



Foundation for the Future

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A New Approach for Dairy



- Today's dairy safety net programs were designed in an earlier time to operate in a relatively closed domestic market
- Today's domestic market is greatly influenced by global demand and supply situations – and this influence is greater with each passing year
- Tomorrow's federal dairy policy and programs must include a new and comprehensive approach which allows producers to take advantage of changing markets and not be overwhelmed by them
- Both today's and tomorrow's producers must be permitted to reap the rewards of higher average prices resulting from the increased demand for milk and dairy products while maintaining a sufficient measure of income protection and stability

A New Approach for Dairy



Basic Shortcomings of Current Programs:

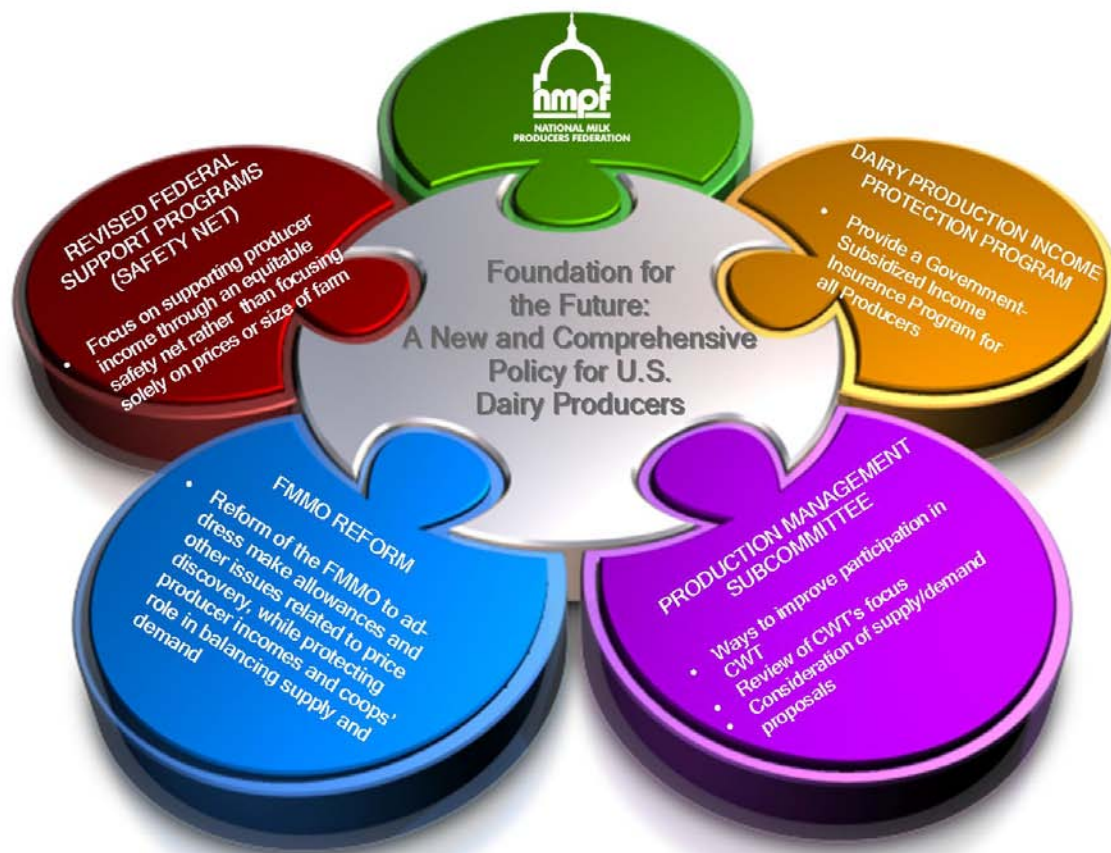
- Current programs may reduce price volatility in the short run, but they cannot change underlying supply-demand conditions
- DPPSP, FMMOs, MILC do not create any additional commercial demand nor do they reduce supply
- MILC provides little assistance with volatile input costs; DPPSP provides none
- In some cases, these programs are actually reducing milk prices by restricting the ability to supply growth markets (e.g., dairy proteins)

A New Approach for Dairy

What to Do?

- Formulate a new and comprehensive dairy policy for future growth and prosperity
- Shift the focus from attempting to reduce price movements in the market place to an emphasis on risk management mechanisms designed to protect and stabilize individual producer incomes





Foundation for the Future

DPPSP & MILC

- Discontinuing Dairy Product Price Support Program (DPPSP) would allow greater flexibility to meet increased global demand and shorten periods of low prices by reducing foreign competition
- Creating a program that would better protect farmers' income than MILC



DPPSP



- It reduces total demand for U.S. dairy products and dampens our ability to export, while encouraging more foreign imports into the U.S.
- It acts as a disincentive to product innovation.
- It supports dairy farmers all around the world and disadvantages U.S. dairy farmers.
- It isn't effectively managed to fulfill its objectives.
- The price levels it seeks to achieve aren't relevant to farmers in 2010.

Dairy Producer Income Protection Program (DPIIPP)



- The program is intended to protect dairy farmers against significant or catastrophic losses in income, destructively low margins.



