

Rethink What's Possible:
Protection, Stability & Growth

A NEW DIRECTION FOR U.S. DAIRY POLICY



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BACKGROUND

The National Milk Producers Federation (NMPF) has created a new roadmap for U.S. dairy policy called Foundation for the Future. In June 2009, NMPF Chairman Randy Mooney created the NMPF Strategic Planning Task Force (SPTF) aimed at exploring different approaches to dairy policy, including options that would work to achieve more effective protection for producer margins and stabilization of dairy markets.

Representation on the SPTF (**Attachment 1**) came from within the NMPF and/or Cooperatives Working Together (CWT) membership and the SPTF was charged with making recommendations to the NMPF Board of Directors for further deliberation and subsequent action. Representation on the Task Force was designed to include viewpoints from all segments of the NMPF (and CWT) membership and the participants reflected a broad spectrum of demographics and affiliations. The SPTF was also broken down into three Subcommittees (**Attachment 2**), each focusing on a specific aspect of dairy policy. The Subcommittees carried out their specific assignments by drawing upon the best professional expertise and informational resources available to our industry from both private and public sources. Finally, in order to make certain that the demand-building programs of Dairy Management, Inc. and the U.S. Dairy Export Council (USDEC) were included in this important planning process, Tom Gallagher and Tom Suber, the respective leaders of these organizations also served as advisory members of the SPTF.

The overriding *purpose* of the SPTF was to build consensus across the dairy producer community by identifying the underlying factors affecting producer income and examining the ways in which the producer community could realistically work to address those factors for the betterment of the industry. The specific *goal* of the SPTF was to analyze and develop a long-term strategic plan for consideration by the NMPF Board of Directors which would have a positive impact on the various factors influencing both supply and demand for milk and dairy products

Through an initial round of listening sessions, the SPTF brought in a number of producer groups (**Attachment 3**) representing different segments and dairy producer constituencies all across the country to obtain widespread input and access to the best ideas circulating throughout the industry. Individual cooperatives were also invited to provide proposals to the SPTF for consideration and review. Following its meetings with the various dairy producer organizations, the SPTF began its internal deliberations, analyzing and discussing the many proposals and options brought forth, and developing recommendations for the NMPF Board of Directors.

As envisioned by NMPF, Foundation for the Future will bring much-needed change to many aspects of current dairy programs, some of which have existed for decades. Unfortunately, a number of these programs were designed in an earlier time to operate in a relatively closed domestic market. Today's market for U.S. dairy farmers' milk, however, is influenced to a much greater degree by global demand and supply, as the record prices of 2008 – and their disastrous plunge in 2009 – have clearly demonstrated.

PROGRAM OVERVIEW

This Program Overview provides an overview of the policy changes being proposed by NMPF. Detailed descriptions of each of the elements comprising the Foundation for the Future program are also contained in this document. *While each of the individual elements is identified separately, they have been designed to work together to assure*

the best possible result for U.S dairy producers and the U.S dairy industry, in general. It should also be emphasized that each of the elements in Foundation for the Future are interlinked with one or more of the other elements to obtain maximum effect. It is therefore imperative that the entire package of Foundation for the Future be considered for the totality of its impact.

Just as multiple problems have contributed to an unprofitable situation for U.S. dairy farms in recent months, so too does the pathway to a more prosperous future require more than one solution. To meet this need, **Foundation for the Future offers a multi-faceted approach by: (1) replacing existing Federal safety net programs; (2) creating a new Dairy Producer Margin Protection Program to protect against both severe and unsustainable loss of margin; (3) reforming the Federal Milk Marketing Order system; and (4) establishing a Dairy Market Stabilization Program to help address imbalances in dairy supply and demand.**

1. REPLACE CURRENT FEDERAL SAFETY NET PROGRAMS

Foundation for the Future recommends discontinuing the Dairy Product Price Support Program (DPPSP) and the Milk Income Loss Contract (MILC) in the next Farm Bill and converting the budgetary savings in the federal dairy baseline to establish a new Dairy Producer Margin Protection Program as described further in this document.

Both the Dairy Product Price Support Program (DPPSP) and the Milk Income Loss Contract (MILC) program deliver inadequate protection against periodic low milk prices and destructively-low margins that occur when input costs, especially feed prices, rise rapidly. The DPPSP is inadequate and ineffective as a safety net as it hinders the ability of U.S. and world markets to adjust to supply-demand signals and stifles product innovation. The MILC program does not adequately assist farmers when they need it the most and has often provided a payment to producers when margins were, in fact, relatively good. The feed cost adjustor in MILC is of help only when feed costs are very high. When producers were severely impacted by high feed costs in 2008, these programs didn't help them until after the milk price crashed at the end of the year.

2. CREATE DAIRY PRODUCER MARGIN PROTECTION PROGRAM

Foundation for the Future recommends establishing a new program entitled the Dairy Producer Margin Protection Program (DPMPP) which is intended to support producer *margins*, not prices. DPMPP is a program that is designed to address both catastrophic conditions which can result in the severe loss of equity for dairy farmers such as those witnessed in 2009, as well as long periods of low margins such as those in 2002. Under this program, "margin" is simply defined as the all-milk price minus feed costs. Feed costs are determined using a new feed ration that has been developed to more realistically reflect those costs associated with feeding the entire dairy farm enterprise consisting of milking cows, heifers, etc. The DPMPP operates on the premise of providing a base level of protection (i.e. insurance coverage) for all producers which is fully subsidized by the federal government (as was the case with the DPPSP and MILC) and a voluntary level of supplemental coverage which is partially subsidized by the government, but in a manner in which the level of subsidization decreases as the level of coverage increases. Consequently, dairy farmers electing to ensure their operations beyond the fully-subsidized base level coverage would pay the non-subsidized portion of the premium associated with the supplemental coverage. The DPMPP is intended to be a Title I program operated by the Farm Service Agency (FSA). Since DPMPP is a margin insurance program it is proposed to have no payment limitations based on income and/or size of herd.

In the future, the solvency of dairy farms will depend ultimately on margins (the difference between milk prices and overall costs - in particular, feed costs) rather than just the milk price alone. The economic hardship of the past eighteen months reveals that relatively high prices do not guarantee profitability when accompanied by high input costs. A program that helps provide insurance coverage for dairy farmers during periods when these margins are low, or even negative, is a key element of Foundation for the Future.

In developing the Dairy Producer Margin Protection Program, the following important principles were followed: 1) losses caused by either low milk prices or high feed costs need to be covered; 2) a dairy farmer's cost for the basic level of protection must be subsidized by the federal government since the DPPSP and MILC are being replaced by the DPMPP; 3) the level of voluntary **supplemental** protection should be flexible, and producers should be able to purchase additional protection to complement the nature of their operations; 4) the program should be voluntary, national in scope, and open to all dairy farmers, regardless of size without payment limitations; 5) the program should address both catastrophic conditions and long periods of relatively low margins, yet not provide incentives to create artificial over-production; 6) the program must be easily accessed by all producers through a simple application process or through the assistance of their cooperative.

3. REFORM FEDERAL MILK MARKETING ORDER PROGRAM

Foundation for the Future is evaluating revisions to the Federal Milk Marketing Order (FMMO) Program with the following objectives in mind: 1) address the inequities and the inadequacies of end-product price formulas; and 2) encourage manufacturers to produce new products resulting in higher returns both to themselves and dairy producers.

Federal Milk Marketing Orders have provided an important support system for dairy farmers and cooperatives for many years by establishing consistent pricing mechanisms for milk for all uses, providing audited data on marketed milk, and helping to maintain supplies for bottlers and to compensate their suppliers. In recent years, dairy markets have become more complex and current federal orders have difficulty accommodating them. Markets have become first regional and national, and now global. Pricing has become complex and linked to markets – including unregulated areas, state marketing orders and international - that are not under the control of FMMO regulation.

The current end-product pricing formulas set minimum milk prices by fixing a maximum gross margin for manufacturers of the benchmark products. This creates winners and losers between producers and processors, and even among cooperatives, and has strained commercial relationships and distracted from other, potentially constructive reform efforts. When the end product formulas require adjustment, it is done through a lengthy and, most often, divisive FMMO formal rule making process. The goal of NMPF's effort is to develop a pricing system that compensates producers fairly, reduces price volatility, and creates a more dynamic dairy industry. The key in doing so is to eliminate the present end-pricing formulas that have been troublesome since their establishment. Another goal is to create a more timely and transparent system in order to avoid distorting market signals sent both to producers and processors.

