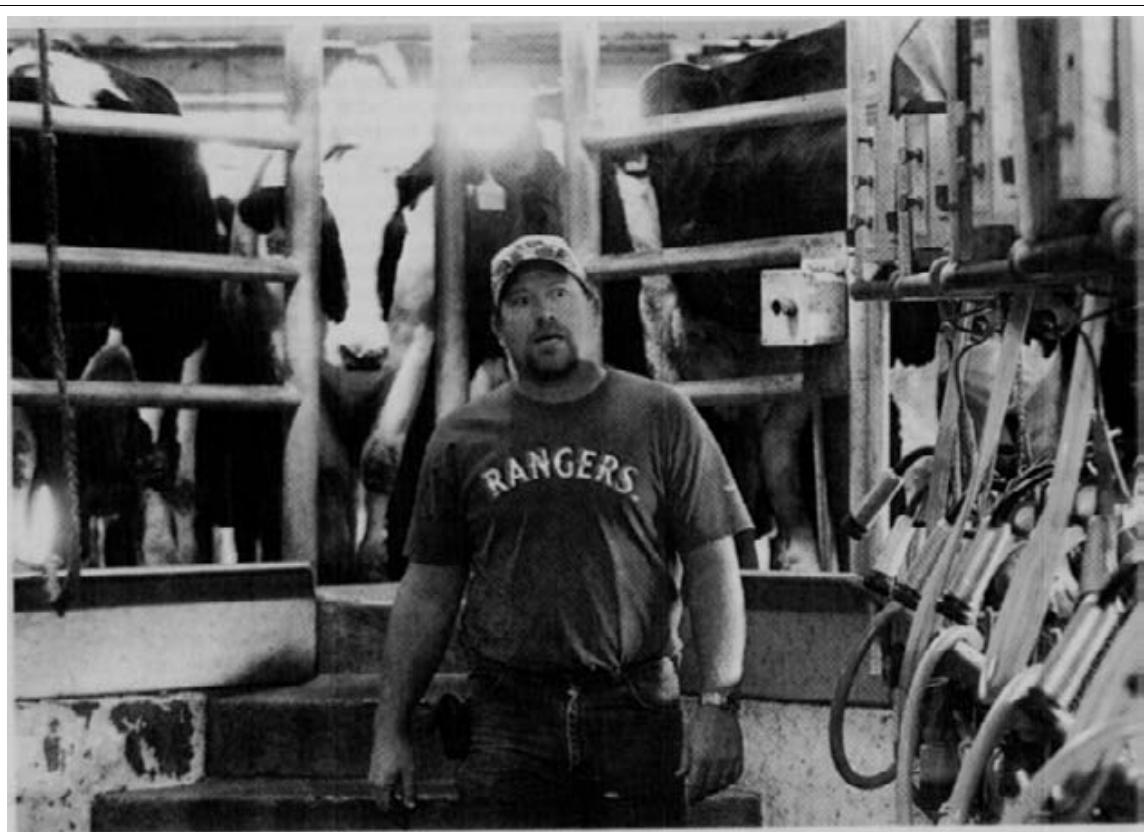
year earlier.

Through Tuesday, Minyard's Sack'n Save is selling milk at \$2.58 a gallon. Market Street in Colleyville is competing with a \$2.50 price tag and Safeway-owned Tom Thumb sweetens the offer by a penny at \$2.49.

Exploiting the cost advantages of running its own milk plant near downtown Fort Worth, Kroger advertised milk at \$2.25 a gallon but was out-manuevered by Albertsons, which sold \$1 half gallons from Dean Foods-owned Schepps Dairy of Dallas. That works out to 25 cents cheaper per gallon.

A savvy milk buyer named Jean Wilson

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John Traweck at his Jam Dot Holstein Farm near Stephenville. Milk producers are being hurt by declining demand. STAR-TELEGRAM/RODGER MALLISON

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wheeled her grocery cart out of the Kroger at Altamesa Boulevard and McCart Avenue with two gallons.

"Albertsons is cheaper this week, but Kroger's is more convenient for me," said Wilson, 70, a retired Army Corps of Engineers employee. "I watch the prices."

"Kroger has been using milk as a loss leader [special], and we consume three or four gallons a week," said Wilson, explaining that she and her husband are big milk drinkers, and that consumption climbs when a grandson spends time with them.

Dairy farmers like seeing North Texans drink more milk.

But many of the state's producers are losing money on every gallon consumed, finding themselves wedged between high-cost feed contracts, low milk market prices and an inability to stop their Holsteins from producing ever more milk, said Grapevine-based G.H. Cain of Dairy Farmers of America, a farmers' marketing co-operative.

"We can't just switch them off at 5 p.m. on Friday for the weekend," said John Traweek of Stephenville's Jam Dot Dairy.

Traweek and other co-op members, with herds ranging from 40 head to 8,000, are victims of weakening demand due to the soft economy and the tainted milk scandal in China. According to news reports, six Chinese infants have died and 300,000 have been sickened by baby formula that had milk powder laced with melamine, a toxic, nitrogen-heavy industrial chemical that was used to trick laboratory tests for protein content.

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world's biggest importer of milk powder, and American farmers grabbed market share in the past year when drought hurt production in Australia and New Zealand, both major dairy exporters. For the nine months ended in October, U.S. exports of skim and nonfat milk powder increased 79 percent and those of butterfat products soared 211 percent.

But consumer confidence in dairy products has plummeted in China, recession has curbed sales there and elsewhere, and dairies in New Zealand are recovering, leading to a vast ocean of unsold milk products. Moreover, Australia, Argentina, Brazil and European Union producers also are poised to expand exports over the next year, the U.S. Dairy Export Council quoted cheese marketer T.C. Jacoby & Co. as saying in late November.

The economic meltdown and credit freeze pinched demand at a time when global milk supplies were on the rebound, according to the council's Matt McKnight, who doesn't see any improvement for U.S. produc-

ers until 2010.

Ironically, prudent Texas dairy farmers were hurt most by contracting corn-based feed prices in advance — to hedge against sudden upturns — but have seen grain prices drop along with other commodities, said Ellen Jordan, a Dallas-based dairy specialist with Texas AgriLife Extension Service.

"I booked half my [feed] needs in August at \$305 a ton delivered," said Traweek, who operates the 850-head Jam Dot Dairy with his brother and father. "What I didn't book I pay \$175 a ton." That averages out to a pricey \$240 a ton.

Combined with other overhead expenses, Traweek said it costs him \$18 to produce a hundredweight of milk for which he gets \$14.

"We are losing \$35,000 a month," said the Erath County dairy farmer, whose family is weathering the crisis better than others because his father astutely diversified beyond agriculture 30 years ago by developing a private, 18-hole golf course called Legends Country Club.

But troubled dairy operations are all around him.

"We've seen dairymen exit the business because of low prices and an inability to refinance," Traweek said. "I know of five from the Stephenville-Dublin-Comanche area go in the last two weeks."

And there's usually no one waiting to take over and keep an operation running, reflecting the industry's current crisis.

"I can't remember the last time I heard of a dairy selling," Traweek said. "The property is worth more without the dairy."

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