DPIPP Program



What is margin?

Margin = All milk price *minus* feed cost

All Milk Price= Average price received by all dairy farmers.

Feed Cost = Cost of corn *plus* cost of soybean meal *plus* cost of forage (national data).

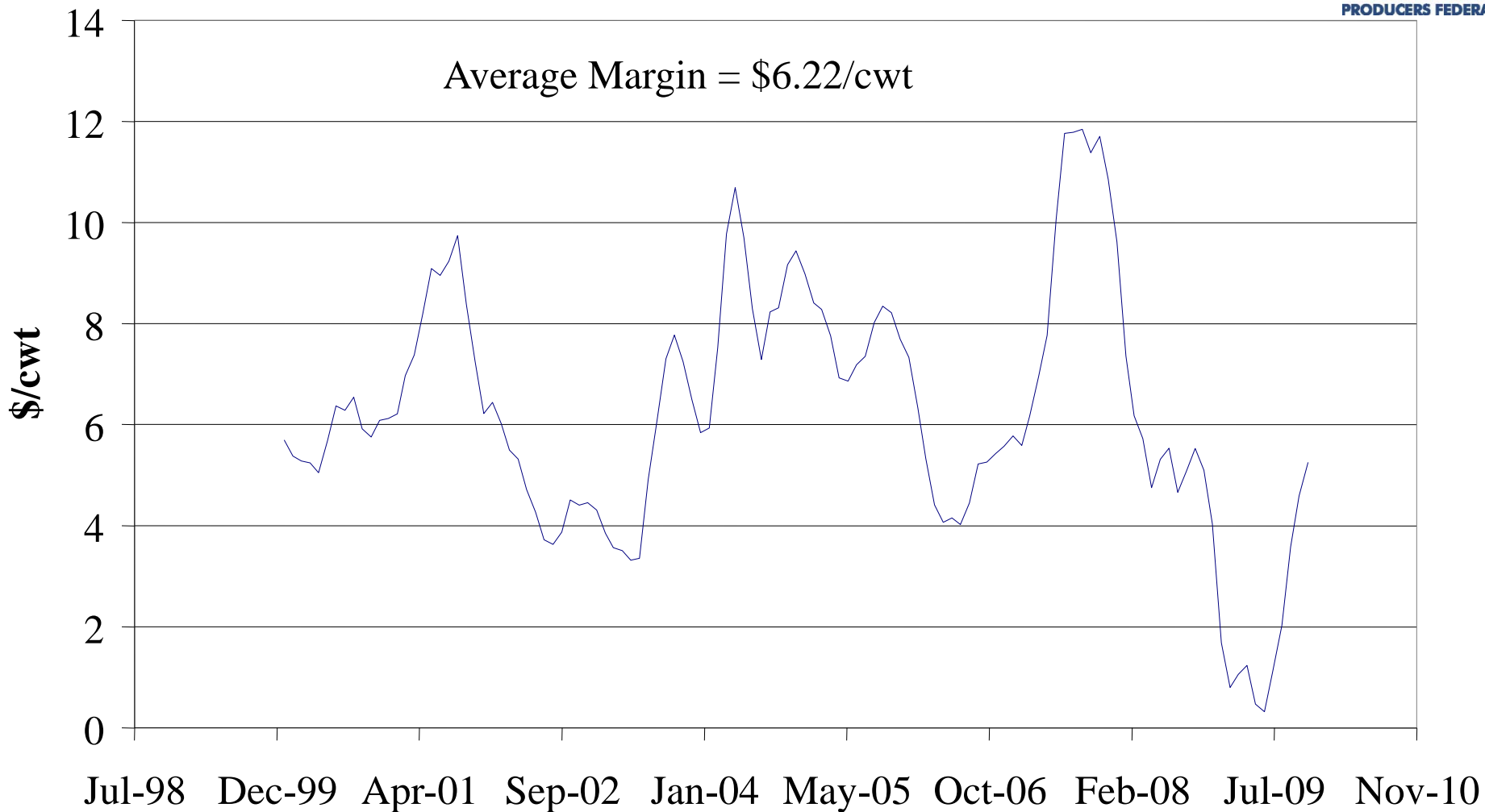
DPIPP Program



Why All Milk Price? What type of Feed Cost?