4. ESTABLISH DAIRY MARKET STABILIZATION PROGRAM

Foundation for the Future is recommending the establishment of a Dairy Market Stabilization Program (DMSP) in order to address and prevent extreme volatility in dairy producer margins by sending strong and timely signals to producers that a small percentage of additional milk production may have significant consequences on their overall margins. As the U.S. dairy industry increases its global participation, exposure to greater price volatility will be more likely. The DMSP is intended to absorb some of the market shocks that this volatility may cause. The DMSP has been designed to act swiftly, but infrequently, to address brief imbalances in the market. The program is also designed to work in conjunction with the Dairy Producer Margin Protection Program (DPMPP).

Key principles of the DMSP are as follows: 1) allow for production growth - the program is intended solely to intervene in the market to address temporary imbalances between supply and demand. The program will send clear and timely economic signals to producers that there is an imbalance in the marketplace; 2) reduce margin volatility - the program's ultimate objective is to prevent acute imbalances in the marketplace that negatively impact producer margins. By encouraging producers to lower their milk marketings at appropriate times, prices should rise, thus improving margins; 3) minimize government intervention - the legislation will set the parameters that trigger the program, but will allow for USDA to provide additional analysis, if necessary. DMSP does not require the establishment of a producer board to implement; and 4) not encourage imports or negatively affect exports - global and US markets must maintain a strong correlation. Such correlation will allow domestic inventories to clear faster, encourage exports, discourage imports, and help assure that market downturns are of shorter duration.

The program will only go into effect when the actual margin (determined using the same calculations of the DPMPP) is below a margin trigger level set (using a specific set formula) for two consecutive months. Once DMSP is triggered, producers will receive payment for only a certain percentage of their base milk marketings. The percentage of milk marketings on which payment will be based shall be determined according to a formula tied to the severity of the margin loss. A maximum reduction in milk marketings on which payment will be based will also be established according to a predetermined formula. Producers whose milk marketings in a month when the program is in effect are less than the set percentage of their base milk marketings on which payment will be based would not be subject to a reduction in payment. The program would cease once the margin trigger level has been exceeded for two consecutive months. The DMSP will cover all producers in all markets and any monies resulting from reductions in producer payments will be collected by the Agricultural Marketing Service (AMS) using the same framework used to collect the dairy promotion monies and will apply to all milk marketed with no exemptions. The USDA will announce that the DMSP is being implemented 30 days in advance of the month in which the program goes into effect. Although not effectuated by AMS, the DMSP is intended to be a government program administered by that agency. The purpose of the monies collected through the DMSP is to effectively stimulate the consumption of dairy products both domestically and internationally.

Voluntary Sales Assistance Program (VSAP)

The second element to help stabilize markets will expand on the present Export Assistance program of Cooperatives Working Together (CWT) program in an effort to boost global demand for U.S. dairy products by establishing a Voluntary Sales Assistance Program. There would be no government involvement in this program.

The program would function similarly to the present CWT program and be operated by NMPF, under the auspices of the CWT Committee, as presently organized. The program would continue to be directed by a committee made up of member cooperatives and representatives for independent producers who voluntarily contribute to the VSAP. Bids would be considered based on the level of assistance requested, and if the product to be exported, and the market in which it will be sold, meet the parameters of the CWT strategic business plan. A new initiative would provide financial assistance to members on a bid basis that would allow them to provide a domestic dairy product alternative to imported dairy products such as casein and caseinates.

Working with the U.S. Dairy Export Council (USDEC), CWT would target specific overseas markets and establish a sales force to identify potential customers in a selected region or individual countries in which CWT members would provide products to be sold on a competitive bid basis.

CONCLUSION

All of these recommendations and changes will ultimately require a new way of thinking about U.S. dairy policy, milk pricing systems, and the impact of margin on individual dairy operations. NMPF is not underestimating the size of the shift in attitude necessary on the part of producers and other sectors of the industry to give these proposed programs a fair evaluation. We realize it will take a great deal of education and communication as we proceed to gain industry consensus on the Foundation for the Future. However, if there is a lesson to be learned from the past year, it is that the present safety nets are inadequate, the present pricing system is not serving the industry well, and that change is needed. **Foundation for the Future represents the timeliest opportunity for changing the direction of dairy policy for the future of our dairy farmers; assisting the entry of new generations of dairy farmers; and helping the entire industry meet the challenges of a new global marketplace.**

FOUNDATION FOR THE FUTURE

Detailed Descriptions of the Individual Program Elements

1. REPLACE CURRENT FEDERAL SAFETY NET PROGRAMS

Foundation for the Future recommends discontinuing the Dairy Product Price Support Program (DPPSP) to allow greater flexibility to meet increased global demand and shorten periods of low prices by reducing foreign competition. It also suggests shifting resources from the DPPSP and Milk Income Loss Contract (MILC) Program towards the new Dairy Producer Margin Protection Program (DPMPP) to provide farmers a more effective safety net.

Discontinuing the Dairy Product Price Support Program

The Dairy Product Price Support Program was created in 1949 as a means to help provide government support for farm-level milk prices. During most of its lifespan, the program targeted a set milk price, and then established pricing targets for key products, such as cheese, butter and non-fat milk powder, that would help support that price.

In the 2008 Farm Bill, the program was altered to support specific products, ending its focus on a singular milk price, and targeting specific product price levels. Regardless of its function, however, NMPF believes it is now time to end the DPPSP and shift resources toward a new federal safety net. Here's why:

1. It supports dairy farmers all around the world and disadvantages U.S. dairy farmers.

The current program helps balance world supplies, by encouraging the periodic global surplus of milk products to be purchased by U.S. taxpayers. As a result, dairy farmers in other countries, particularly the Oceania region, enjoy as much price protection from the DPPSP as our own U.S. farmers. Without the USDA's Commodity Credit Corporation (CCC) buying up occasional surpluses of dairy proteins in the form of nonfat dry milk, a temporarily lower world price would affect America's competitors – all of whom would be forced to adjust their production downward – and ultimately hasten a global recovery in prices.

2. It reduces total demand for U.S. dairy products and dampens our ability to export, while encouraging more foreign imports into the U.S.

The price support program effectively reduces U.S. exports, by diverting some of the U.S. milk flow into government warehouses, rather than to commercial buyers in other nations. It creates a dynamic where it is more difficult for the U.S. to be a consistent supplier of many products, since sometimes the domestic industry has products to export, and at other times, the domestic industry just sells to the government.

3. It acts as a disincentive to product innovation.

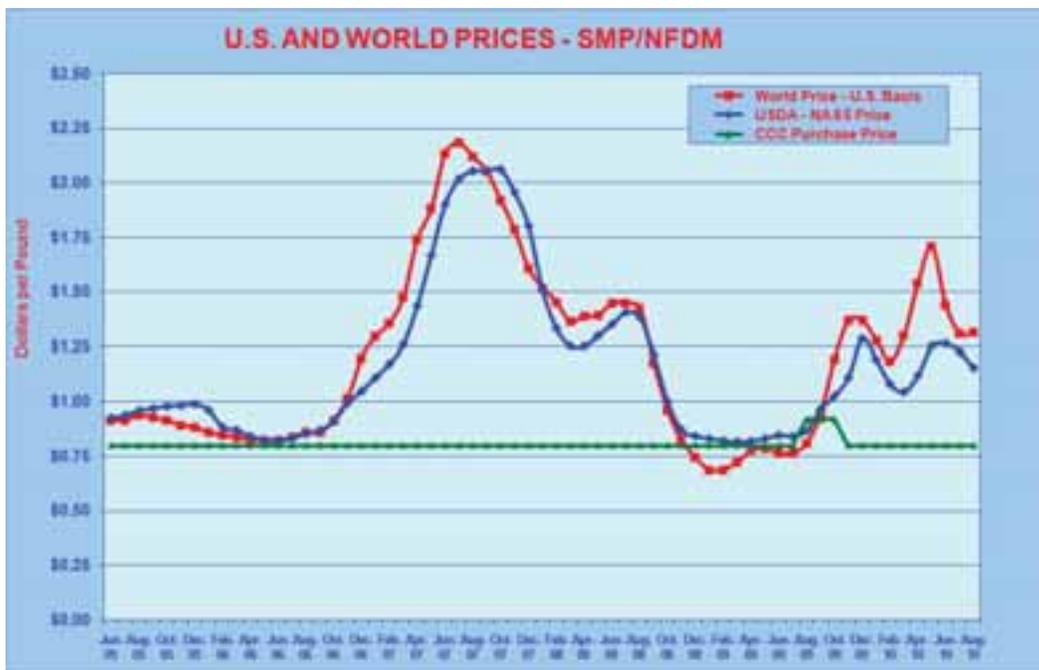
DPPSP distorts what the U.S. produces, i.e. too much nonfat dry milk, and not enough protein-standardized skim milk powder, as well as specialty milk proteins such as milk protein concentrates, that are in demand both domestically and internationally.

