



The Humboldt County Export Economy: DAIRY INDUSTRY

Prosperity! was developed with the direction of over 300 business and community people. It's about growing and sustaining our community—our people, our businesses, our environment, our lifestyle. It's about competing—and winning—in an extremely competitive global marketplace. It's the North Coast strategy for economic development. And it's working.

The export industries of Humboldt County grew wages 11.2% in the last two years... that's faster than the whole economy, and that's the point. These industries *drive* the local economy...and *thrive* on the quality of life that we all cherish.

As California's dairy industry, the nation's largest, grows even larger, dairy owners and milk processors in Humboldt County get smarter and more specialized. They have to. With herd sizes nearly one-fifth of the state average, Humboldt dairies can't depend on mere volume for prosperity.

But what the county lacks in giant feedlots and transportation corridors it gains in its fog-draped river valleys—the same that have made Humboldt ideally suited for family-owned, pasture-based dairies for more than a century. Today, the wholesome milk—free of artificial hormones—and the idyllic image associated with those family farms have begun to resonate with consumers in expanding niche markets, from specialty cheeses to organic dairy products of all kinds.

“Our pastures are what give us an advantage,” says Robert Laffranchi, president of Loleta Cheese Co., who cites the county's great year-round climate, lush grasses and prevalent open space. “There aren't a lot of areas that can compete with that. It allows us to separate ourselves from the factory farms.” In fact, while pastureland represents, on average, about half of all farm acreage in the United States and 58 percent in California, dairy and beef pastures occupy a remarkable 82 percent of the farmland in Humboldt County. It's little wonder that milk remains the county's top consumable agricultural product, worth \$43 million in 2004. Furthermore, each dollar in farm milk sales generates eight dollars in local economic activity, supporting steady incomes and jobs within a wide range of related businesses, from feed to finance, according to a recent study. And, of course, the raw milk ends up in great-tasting, nutritious products on local supermarket shelves.

Simply put, Humboldt milk improves the lives of most county citizens each and every day. ►

While small by state standards, Humboldt's industry of around 90 dairies, a handful of processors and dozens of support businesses is more impressive in a larger context, ranking inside the top 6 percent of dairy-producing counties nationwide.

Like ranchers everywhere, local dairies continue to face challenges that include fluctuating milk prices, industry consolidation, higher freight costs, and environmental and regulatory issues. As land values rise, dairy owners also may experience heightened pressure to sell dairy land for development or other uses—especially when dairy operations hit harder times. Fortunately Humboldt's ranchers have a deeply ingrained loyalty and sense of tradition where the local milkshed is concerned. Most ranchers believe the industry is important to the county's future and want to keep pastureland within the dairy families—no matter what. "We need to ensure that we protect those lands and keep them in production," says Laffranchi, who maintains two local dairies to supply his cheese factory.

Like the industry at large, Humboldt ranchers have benefited from two years of good milk prices. "It's really been a nice run, which makes up for the two lousy years [of prices] we had right before that," says Pete Bansen, who runs the Bancrest Dairy in Ferndale with his wife, Mary Ann. The Bansens recently put the finishing touches on a new milk parlor to serve their 470-acre operation, which over 28 years has grown from 50 cows to 500. Today the dairy ships all of its milk to Rumiano Cheese Co. in Crescent City.

Day in and day out, the small crew at Bancrest does it all: Milkers perform the milking and cleanup, while outdoors employees handle feed, raise young stock, seed and fertilize pastures, and conduct summertime irrigation. Typically Bansen pairs new milkers with an experienced partner under his own supervision to ensure

the most effective training, which includes the use of new technologies. New hires are busy from day one and are usually up to speed and on their own in about three weeks. Their reward? "We try to pay the top wages in the area," Bansen says.