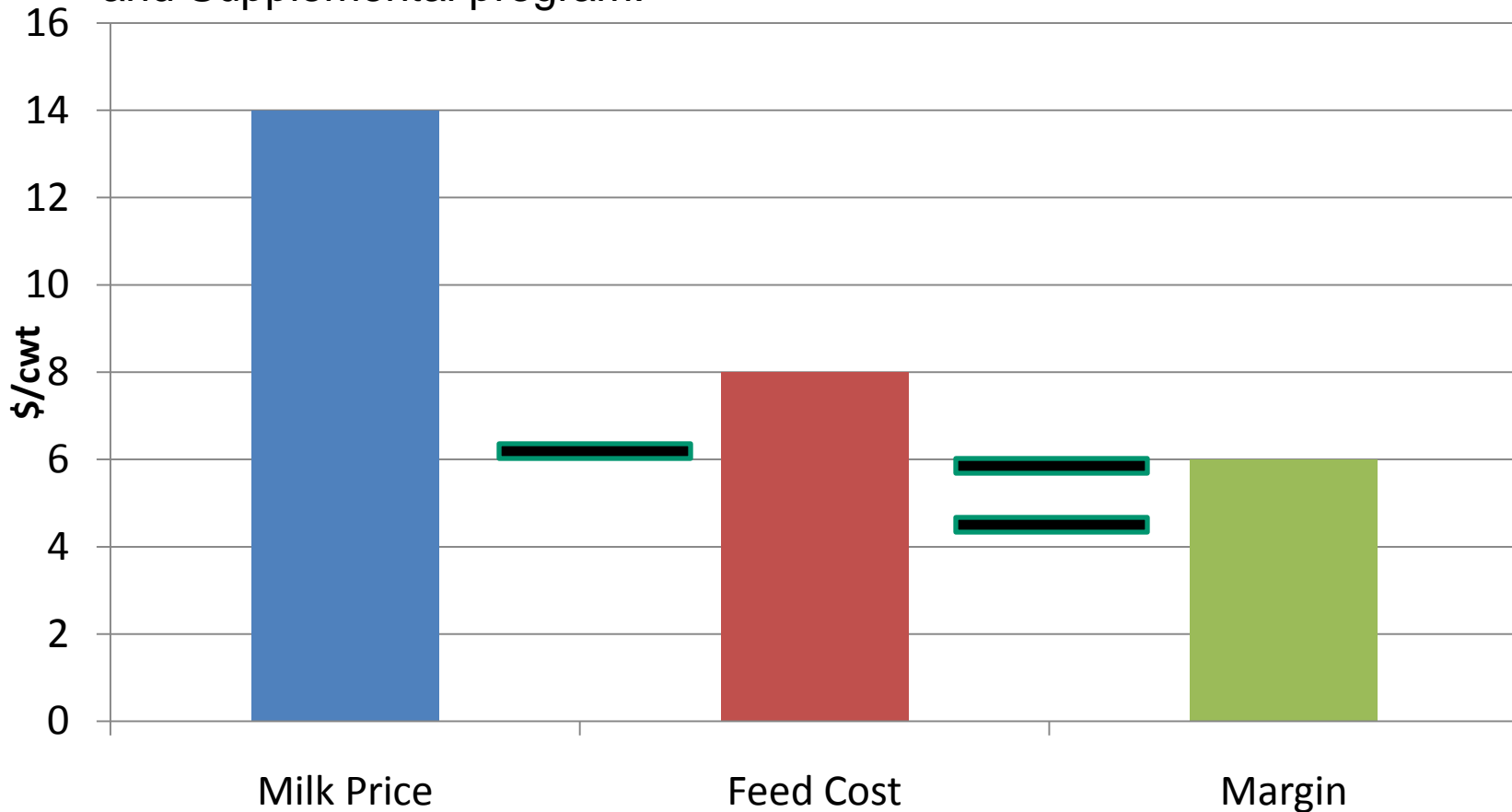
- All Milk Price best measurement of farmers revenue.
- NMPF working on an adjustment to the current NASS Feed Ration calculation.

Monthly Margins



Calculating Cost Margin

Projecting the margin will determine the potential levels of the Base and Supplemental program.



DPIPP Program

- **How Would the DPIPP Work?**
- The DPIPP will provide two levels of coverage:

Supplemental Plan

Base Plan

DPIPP Coverage



- Income or margin safety net.
- Fixed percentage of the farm's historic average production.
- Sign-up for 5 year term (or new farm bill cycle.)
- No payment, production, region or size limitations.

The Base Program (BP)