Because the price support program is a blunt instrument that will buy only nonfat dry milk – and because some plants have been specifically built to produce nonfat dry milk, as opposed to the other forms of milk powders and proteins described above – it puts the U.S. at a competitive disadvantage with respect to other global dairy vendors.

4. It isn't effectively managed to fulfill its objectives.

Although the DPPSP has a standing offer to purchase butter, cheese and nonfat dry milk, during the past 12 years, only the last of that trio has been sold to the USDA in any significant quantity. In essence, the product that the DPPSP really supports is nonfat dry milk. Even at times when the cheese price has sagged well beneath the price support target, cheese makers have chosen not to sell to the government for a variety of logistical and marketing-related reasons. NMPF has tried to address these problems, but the USDA shows no inclination toward facilitating greater purchases of product by recognizing the additional costs required to sell to government specifications. Once purchased, powder returning back to the market from government storage also presents challenges, dampening the recovery of prices as evidenced in **Chart 1**.

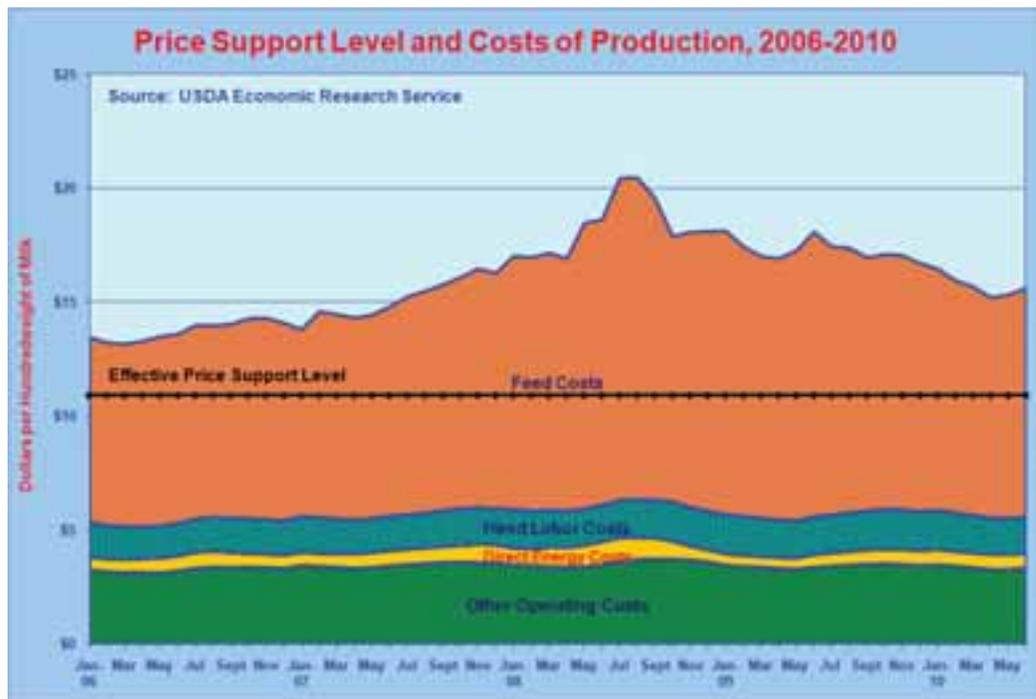
CHART 1



5. It seeks to achieve price levels that are not relevant to farmers in 2010.

Even though the \$9.90/cwt target was eliminated in the last Farm Bill, the individual price support targets – \$1.13/lb. for block cheese, \$0.85 for powder, and \$1.05 for butter – will essentially return Class III and IV prices around \$10.00/cwt. In an era of higher costs of production, that minimal price isn't acceptable in any way, shape or form as the following chart so clearly demonstrates. As shown on **Chart 2**, the effective price support level has been considerably less than the cost of production for many years. The government is not at all likely to raise the support prices (which would have negative consequences both for the burgeoning federal deficit, as well as our trade treaty limitations), and even if it did, the industry would likely experience continued delays in the recovery of prices when the program is most needed.

CHART 2



In summary, discontinuing the DPPSP would eventually result in higher milk prices for U.S. dairy farmers. By focusing on indemnifying against poor margins, rather than on a milk price target that is clearly inadequate, the industry can create a more relevant safety net that allows for quicker price adjustments, reduces imports and facilitates exports. As a result of our DPPSP, the U.S. has become the world's balancing plant. As time marches on, so, too, must our approach to helping U.S. dairy farmers.

Discontinuing the Milk Income Loss Contract Program

MILC is a price-based safety net, which is as ineffective for today's dairy producers as the Dairy Product Price Support Program. In 2008 and 2009, MILC proved to be an inconsistent safety net program for dairy farmers facing very low, or even negative, operating margins. MILC, despite its feed cost adjustor, does not adequately offset high feed costs; and its price target does not track *national* farm milk prices.

MILC payments depend on a low milk price. If milk prices are at average levels and feed costs are high, farmers can suffer substantial losses and still not receive any assistance from MILC. Although a feed cost adjustor was added in the 2008 Farm Bill, this program does not go into effect until the price of the National Agricultural Statistics Service (NASS) standard feed ration reaches \$147 per ton (equivalent, for example, to \$3.75/bu. corn, \$9.50/bu. soy, and \$130/ton alfalfa). It also only covers about 30% of the feed price increase above this high level. This was clearly inadequate through most of 2008, when high feed costs overwhelmed average milk prices and put most farmers into a deep hole without the help of any MILC payments. The current feed ration utilized in the MILC has not been sufficiently updated to reflect today's current dairy farm feeding practices. On the other hand, the Dairy Producer Margin Protection Program recommends utilizing a new feed ration reflective of the entire dairy feeding enterprise at the farm level.

The MILC target price is a Class I price. Class I is currently based on the “higher of” Class III or IV values; so when Class IV (butter-powder) values are high, MILC payments are low or zero, even if producers in Class III (cheese) markets are facing very low prices. Similarly, producers in high Class IV markets could see very low payments when the Class III value is high. Changes being advocated in the reform of Federal Orders in this document may or may not impact the way MILC operates, but more importantly, the *whole premise of the Foundation for the Future is changing the focus from price targets to margins.*

The MILC program is inequitable in its treatment of dairy farmers and, therefore, ineffective in its objective of providing economic relief to dairy farmers in time of need. Requiring producers who market more than 2.985 million pounds of milk a year to guess in which of the coming twelve months they will most need economic assistance is why it is ineffective. Limiting the level of protection to a maximum of 2.985 million pounds of milk a year provides protection for less than 30% of the total milk produced in the U.S. **A basic principle of Foundation for the Future is that all farmers should be treated equally regardless of size or region.**

As dairy farmers face growing volatility in both their feed costs and their milk prices, the milk price-based dairy producer programs are no longer adequate or efficient. As evidenced significantly in 2009, the MILC program does not provide an effective safety net for dairy producers. **It is for these reasons that Foundation for the Future recommends discontinuing the Dairy Product Price Support Program (DPPSP) and the Milk Income Loss Contract (MILC) in the next Farm Bill and converting the budgetary savings in the federal dairy baseline to establish a new Dairy Producer Margin Protection Program as described next in this document.**

2. CREATE DAIRY PRODUCER MARGIN PROTECTION PROGRAM

Foundation for the Future recommends establishing a new program entitled the Dairy Producer Margin Protection Program (DPMPP) which is intended to support producer margins, not prices. DPMPP is a program that is designed to address both catastrophic conditions which can result in the severe loss of equity for dairy farmers such as those witnessed in 2009 as well as long periods of low margins such as those in 2002. Under this program, “margin” is simply defined as the all-milk price minus feed costs. Feed costs are determined using a new feed ration that has been developed to more realistically reflect those costs associated with feeding the entire dairy farm enterprise consisting of milking cows, heifers, etc. The DPMPP operates on the premise of providing a base level of protection (i.e. insurance coverage) for all producers which is fully subsidized by the federal government (as was the case with the DPPSP and MILC) and a voluntary level of supplemental coverage which is partially subsidized by the government, but in a manner in which the level of subsidization decreases as the level of coverage increases. Consequently, dairy farmers electing to ensure their operations beyond the fully-subsidized base level coverage would pay the non-subsidized portion of the premium associated with the supplemental coverage. The DPMPP is intended to be a Title I program operated by the Farm Service Agency (FSA). In terms of U.S. obligations as a member of the World Trade Organization (WTO), the program has also been designed to fit permissible requirements, as well as be within the subsidy limits permitted for U.S. agriculture. Finally, since DPMPP is a margin insurance program it is proposed to have no payment limitations based on income and/or size of herd.