While lower-cost, larger-scale producers in other parts of the state can grow simply by adding cows to an already crowded feedlot, the pasture-based farms in Humboldt, which average about 1.5 cows per acre, don't have that luxury. Here, ranchers must continue to use their land in more innovative ways, competing with quality and product specialization as opposed to price. For 10 Humboldt dairies—and counting—organic milk production has become one way to take advantage of the area's pastoral setting, sustainable agriculture and commitment to milk free of artificial hormones.

Organic milk is still a small percentage of the overall dairy market, but it's growing at more than 20 percent a year. Current demand for organic milk far exceeds supply, with prices nearly double those for conventional milk. Tapping into that demand, however, is a tall order for smaller dairies. Although tough standards help protect the entire industry from illegitimate products, organic certification can take a year or more, and during the costly

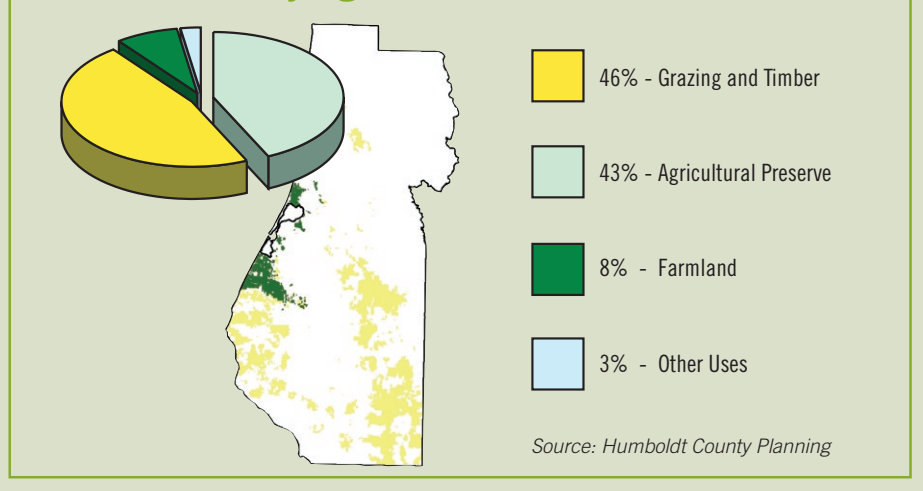
transition ranchers don't receive higher prices for their milk.

Tim and Dorice Miranda of Ferndale were among the first in the county to go organic when they converted their 600-acre dairy in 2001. A loan from the Humboldt County Economic Development Division provided much-needed capital for the 16-month transition. "Having not had those funds, it would've been a much bigger struggle going organic," Dorice Miranda says. In just five years, the dairy has nearly doubled in size and has tripled its number of full-time employees.

Though grouped generally as milkers and foremen on each shift, dairy employees receive on-the-job training in a wide range of skills so they can tackle the various challenges of the day. They also enjoy on-farm housing and opportunities for advancement as the dairy grows and tasks become more specialized. Whether or not departing employees remain in the dairy industry, "They've learned skills that they can take somewhere else," Miranda says.

Humboldt's processors also have taken advantage of growth in organic and niche markets. Specialty cheese consumption, for example, has grown five times faster than total cheese consumption over the past decade. ▶