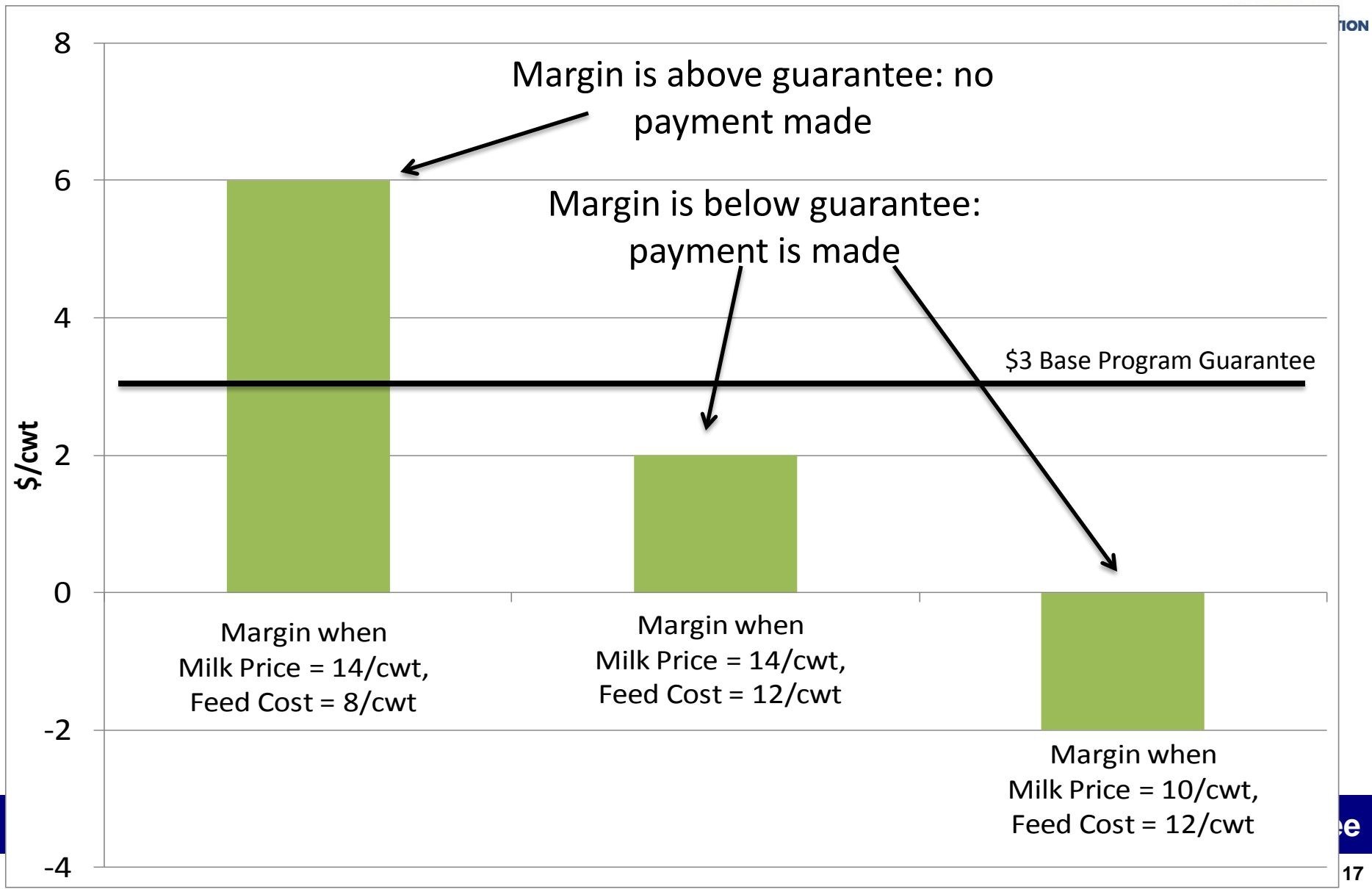


- Fixed margin for the life of the law at a level that does not stimulate over-production.
- Fixed base of historical production history.
- No cost to producer (fully subsidized)
- One time sign-up.
- USDA will calculate actual margins on a monthly basis and make Indemnity Payments quarterly.