Background

Increased volatility in milk and feed markets has driven interest in developing a new approach to providing a Federal safety net for milk producers. Development of a new margin insurance program for milk producers will provide dairy farmers the support they need when their margins fall whether it is because of low milk prices or high feed costs. The program would enable producers to protect or insure their margin (milk price less feed cost) by enrolling in a margin insurance/protection program. The DPMPP will help dairy farmers survive financially difficult times by paying them an insurance indemnity (payout) when catastrophic or significant losses occur in their dairy operations.

The New Measure of Feed Costs

DPMPP requires calculating the margin over feed costs on a dollar per hundredweight of milk basis. This is equal to the price received per hundredweight of milk minus the total cost of purchased feed needed to produce a hundredweight of milk. Other production cost components such as labor, energy, depreciation, capital, veterinary services, and nutritional supplements vary greatly across individual operations and will need to be addressed by individual producers when determining their desired level of coverage. In determining feed costs, DPMPP uses a new measure based on a daily ration for lactating cows shown in **Table 1**. The new feed ration was developed by NMPF with the support of a number of prominent animal nutritionists (**Attachment 4**) from all across the country. This ration, which is for a cow producing 68.85 pounds of milk per day during lactation, uses just the four feed ingredients shown in that table to capture the changes in dairy farmers' feed costs that result from volatile prices in the feed commodities markets.

TABLE 1
Daily Quantities of Feed Ingredients for a Lactating Cow

Ingredient	Quantity of Dry Ingredient (lbs/day)	Moisture Content	Quantity of Commercial Ingredient (lbs/day)	Quantity in Commercial Units (units/day)
Shelled Corn	15.4	14%	17.9	0.319803 bushels
Corn Silage	16.0	65%	45.7	0.02286 tons
Soybean Meal	5.7	12%	6.5	0.003238 tons
Alfalfa Hay	10.0	15%	11.8	0.00588 tons

The DPMPP feed cost measure also includes daily rations for all milk cows and replacement heifers on a model dairy farm enterprise that are not producing milk sold on a given day but are necessary for the milk production enterprise. These include hospital cows, dry cows and replacement calves and heifers of all ages, as shown in **Table 2**. The specific rations for these animals are also based on the same four feed ingredients, as shown in that table.

TABLE 2
Daily Quantities of Feed Ingredients for the Entire Herd

Cow Type	Proportion of Herd	Dry Matter Consumed (lbs/day)	Quantity in Commercial Units (units/day)			
			Shelled Corn (bu/day)	Corn Silage (tons/day)	Soybean Meal (tons/day)	Alfalfa Hay (tons/day)
Milking Cows	52.49%	47.1	0.3198	0.0229	0.0032	0.0059
Hospital Cows	1.05%	47.1	0.3198	0.0229	0.0032	0.0059
Dry Cows	8.82%	24.0	0.0249	0.0172	0.0020	0.0042
Replacements Heifers						
To calve within 1 year	18.53%	23.0	0.0239	0.0164	0.0020	0.0041
500 pounds and over	9.55%	15.0	0.0311	0.0107	0.0013	0.0022
Less than 500 pounds	9.55%	7.0	0.0363	0.0045	0.0006	0.0006

The total cost of feed per hundredweight of milk is determined by adding the total daily cost of purchasing the four feed ingredients used in the amounts shown in **Table 2** and dividing the result by the daily volume of milk marketed, which is 0.6885 hundredweights for each milking cow. Because this feed cost measure is on a per hundredweight of milk basis, its calculated value for any set of prices for the four ingredients is the same regardless of the actual number of animals that make up the model dairy farm enterprise, as long as the animals of the various categories are in the proportions shown in **Table 2**. And because the feed cost used in the DPMPP margin calculation captures the total cost of feed purchased, it uses a shrink factor of 10% between the volumes of all feed ingredients purchased and the volumes of those ingredients actually consumed by animals.

Although the new feed cost measure is derived from an analysis of daily feed rations, it has the same calculated value for any set of prices for the four ingredients regardless of the period of time used. For administering the DPMPP, this calculation will be done monthly using monthly prices for the four basic feed ingredients. The DPMPP feed cost will be calculated using a monthly national price paid for corn, per bushel, determined as the average of the daily settlement prices during any month for the nearest month Chicago Board of Trade corn futures contract. The monthly price paid for soybean meal, per ton, will be determined in the same fashion, using the soybean meal futures contract. These two futures contracts are now administered and reported by the CME Group. The monthly price paid for alfalfa hay, per ton, will be the monthly price received by farmers in the U.S. reported by USDA's National Agricultural Statistics Service (NASS). The monthly price paid for corn silage, per ton, is determined using the monthly price paid for corn, as described above, by the formula:

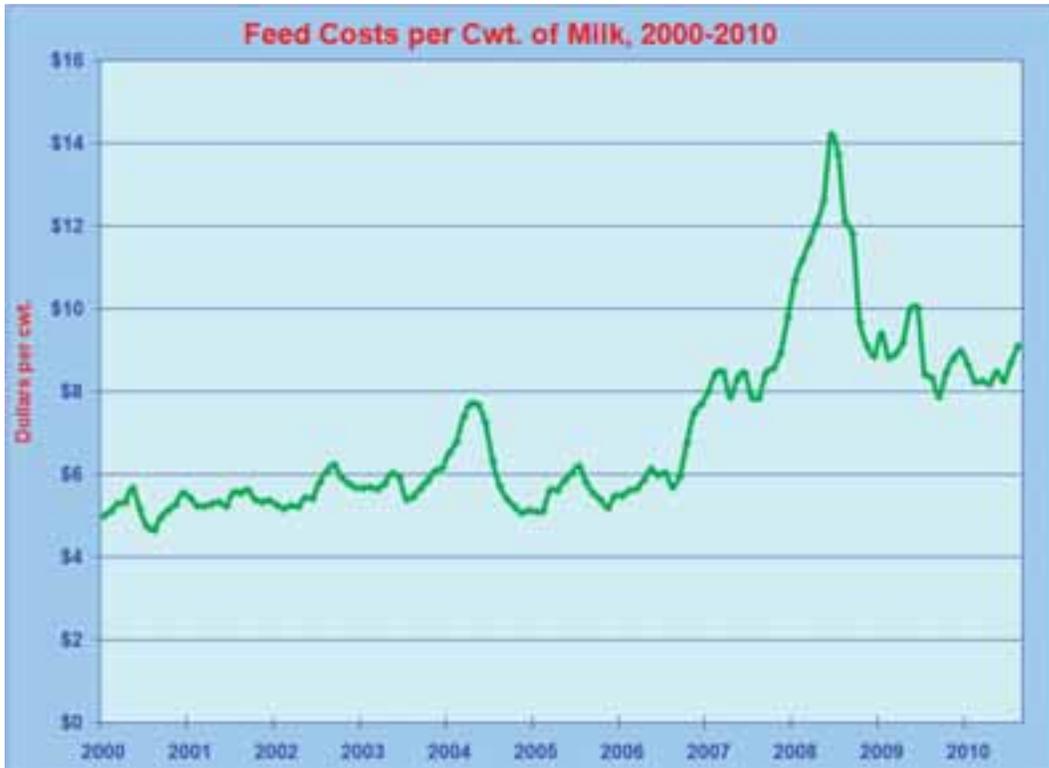
$$\text{Price of corn silage, per ton} = 10.1 \times \text{Price of corn, per bushel.}$$

The DPMPP feed cost measure can therefore be calculated using just three prices, for corn, soybean meal and alfalfa hay. The formula for this calculation is:

$$\text{Feed cost per cwt. of milk} = 1.192 \times \text{Price of corn, per bushel} + 0.00817 \times \text{Price of soybean meal, per ton} + 0.0152 \times \text{Price of alfalfa hay, per ton.}$$

Historical monthly feed costs since 2000 are shown in **Chart 3** below:

CHART 3



The role that feed costs play in the DPMPP is to capture the volatility of feed costs paid by dairy farmers, relative to an average or expected level. For this purpose, it is important that the measure used to calculate feed costs is adequately sensitive to the volatility or variability in the markets for feed components, as opposed to the actual level of these costs. For the period since 2000, the new DPMPP feed cost shows exactly the same level of variability as does the cost of feed to produce milk reported by USDA's Economic Research Service based on periodic farm survey data.