Humboldt County Agriculture Uses

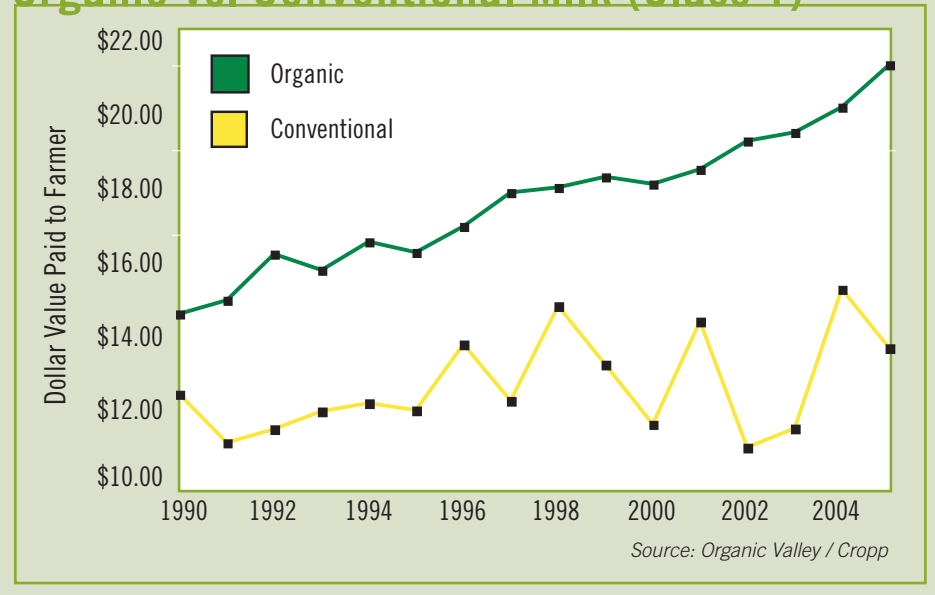


Within that market, Loleta Cheese Co. produces more than 30 varieties, four of them organic. While it does a healthy retail business at its well-known factory in Loleta and through its new online store (www.loletacheese.com), the company primarily engages in a thriving wholesale trade to restaurants and groceries. Recent growth in the Hispanic market, for example, has resulted in shipments of 6,000 pounds of queso fresco to San Francisco each week. Demand for organic cheese is so great that Loleta may convert one of its dairies to organic to sustain the milk supply.

Although goat milk cheese is a smaller share of the specialty market, Humboldt County is home to one of the world's best producers. Cypress Grove Chevre has enjoyed annual revenue growth of 30 percent by tying its award-winning products—including its signature Humboldt Fog cheese—directly to the land, says owner Mary Keehn. “We want to create the idea that Humboldt County is part of who we are and what we are,” she says. The company also has benefited from increasing consumer interest in handmade, healthy food. Several dairies around the county supply milk exclusively to Cypress Grove, which built its new creamery in Arcata and added 18 jobs in the past year, nearly doubling its workforce. Because it's rare to find local jobseekers with cheesemaking experience, Keehn and company provide hands-on training and send new employees to specialty classes at California Polytechnic State University in San Luis Obispo. In addition to the company's handful of office positions, creamery employees make up four manufacturing teams, operating seven days a week under the supervision of the creamery manager and operations manager.

The county's largest processor, Humboldt Creamery, recently renovated its Fernbridge fluid milk plant and increased

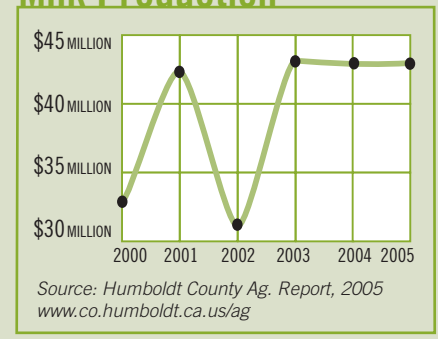
California Dairy Farmer Pay Comparison, Organic vs. Conventional Milk (Class 1)



ice cream capacity by 50 percent. The cooperative of 60 North Coast dairies also acquired manufacturing facilities in Los Angeles and Stockton, which has helped boost sales by 40 percent in the past year and 65 percent over three years. Despite flat sales in ice cream and fluid milk industry-wide, the Creamery has seen recent growth in its full range of dairy products, says Rich Ghilarducci, president and CEO. The company remains a successful exporter of powdered milk and has shifted 25 percent of its total business to organic in just four years. It created 60 local jobs in the past year alone.