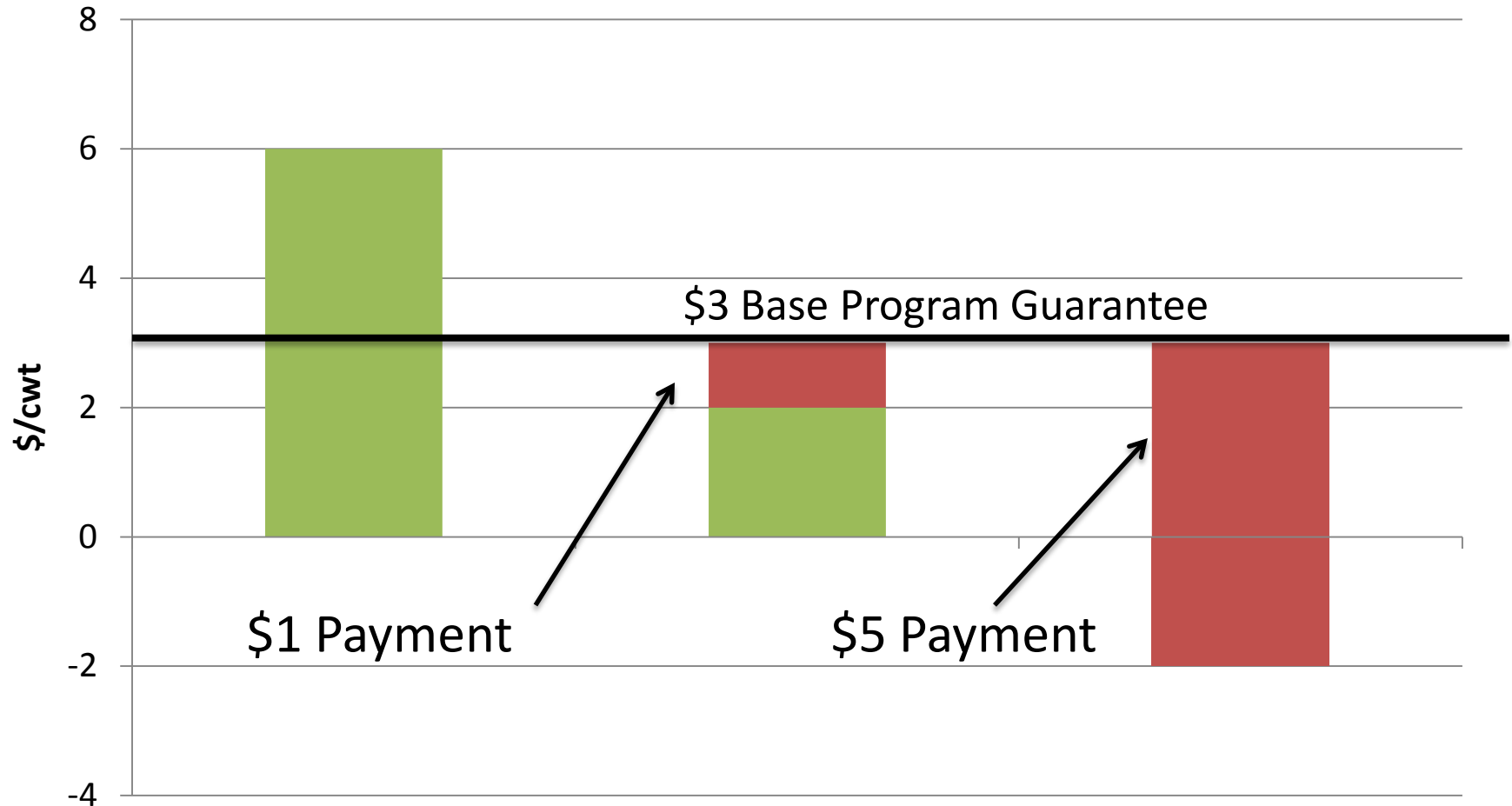
Base Program



Comparing Margin Guarantee



Calculation of Indemnity



The Supplemental Program (SP)