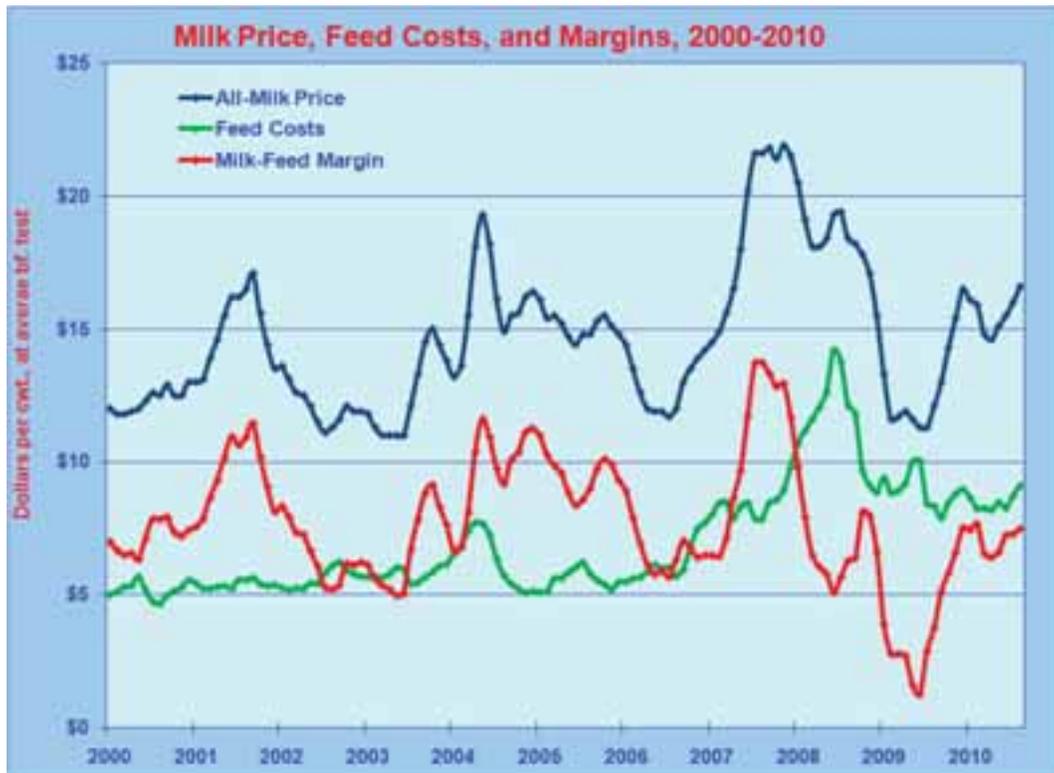
The DPMPP milk-feed margin is then determined for each month as the difference between the monthly price received by farmers for all milk sold in the U.S., the all-milk price, reported by USDA/NASS minus the monthly feed cost, as determined above. The resulting monthly margins are shown in **Chart 4** for the period since 2000, together with the monthly all-milk price and the feed costs used to determine them.

The Operation of the DPMPP

The DPMPP will provide two levels of coverage: a **base** Plan and a **supplemental** plan (both described below). The DPMPP has been created to protect producers from catastrophic or significant losses due to low margins, not to set milk prices. **Since it is an insurance program, the DPMPP is designed to cover all producers regardless of size or region.** The DPMPP is intended to be a Federal Farm Program run by local Farm Services Agencies (FSA), **not** by private insurance companies. The DPMPP will not encourage or provide support for expanded production. Support will only be provided for a historical base of milk production.

Under the program, the Congressional Budget Office (CBO) will use historical data to project future margins (defined as All-Milk price minus feed costs). The levels of protection under the program (using maximum-minimum limits) will adjust or reflect

CHART 4



the projected margin calculated by CBO to determine the **base** as well as the **supplemental** margin guarantees, subsidized premiums and, ultimately, producers' contracts for coverage.

Producers will sign up for the **base** program at no cost. In addition, they will have an option to purchase **supplemental** margin protection by paying a premium that is inversely subsidized as the level of requested level margin coverage increases. In other words, as the level of requested coverage increases, the percentage of the premium subsidized by the federal government decreases. The margin guarantees will be fixed for the duration of the Farm Bill once the producer has signed up.

USDA will calculate the **margin** on monthly basis using the actual All-Milk price for that month minus the feed costs using: (1) the current formula for determining the All-Milk price and (2) the feed costs calculated on the basis of new NMPF ration described earlier in this document. USDA will calculate the average margin for a three-month period and compare it to the **base margin** which will be predetermined by the legislation at the start of the program, as well as the **supplemental** margins for each individual producer (determined at the time the producer signed up) and calculate whether an insurance payment is necessary to the individual producer.

The Base Program

The **base** program is voluntary and is intended to address catastrophic losses only. It is, therefore, expected to be triggered rarely. The **base** program margin guarantee will be fixed at 50% of the CBO projected yearly margin, plus or minus \$1.00 depending of the level of the CBO projection. Targeting a range of plus or minus \$1.00 will guard against either over-protection or under-protection. Producers will be eligible to guarantee a fixed margin for only 90% of their production under the **base** program. Producers will have the ability to sign up for the **base** program throughout the first year of implementation of the next Farm Bill.

The Supplemental Program

The **supplemental** program is also voluntary and is intended to provide additional margin protection beyond the **base** margin guarantee. However, producers will only be able to sign up for additional coverage up to the CBO projected average margin for a specific year. As is the case with the **base** program, producers will only be able to cover up to 90% of their production under this **supplemental** margin policy. The cost of the program for an individual producer will depend on the level of margin guarantee selected by the producer and the volume of milk production to be protected.

Since this is a new concept, the producer will have a choice under the **supplemental** program to purchase additional coverage throughout the first year. The producer, however, must retroactively pay the premium for the entire first year. The producer can also choose to sign up within the first three months of the second year of the Farm Bill, but with the realization that a new CBO baseline with new projections and new market forecasts could impact the cost. The producer who signs up in the second year for **supplemental** coverage must pay a premium at least equal to that of the producer who buys **supplemental** coverage in the first year. However, as noted above, the producer signing up for **supplemental** coverage in the second year could pay more due to the change in the CBO baseline data. Once the producer signs up, the terms of coverage are fixed for the duration of the Farm Bill.

As also mentioned previously, the level of subsidy available to help pay for the premium under the **supplemental** program will depend on the level of coverage selected by the producer. The higher the margin guarantee selected (i.e. the closer to the maximum level allowed), the lower the subsidized rate for the coverage.

Under the **supplemental** program, a producer will be able to guarantee a margin beyond the **base** program (minimum) but only up to the yearly average margin established by CBO projections. As an example, **Table 3** describes the rate of subsidization of premiums if the margin guarantee under the **base** program was set at \$4.00 and the maximum level of protection is \$8.00 (according to the CBO projection). Once again it should be noted that the actual range of subsidized levels will depend on the CBO projection and funding from the budget baseline.

TABLE 3. RATES OF SUBSIDIZED PREMIUMS - EXAMPLE

	Range for Margin Levels	Level of Subsidization of Premium
Lower Margin Coverage	\$4.01 to \$4.80	60%
	\$4.81 to \$5.60	50%
	\$5.61 to \$6.40	40%
Higher Margin Coverage	\$6.41 to \$7.20	20%
	\$7.21 to \$8.00	5%

Table 4 is an example of how the premiums for **supplemental** coverage would be calculated using examples of **projected** margins, feed costs, and milk prices. Example A (below) represents a producer with 500 cows. Using an average milk production of 21,000 lbs. per cow, this would mean this farm produced 10,500,000 lbs. of milk per year. If the projected milk price was \$17.35 and the projected feed costs were \$9.35, then the projected margin would have been \$8.00. Under the **base** program (using a margin guarantee of \$4.00), the producer would have received “no-cost” coverage at a margin of \$4.00 on up to 90% of the amount of milk produced.