Even with such rapid employment growth, the Creamery has had no trouble finding qualified employees among Humboldt's citizenry, Ghilarducci says. In addition to management, sales and clerical positions, the company employs a

Gross Value, Milk Production



variety of skilled craftspeople, semi-skilled operators and unskilled laborers involved in manufacturing its diverse product line.

The Creamery has placed many local graduates of Humboldt State University in ►

HIGHLIGHTS

Source: Dennis Mullins, EDD:
www.labormarketinfo.edd.ca.gov

In 2005 there were 61 establishments within the Dairy cluster. While this number decreased by 12.8% from 2003, the number of employees rose by 31.8%. During this same period, total wages rose by 62.8% to almost \$17 million. Average wages also rose by 23.5% to \$31,795 per person in the Dairy Industry. The Dairy cluster represents 1% of the total economy and 2% of the base economy in Humboldt County.



PHOTO: LOLITA CHEESE



PHOTO: CYPRESS GROVE



PHOTO: MATT FILAR

management positions and this year offered a new summer internship program. “We hope to expand on that in the future,” Ghilarducci says.

He points to company-paid health insurance for all 180 employees and their families as one way the Creamery supports a skilled, committed workforce—just one of the county’s many advantages. “Every business, no matter where you’re located, is going to have inherent positives and negatives,” he explains. “Transportation is

one of the challenges we face, but we have a lot of positives too. You try to capitalize on those.”

In an area that Laffranchi and Keehn, in turn, call the “Napa Valley” and “Provence” of the U.S. dairy industry, there’s much left to do in promoting Humboldt’s pastures of happy, hearty cows to an increasingly health-conscious nation. Says Ghilarducci: “I think we’re only 5 percent of the way there in taking advantage of the benefits of our region.” ■

THE ORGANIC FOODS MARKET is growing at 20-25% annually, totaling \$7.8 billion in sales during the year 2000. Eggs and dairy are leading the organics industry by growing faster (dairy is growing at 27% annually) than other products in the organics market. Dairy now constitutes 11% of organic food sales in the U.S. When asked what factors in consumer demand is driving this increase is sales, Bob Laffranchi as well as others in the industry speculate that new mothers and people who are concerned with the development and health of children have made a conscious choice to purchase organic milk.

Our Dairy Industry

COMPETITIVE ADVANTAGES

Terroir. Terroir is a French term that literally translated means: earth, or soil. Functionally it means the products we make are a reflection of our people, our community, and our environment.

Humboldt County Landscape. The foggy valley’s, the cool and mild climate, and the abundance of pasture lands make Humboldt County ideal for raising cows. It’s true the happiest cows come from California, but the happiest of the happy cows come from The Redwood Coast.

Innovation and Entrepreneurship. Having a forward thinking culture that can innovate and establish businesses based on specialty products is key to our success as a rural economy. Understanding trends in the foods market is key to the success of niche and specialty product development.

Developed by Dairy industry leaders in their Prosperity! industry cluster work-plan.

OPPORTUNITIES

- Manure management: continuing to streamline the permitting process to satisfy all agencies.
- Take advantage of niche markets where Humboldt County has competitive advantage. i.e. organic.
- The market for agriculture tourism.
- Environmental and community benefits indirectly served by the local dairy industry, i.e. the pastoral landscape and that healthy cows graze.
- Spanish-English training opportunities for workers and management.
- Educational institutions prepare graduates for careers available in the local dairy industry.

CHALLENGES

- Remain competitive in conventional, commodity market for fluid milk.
- Economic pressures on ranch and land conversion to other uses- i.e. residential.
- Succession – how to pass along the tradition of family farms for the next generation of dairy operators.
- Multiple layers of regulations – the high costs and time needed in the permitting process.
- Transportation costs: both of inputs and outputs to markets.

RESOURCES AND LINKS

- www.innovatewithdairy.com
- www.cdffa.ca.gov/dairy
- Humboldt County Farm Bureau
- UC Ag Extension
- Humboldt Creamery Association