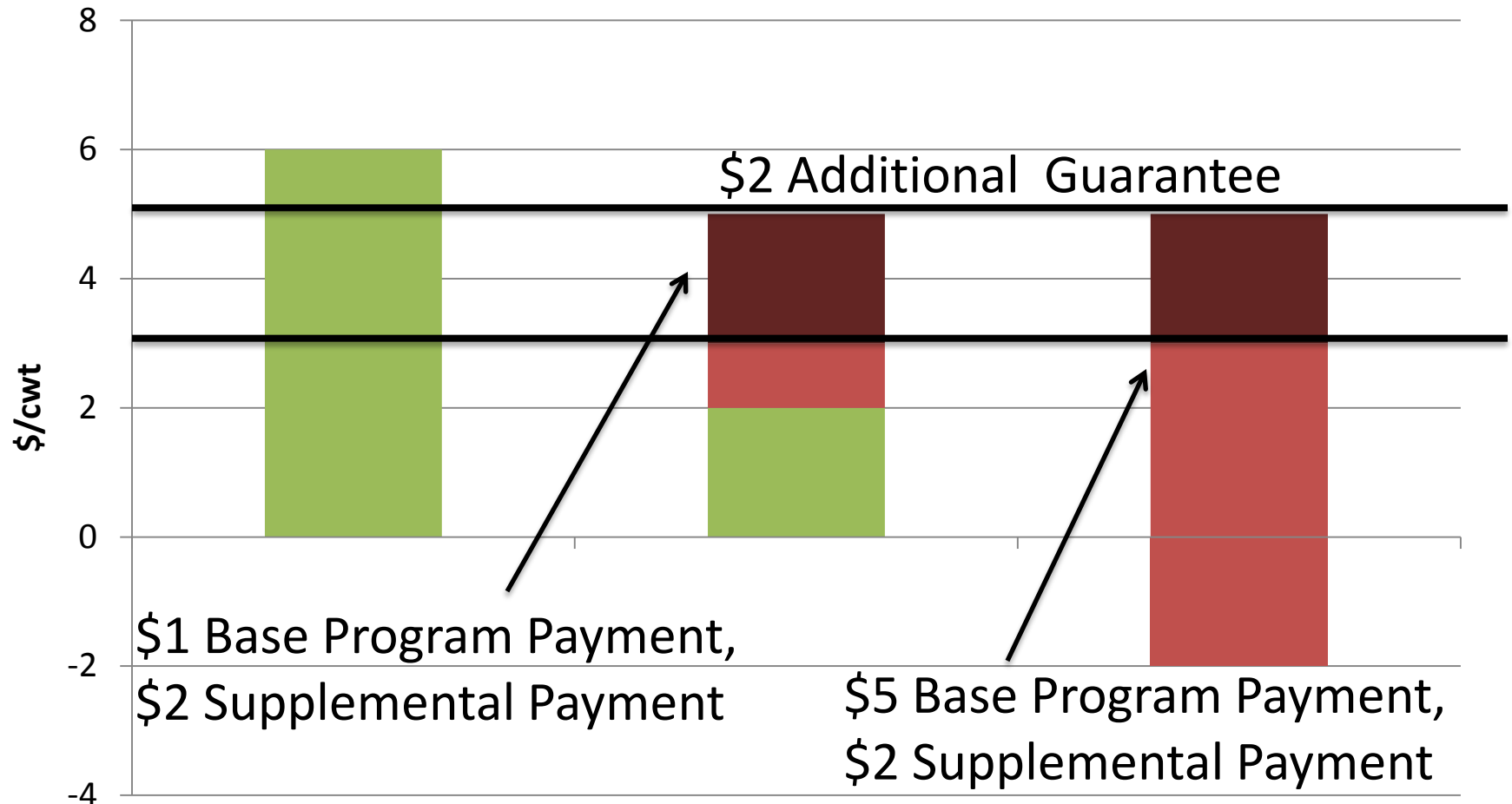


- Optional, additional safety net with partially subsidized premium payment.
- Variable margin over the Base Program
- Fixed production percentage (same as Base Program)
- Producers will have an additional year to sign up for the SP.

BP Plus SP



Total Indemnity



Major Points



- This program is not intended to enhance income, encourage excess production, and/or guarantee a profit.
- Support under this program will only be provided for a historical base of milk production.
- The historical production amount will be based on the average of a farm's production in recent years.
- The “Milk Base” will not be transferable from one farm to another.

Major Points Continued



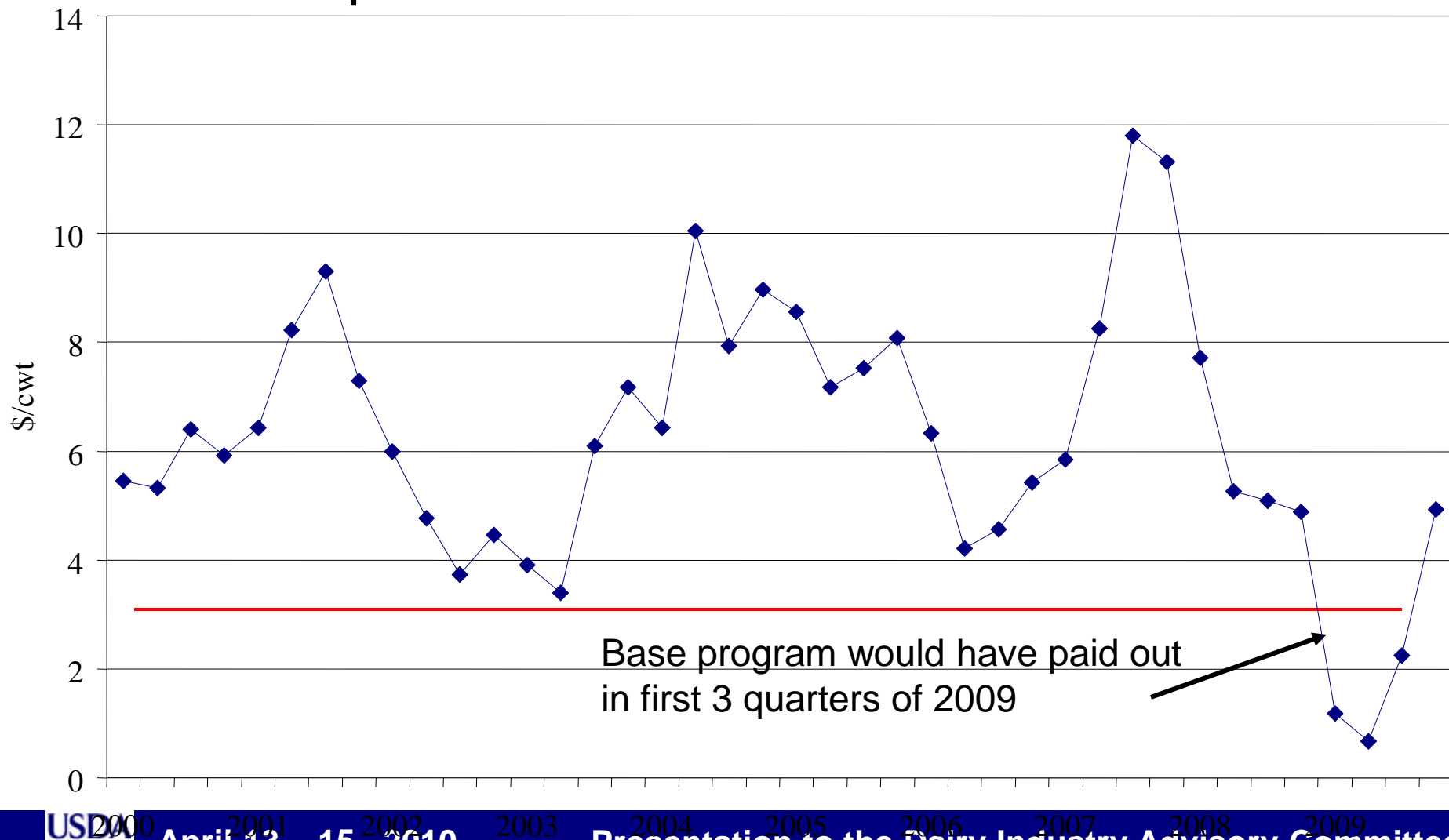
- During the life of the Farm Bill, new entries (farms) will be allowed, but only under certain strict parameters.
- The DPIPP is designed to have no payment limitations or production caps and is intended to cover all producers regardless of size or region.
- The DPIPP is intended to be a Government Farm Program run by USDA through the Farm Service Agency (FSA) or the Risk Management Agency (RMA).