Continuing with this example, the producer also purchased additional margin protection under the **supplemental** program at a \$6.00 margin on 50% of his/her base (again, the base being 90% of historical production). This example yielded a premium of \$0.135/cwt. and would have resulted in an annual premium of \$7,086 each year for the life of the Farm Bill.

TABLE 4. PREMIUM CALCULATOR – EXAMPLE A

Farm Data	
Number of milking cows	500
Milk per cow	21,000 lbs./yr.
Total annual milk production	10,500,000 lbs.
CBO Projections	
Projected Milk Price	\$17.35/cwt.
Projected Feed Costs	\$9.35/cwt.
Projected Margin	\$8.00/cwt.
Base Program Coverage	
Percentage of total annual milk production covered	90%
\$/cwt. guarantee	\$4.00
Supplemental Program Coverage	
Percentage of milk covered by additional guarantee	50%
\$/cwt. guarantee	\$6.00
Percentage of Subsidy on Premium	40%
Cost of Supplemental Coverage	
Cost of subsidized premium	\$0.135/cwt.
Annual Cost of supplemental coverage	\$7086.00
Total Insurance Payout (base payout + supplemental payout)	\$141,834.00

Continuing this example, and based on actual market conditions for 2009, the producer would have received an insurance payment of \$72,742 from the **base** program. In addition, since the producer purchased **supplemental** coverage of \$2.00 on 50% of his base, the producer would have received an additional insurance payment of \$69,092

and his or her total payment for 2009 would have been \$141,834. The annual premium payment for this producer would have been only \$7086.

Table 5 is an example of the same farm, but in this situation, the producer purchased additional margin protection under the **supplemental** program at a \$8.00 margin on 50% of his/her base (the base being 90% of historical production). This example would have yielded a premium of \$0.922/cwt. and resulted in an annual premium of \$42,150 each year for the life of the Farm Bill.

TABLE 5. PREMIUM CALCULATOR – EXAMPLE B

Farm Data	
Number of milking cows	500
Milk per cow	21,000 lbs/yr.
Total annual milk production	10,500,000 lbs.
CBO Projections	
Projected Milk Price	\$17.35/cwt.
Projected Feed Costs	\$9.35/cwt.
Projected Margin	\$8.00/cwt.
Base Program Coverage	
Percentage of total annual milk production covered	90%
\$/cwt. guarantee	\$4.00
Supplemental Program Coverage	
Percentage of milk covered by additional guarantee	50%
\$/cwt. guarantee	\$8.00
Percentage of Subsidy on Premium	5%
Cost of Supplemental Coverage	
Cost of subsidized premium	\$0.922/cwt.
Annual Cost of supplemental coverage	\$42,150.00
Total Insurance Payout	
(base payout + supplemental payout)	\$210,927.00

Continuing this example, and again based on actual market conditions for 2009, the producer would have received an insurance payment of \$72,742 from the **base** program. In addition, the producer purchased **supplemental** coverage of \$4.00 on 50% of his base. Therefore, the producer would receive an additional insurance payment of \$138,185. The total payout for 2009 would have been \$210,297, while the annual premium payment would have been \$42,150.

How will CBO determine the cost of the program to the Federal government?

Margin guarantees for both the **base** and **supplemental** coverage, as well as the cost of producer premiums under DPMPP, are to be based on Congressional Budget Office (CBO) projections of future milk margins and milk margin volatilities. Each year the CBO makes 10-year projections of annual prices of milk and feed costs. Because CBO already makes projections of milk prices and dairy feed costs, CBO will be able to make projections of milk margins as defined by DPMPP.

Since it is not possible to determine in advance precisely when milk margins will be high or when they will be low, CBO tends to project annual milk margins over feed costs that are about at break-even levels. Therefore, by using CBO projections of milk margins (as defined by DPMPP) to set the maximum guarantee for **supplemental** coverage, it will be possible to make sure that dairy producers will not be able to insure their margins at a level that guarantees them a profit and not be prone to over produce as a result of the program.

CBO also knows that actual milk prices and feed costs in the future will not be equal to their projected levels. CBO accounts for future variability in prices by assigning a level of variability (price volatility) to each commodity price that they project. Accounting for variability allows CBO to project costs of programs that have trigger prices that are typically below projected price levels.

Because CBO already does this type of probabilistic (stochastic) scoring of farm programs, it will be able to project annual program costs for both **base** and **supplement** margin coverage even when CBO projects milk margins to be above DPMPP margin guarantees. For any combination of **base** and **supplemental** insurance guarantees, CBO will be able to calculate what this guarantee would cost if entirely borne by the federal government. CBO will calculate the reduction in taxpayer costs at each level of **supplemental** coverage by the amount of the premiums that dairy producers are asked to pay for **supplemental** coverage. In this way, CBO will be acting as the program's actuary.

Self-help actions taken by CWT and the Dairy Market Stabilization Program will help reduce the overall cost of all dairy programs, including the DPMPP.

OTHER IMPORTANT DPMPP SPECIFICS

Milk Base

DPMPP will not support new production. Under the DPMPP program, farmers will be able to insure a milk base. Each producer signing up for the program will have a historical milk base using the year of highest milk production from among the last three years. Any producer without a three-year production history will be allowed to use the latest monthly data, extrapolated to a full 12 months prior to the implementation of the program.

The milk base is transferable solely within the farm and/or stays with the farmer. If the farm (installation) is sold, the milk base will be transferable with the farm to the new owner. In special situations, where the farm is moving his entire operation, the farmer will be able to keep the **base** (with the old facility no longer having a **base**). Additional parameters must be in place to avoid abuses of the "farm sale/move" option. The **base** will be updated every new Farm Bill or five years, whichever comes first.

Penalties (for supplemental buyers)

Penalties must be severe to prevent farmers from opting out of the program if it is economically convenient to do so. Farmers not complying with their obligations will not be eligible to join the program again and will be required to pay back any payment received during the previous years. Exemptions will include farmer's death or full retirement (out of business for at least seven years)

New Farmers (entries)

Farmers will be allowed to enter only if they have no ownership in other dairy farms. USDA will use a Tax ID system (similar to other government programs) to verify this requirement. New entries will have to apply for coverage within six months after establishing the farm.

3. REFORM FEDERAL MILK MARKETING ORDER PROGRAM

Foundation for the Future is evaluating revisions to the Federal Milk Marketing Order (FMMO) Programs with the following objectives in mind: 1) address the inequities and the inadequacies of end-product price formulas; and 2) encourage manufacturers to produce new products resulting in higher returns both to themselves and dairy producers.

The benefits of any revisions to the FMMO program should include:

- Discovering a true market price for milk used in manufactured products rather than a price generated by a formula using thinly-traded product values;
- Eliminating end-product pricing formulas using make allowances and yield factors;
- Reducing price volatility. Analysis shows that a competitive pricing system results in less volatility than product price-driven formulas;
- Encouraging product innovation by not locking manufacturers into a minimum price based on the value of a dissimilar product.

Federal milk marketing orders have provided an important support system for dairy farmers and cooperatives by establishing consistent pricing mechanisms for milk for all uses, providing audited data on marketed milk, and helping to maintain supplies for bottlers and to compensate their suppliers. In recent years, dairy markets have become more complex and current federal orders have difficulty accommodating them. Markets have become regional and national, and now global. Pricing has become complex and linked to markets – including unregulated areas, state marketing orders and international - that are not under the control of FMMO regulation.

The 1996 Farm Bill required USDA to reform the Federal Milk Marketing Order system. The number of orders was reduced from 32 to 11, and the basis for minimum pricing in all four classes of milk moved away from the competitive pay price for grade B milk in Wisconsin and Minnesota, to product price formulas. As a result, end-product price formulas replaced milk price surveys as the basis for minimum class prices in 2000. Two distinct product price formulas (cheese and butter-powder) are used to price four Classes of milk. This pricing mechanism, it can be argued, discourages the movement of milk to the highest valued use because the pool will compensate handlers for the lower value of their output. As noted above, this problem is compounded by the Dairy Product Price Support Program with both programs serving to encourage the overproduction of lower-valued products and further distorting price relationships.