Major Points Continued

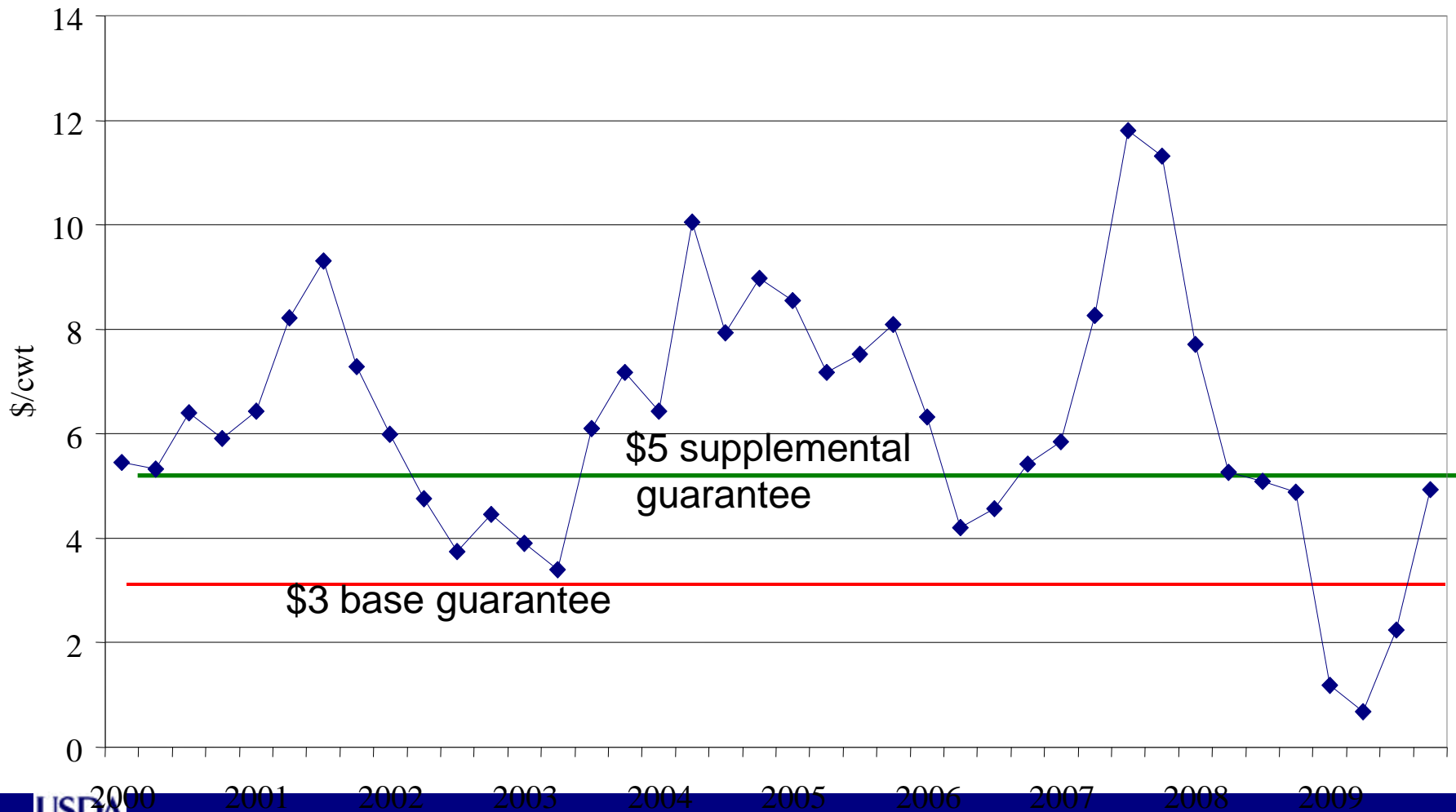


- The DPIPP is not intended to remove liquidity from the current futures market. In fact, the DPIPP will work in tandem with other commercial or government supported risk management tools.
- This program will operate independently of any other commercial risk management tool and the program will pay producers regardless of any other commercial Risk Management tool he/she may have used.

Comparing Quarterly Margins to \$3.00 Base Guarantee



Supplemental Guarantee



FMMO

- Goal: Develop a pricing system that compensates producers fairly, reduces price volatility, and creates a more dynamic dairy industry.



FMMO



- **Overall Goal:**

- Develop a pricing system that compensates producers fairly, reduces price volatility, and creates a more dynamic dairy industry.

- **Overall Objectives:**

- Address inequities and inadequacies of product price formulas
- Encourage movement of milk to highest value uses

FMMO



- Maintain Class I minimum price with pooling of differentials.
- Use a competitive pay price for Class III and eliminate end product pricing formulas.
- The Class III competitive price would be used as the Class I mover
- Maintain Class II minimum price using Class III plus a differential
- Use California Class 4a to price Class IV (maintaining minimum pricing)

Production Management

- Goal: Develop a program to manage supply and demand in a way that will address the extremes in price volatility that can negatively impact producer profit margins including revitalizing Cooperatives Working Together.