The current Class price formulas set minimum milk prices by fixing a maximum gross margin for manufacturers of the benchmark products. This creates winners and losers with the entire industry. The conflict over these formulas, between producers and processors, and even among cooperatives, has strained commercial relationships and distracted from other, potentially constructive reform efforts. Every time the make allowances must be raised, it is done through a lengthy formal rule making process. The conflicting opinions within the industry make it difficult for USDA to set market-relevant make allowances.

Another complication for participants in the FMMO system concerns their competitiveness with producers and processors in unregulated and, specifically, state-regulated markets. FMMO end-product price formulas can result in minimum milk prices that are too high relative to the unregulated markets and state orders. This creates serious competitive problems for manufacturing cooperatives in some federally-regulated markets. In addition, the de-pooling of large volumes of manufacturing milk when manufacturing milk class prices are higher than the minimum federal order blend prices is disruptive to producers and to the plants that remain in the pool.

Finally, the balancing of fluid milk supplies is a fundamental purpose of the FMMO system. FMMO's were designed to ensure adequate supplies to the fluid milk markets, primarily through minimum prices. In earlier times, local dairy markets were dominated by fluid (Class I) utilization. The primary use for milk in many of those same markets is now in manufactured products and those markets are now national and international in nature. As a result, cooperatives perform the balancing function for the fluid use in those markets and that price received by the cooperatives has become inadequate for compensating them for maintaining manufacturing plants that are under-utilized during times of the year when the demand for fluid milk for bottling is high. The pooling of Class I values often results in fluid market suppliers who are inadequately compensated for the burden of balancing fluid milk markets. Overall, these provisions are generally inadequate for many of the cooperatives who provide the most crucial balancing services to their markets.

For all of the reasons above, the markets have evolved, but the federal orders haven't kept pace with changing marketplace conditions. This is straining the system to the breaking point, and sooner or later, without reform, dairy farmers will question the relevance of FMMO and reevaluate the benefits of the FMMO system.

As stated previously, the FMMO's also provide other tangible benefits such as auditing milk plant use data. This service not only provides important statistical information to the entire market; but it also provides important third party verification of specific marketing information between cooperatives and their proprietary customers. Foundation for the Future recommends maintaining the basic framework of the FMMO system.

The goal of Foundation for the Future's Federal Milk Marketing Order Reform effort is to develop a milk pricing system that compensates producers fairly, reduces price volatility, does not impact individual producer component pricing or quality premiums and creates a more dynamic dairy industry.

As a result, revisions to the Federal Milk Marketing Order program presently being evaluated include the following:

- **Maintain a minimum price for Class I price with no change in differentials using a new Class I mover which is a national weighted average of advanced Class III competitive pay prices.**

- Maintain a minimum Class II price which would be the national weighted average of advanced Class III competitive prices plus a 30 cent differential.
- Institute a new Class III price that would be a competitive pay price and no longer be maintained as a minimum price. The competitive pay price would be based on regional surveys of both regulated and unregulated proprietary cheese plants processing a minimum of 500,000 pounds of milk a day and covering all varieties of cheese.
- Maintain a minimum Class IV price using the present formula with the addition of an indexing feature for energy costs.
- Establish the lowest regional competitive Class III price as the pool draw base.
- Fund balancing/transportation pools from Class I processors as a result of eliminating the “higher of” feature as the Class I mover.

4. ESTABLISH DAIRY MARKET STABILIZATION PROGRAM

Foundation for the Future is recommending the establishment of a Dairy Market Stabilization Program (DMSP) in order to address and prevent extreme margin volatility for dairy producers by sending strong and timely signals to producers that a small percentage of additional milk production may have significant consequences on their overall margins. The DMSP is intended to absorb some of the market shocks that this volatility may cause. The DMSP has been designed to act swiftly, but infrequently, to address brief imbalances in the market. The program will work in conjunction with the Dairy Producer Margin Protection Program (DPMPP). DMSP is compatible with our WTO obligations.

The U.S. dairy industry has been actively increasing its global participation, and with this increased interaction with global markets, exposure to greater price volatility will be more likely. Some of the key principles that guided the development of the DMSP are as follows:

- Allow for production growth. The program is intended solely to intervene in the market to address temporary imbalances between supply and demand. The program will send clear economic signals to producers that there is an imbalance in the marketplace.
- Reduce margin volatility. The program’s ultimate objective is to restore balance between supply and demand in the marketplace for milk. By encouraging producers to lower their milk marketings at appropriate times, prices should rise, thus improving margins.
- Keep government intervention at a minimum. The legislation establishing the program will set the parameters that put it into effect, but such legislation will also allow for USDA to provide additional analysis, if necessary. It does not require the establishment of a producer advisory board to determine when the program would “trigger in” and to what extent.
- Not encourage imports or negatively affect exports. Global and USA markets must maintain a strong correlation. Such correlation will allow domestic inventories to clear faster, encourage exports, discourage imports, and help assure that market downturns are of shorter duration.

Margin as the Trigger Mechanism for DMSP

As in the case of the DPMPP, the DMSP will be based on margin (All-Milk price minus feed costs). After extensive analysis and review of state, regional and national data, it has been determined that the All-Milk price is the most appropriate and accurate measure for use in development of the margin. The new feed cost ration developed for

the DPMPP will also be used in the feed cost formula for this program; hence the actual margin will be determined each month using the same methodology as the Dairy Producer Margin Protection Program.

Program Operation

USDA will calculate the monthly margin for both the DPMPP and the DMSP using identical methodology. The margin trigger levels for the DMSP will be set as follows:

- When the actual national margin is below \$6.00 for two consecutive months, producers will receive payment for 98% of their base milk marketings and be subject to a maximum reduction in payment equal of 6% of current milk marketings;
- When the actual national margin is below \$5.00 for two consecutive months, producers will receive payment for 97% of their base milk marketings and be subject to a maximum reduction in payment equal of 7% of current milk marketings;
- When the actual national margin goes below \$4.00 in a single month, producers will receive payment for 96% of their base milk marketings subject to a maximum reduction in payment equal of 8% of current milk marketings.

As noted above, the DMSP program would only go into effect when the actual margin is below the margin trigger level for two consecutive months, except that the program would go into effect if the national margin goes below \$4.00 per hundredweight in a single month. Conversely, if the actual national margin exceeds the \$6.00 trigger level margin for two consecutive months, the DMSP program will be discontinued.

Producers whose milk marketings in a given month are less than the required percentage of their base milk marketings serving as the basis of payment when the program is in effect would not be subject to a reduction in payment. (See examples on page 24).

Bases to be used in the DMSP

The specified percentage of base milk marketings which will serve as the basis of payment when the program is in effect will be calculated off the producer's base. The producer's base is defined as a rolling three-month average of the most recent of milk marketings prior to the notification from USDA that the margin trigger level has been reached. Using a three-month rolling average will allow for expansion when needed. An example of a three-month rolling average would include the average of marketings for January, February, and March for a program to be implemented in May. Similarly, the average of marketings for February, March, and April would be the three-month rolling average for a program to be implemented in June. There is concern that if the base is not constantly updated, the program could stifle needed growth in the industry which was one of the key principles mentioned earlier in this document. **To address any conditions specific to individual operations (e.g., seasonality or grazing), a producer will have the option of choosing the same month in the previous year as his/her base, making the selection annually.**

Preventing an Influx of Dairy Product Imports

When domestic prices are significantly higher than world prices, conditions are ripe for an influx of imported dairy products. Therefore, if either of the US prices for cheddar cheese or skim milk powder (SMP) is 20% - 30% higher than the world price for the applicable commodity for a period of two consecutive months after the DMSP has been implemented, DMSP will be discontinued unless the national average margin is below \$4.00. In this case, conditions would be such that even if the world prices for cheddar cheese or SMP 20% - 30% are below the US price, the implementation of the DMSP would continue.

The following program examples explain how the program is intended to work:

Scenario - The average margin for two months February and March 2010 is below the set margin trigger level of \$6.00. As a result of the margin falling below \$6.00 for two consecutive months, producers will be notified at the end of March 2010 that beginning with May 2010 milk marketings, they will receive payment for 98% of their base milk marketings (in this example January 2010 through March 2010) but will be subject to a maximum payment reduction equal to 6% of current milk marketings. For purposes of this example, assume the pay price for the month of May is \$14.00/cwt.

- **Producer A** whose three-month rolling average base milk marketings is 1,000,000 lbs. and markets 1,010,000 lbs. in May will be paid for 980,000 lbs. of milk (1,000,000 lbs. times 98%). The DMSP deduction from his milk check for May is 30,000 lbs. (1,010,000 lbs. minus 980,000 lbs.) X \$14.00/cwt. = \$4,200.
- **Producer B** whose three-month rolling average base milk marketings is 1,000,000 lbs. and markets 1,200,000 lbs. of milk in May. The difference between 98% of his base (980,000 lbs.) and current milk marketings is 220,000 lbs. while 6% of his May milk marketings is 72,000 lbs. Therefore, the quantity of milk the producer is not paid for is the maximum, 6% of current milk marketings. The reduction in his milk check would be 72,000 lbs. X \$14.00/cwt. = \$10,080.
- **Producer C** also has a rolling average base of 1,000,000 lbs. and his milk marketings are 979,000 lbs. in May. This producer would have nothing deducted from his milk check since milk production in May is below the required 98% of his base (980,000 lbs.) serving as the basis of payment. However, if this producer's June marketings were 989,000 lbs. (and, therefore 98% of his, base), he would still incur a reduction in his milk check since his June marketings exceeded the required 98% of base serving as the basis of payment.
- **Producer D** is a producer who chooses the option of the same month in the previous year as and his base milk marketings were 1,000,000 lbs. in May 2009 and markets 1,010,000 lbs. in May 2010. He will be paid for 980,000 lbs. of milk (1,000,000 lbs. times 98%). The DMSP deduction from his milk check for May is 30,000 lbs. (1,010,000 lbs. minus 980,000 lbs.) X \$14.00/cwt. = \$4,200.

Administration of the Program

The DMSP will cover all producers in all markets and is intended to be a government program administered by the Agriculture Marketing Service (AMS) of USDA. Monies will be collected by the AMS using the same framework used to collect the dairy promotion checkoff monies and will apply to all milk marketed with no exemptions. The USDA will announce that the DMSP is being implemented 30 days in advance of the month in which the reduction in milk payments goes into effect. There is no need for a producer advisory board and the trigger mechanism will be statutorily mandated to go into effect without USDA sanction when certain pre-determined economic conditions occur. The Secretary would have limited discretion to address unique situations which would be specified in the new legislation. However, after the program has been fully implemented for one year, USDA may, if requested, conduct a producer referendum to determine continuation of the program for the balance of the Farm Bill.

How the Monies will be Collected and Managed

The purpose of the monies collected via milk check deductions under the DMSP is to effectively stimulate the consumption of dairy products both domestically and internationally. To oversee and direct the utilization of these producer monies into programs that will effectively work to increase the consumption of U.S. dairy products, it is proposed that a DMSP Board be established. The composition of the DMSP Board

(DMSPB) shall be representative of both a broad geographical spectrum of producers and coop representatives and the volume of milk upon which the monies are collected. The sole purpose of the DMSP Board is to determine the most effective use of monies collected under the DMSP. A non-exclusive list of examples of programs for consideration by the DMSPB is as follows:

- Purchasing dairy products for food assistance programs (i.e. Food Banks, WIC)
- Augmenting the use of dairy products in school nutrition programs
- Promoting and encouraging exports of dairy products
- Developing and encouraging product innovation and new uses for dairy products

The programs funded by the DMSP should be compatible with, but not duplicative of, the programs established by the dairy checkoff program and should adhere to the principle of expanding sales without cannibalizing existing sales. The DMSPB would have the authority to contract with a managing entity for execution and implementation of its objectives.

Voluntary Sales Assistance Program (VSAP)

The second element to help stabilize markets will expand on the present Export Assistance program of Cooperatives Working Together (CWT) program in an effort to boost global demand for U.S. dairy products by establishing a Voluntary Sales Assistance Program. There would be no government involvement in this program.

The program would function similarly to the present CWT program and be operated by NMPF, under the auspices of the CWT Committee, as presently organized. The program would continue to be directed by a committee made up of member cooperatives and representatives for independent producers who voluntarily contribute to the VSAP. Bids would be considered based on the level of assistance requested, and if the product to be exported, and the market in which it will be sold, meet the parameters of the CWT strategic business plan. A new initiative would provide financial assistance to members on a bid basis that would allow them to provide a domestic dairy product alternative to imported dairy products such as casein and caseinates.

ATTACHMENT 1

2009 NMPF Strategic Planning Task Force

Chairman: Randy Mooney*

Jim Baird	Lone Star Milk Producers
Adrian Boer	Northwest Dairy Association
Jay Bryant	MD & VA Milk Producers Coop Assn., Inc.
Richard Cotta**	California Dairies, Inc
Rod DeJong*	Northwest Dairy Association
Clint Fall	First District Association
Dave Fuhrmann*	Foremost Farms USA
Thomas Gallagher	Dairy Management, Inc.
Bobby Hall	Upstate Niagara Cooperative, Inc.
Pete Kappelman	Land O'Lakes, Inc
Cornell Kasbergen*	Land O'Lakes, Inc
Mike McCloskey*	Select Milk Producers, Inc
Ralph McNall	St. Albans Cooperative Creamery, Inc.
Keith Murfield	United Dairymen of Arizona
David Newhouse	Farmers Cooperative Creamery
Ken Nobis*	Michigan Milk Producers Association
Doug Nuttelman	Dairy Farmers of America, Inc
Wayne Palla	Dairy Farmers of America, Inc
Neal Rea	Agri-Mark
Clyde Rutherford*	Dairylea Cooperative, Inc.
Tom Suber	U.S. Dairy Export Council
Paul Toft*	Associated Milk Producers, Inc.
John Wilson	Dairy Farmers of America, Inc
Joe Wright	Southeast Milk

* Denotes NMPF Officers

** CWT Coop Member Only

ATTACHMENT 2

Foundation for the Future Subcommittees

Dairy Market Stabilization Chairman Wayne Palla, DFA

Adrian Boer	Northwest Dairy Association
Jay Bryant	MD & VA Milk Producers Coop
Richard Cotta	California Dairies, Inc.
Cornell Kasbergen	Land O'Lakes, Inc.
Gene Paul	National Farmers Organization
Neal Rea	Agri-Mark
David Scheevel	Foremost Farms USA
Tom Suber	U.S. Dairy Export Council

Dairy Producer Margin Protection Chairman Ken Nobis, Michigan Milk Producers Association

Clint Fall	First District
Ed Gallagher	Dairylea Cooperative, Inc.
Pete Kappelman	Land O'Lakes, Inc.
Doug Nuttelman	Dairy Farmers of America, Inc
Tom Thompson	United Dairymen of Arizona
Joe Wright	Southeast Milk
Consultant:	Bruce Babcock - Iowa State University

FMMO Chairman Dave Fuhrmann, Foremost Farms

Jim Baird	Lone Star Milk Producers
Neil Gulden	Associated Milk Producers, Inc.
Mike McCloskey	Select Milk Producers
Keith Murfield	United Dairymen of Arizona
Jim Sleper	Land O'Lakes, Inc.
Rich Stammer	Agri-Mark
Jim Wegner	Northwest Dairy Association
Greg Wickham	Dairylea Cooperative, Inc.
John Wilson	Dairy Farmers of America, Inc

ATTACHMENT 3

Groups Presenting Proposals/Policy Statements at the
NMPF Strategic Planning Task Force on July 20-21, 2009 Meeting:

American Farm Bureau Federation

Dairy Farmers Working Together

Holstein Association

Milk Producers Council

National Farmers Organization

National Farmers Union

Western United Dairymen

ATTACHMENT 4

List of Industry Feed Ration Experts and Nutritionists

Development Team:

Steve Watrin	Land O'Lakes, Inc.
Ed Gallagher	Dairylea Cooperative, Inc.
Dr. Gordie Jones	Veterinarian – Farmer- Nutritionist

Reviewed by:

Dr. Mary Beth Hall PhD	USDA Forage Center
Dr. Terry Howard PhD	University of Wisconsin (retired)
Dr. Mike Hutjens PhD	University of Illinois
Dr. Randy Shaver PhD,	University Of Wisconsin