Dairy Market Stabilization Program Proposal



- Purpose:
 - Prevent extreme margin volatility
 - Send strong signal to producers to reduce a small percentage of production
 - Absorb market shocks of increased global market participation and resulting greater price volatility.

- Main objective
 - Act swiftly but infrequently to address imbalances

Key Principles of DMSP Proposal

- Must allow for production growth
 - Only implemented until markets balanced.
- Reduce margin volatility
 - By encouraging lower production
- Minimize government intervention
 - Does not require advisory board
- Should not encourage imports, discourage exports
 - Should not create dislocation between U.S. and world prices

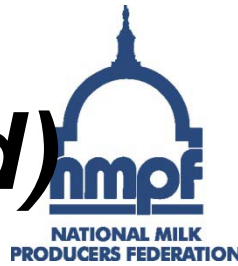
Why Margin Trigger Instead of Price

- Production reduction based on a price trigger would be considered a “price support” measure.
- Viewed as an effort to limit supply to achieve a target price level.
- Price triggers requiring reduced production interpreted as attempt to support price
- Aggregate Measure of Support = target price minus benchmark price, times total U.S. production.
- **DMSP margin trigger avoids exceeding WTO limits**

How the Program Works

- Margin = All milk price *minus* feed cost
- Series of triggers be initiated when margin falls certain levels.
- When trigger enacted, producers will receive zero for a small portion of their base milk plus any production above their base.
- USDA Secretary will have some discretion to make adjustments depending on critical market elements:
 - Such as milk production, size of the dairy herd, growth rate of the dairy herd, cows cullings, growth in demand both domestically and overseas.

How DMSP Works (*continued*)



- Will cover all producers in all markets.
- A government program administered by the Agricultural Marketing Service (AMS).
- Monies collected the same as dairy promotion monies
- Will apply to all milk produced, no exemptions.
- Producer's base is rolling average of three most recent months' milk marketings.
 - This will allow for expansion when needed
 - Will not stifle needed growth
 - Producers may choose option of same month in previous year as base.

How DMSP Works (*continued*)



- The trigger linked to a specific margin level
- Payment deduction effective the month following the announcement that a reduction is required.
- DMSP will inform farmers 30 days in advance of the percentage of milk being paid at the lower level.
- Triggers will not apply if the US average price cheese or skim milk powder 20-30% higher than the world price.

Program Example



- March is below the margin trigger level
- Producers advised that in May will receive no payment for a percentage of their base milk marketings.
- If actual margin below:
 - \$X.XX Margin - any milk over 99% of base production receives \$0 payment
 - \$Y.YY Margin - any milk over 98% of base production receives \$0 payment
 - \$Z.ZZ Margin - any milk over 97% of base production receives \$0 payment
- Program active until the actual margin exceeds the trigger level margin for two consecutive months.

How the Monies Collected are Used



- In order to stimulate the demand side, it is proposed that the monies collected by USDA under the DMSP be used in the following manner:
 - To purchase dairy products for food assistance programs (i.e. food banks)
 - To augment school nutrition programs
 - Targeted in other ways to increase demand for dairy products.
 - Promote export sales.

Voluntary CWT Sales Assistance Program

Why a Voluntary Program



- A voluntary CWT can assist the export of any type and any quantity of dairy product:

CWT in 2008

Nonfat Dry Milk	- 0 -
Butter & equivalents	79.1 million pounds
Cheese	3.3 million pounds
Other dairy	3.3 million pounds

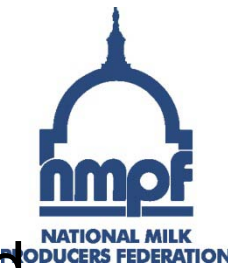
- A voluntary program can assist members to compete domestically with imports.

Why a Voluntary *(continued)*



- Current CWT members believe herd retirement approach has run its course.
- A number coops and producers currently not participating in CWT would join if their funds used specifically for sales assistance.

Proposed Program



- Purpose of CWT Sales Assistance Program to expand sales of U.S. dairy products both home and abroad.
- An Export Assistance Strategic Business Plan more focused on markets and products that hold the greatest potential for long-term profitable business relationships.
- A Domestic Product Diversification Program to assist members to compete domestically with imported dairy products such as casein and caseinates.
- Continue to explore an export marketing agency in common.

Funding & Structure

■ Funding:

- CWT funds remaining at the end of 2010 plus member participation of two-year investment at 1.5¢-3¢/cwt.
- Goal: Annual budget of \$40 million
 - \$30 million for export assistance
 - \$10 million for the domestic program.

■ Structure

- The current framework CWT operates under would continue.
- CWT Committee is member cooperatives and representatives for independent producers.
- It would function in the same way it does currently.

Timelines/Schedule



- Finalize package for review by the NMPF Board in June 2010