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## **Redefining the Roles of Government, Industry, and Producers in a Changing Environment: Fair Oaks Dairy**

In July 2009, the United States Department of Agriculture (USDA) announced a temporary increase to the nation's dairy support prices (Exhibit 1). On October 1, Cooperatives Working Together (CWT), an industry supply management initiative, announced their third herd retirement of 2009 (Exhibit 2). On December 17, the USDA announced a \$290 million aid package to the dairy industry (Exhibit 3). These actions were taken in the midst of a major industry adjustment resulting in low milk prices and significant losses among most of the nation's dairymen (Exhibit 4).

The dairy industry experienced unprecedented volatility over the past 12 months—the continuation of a trend begun over a decade earlier (Exhibit 5). The average earnings of dairymen plummeted from being extraordinarily profitable to dismally unprofitable. Financial hardship among the nation's dairymen was gaining the attention of not only the nation's producers, but also the industry's financiers, feed suppliers, academics, and politicians. (Exhibits 6 and 7 provide typical dairy income statements for the first six months of 2009 and projected income for 2010). The recent lull in dairy prices, now in its ninth month, revived discussions over stabilizing milk prices or dairymen's income to avoid the boom and bust cycles increasingly characteristic of the industry. It also resurfaced a debate that has gone on for decades: what are the roles of the individual, the industry, and the government in managing supply and price volatility in agriculture?

In a way, the dairy industry discourse reflects the national debate on the roles of the three entities in the general economy. For agriculture, the underlying assumption is that government intervention is important to assure a secure, stable, and reasonably priced food supply, which in turn, is a prerequisite for political stability. But has the dairy industry pushed this argument beyond its merits? Has government intervention gone too far?

Free-market advocates argue that the array of innovative risk management tools available today allow dairymen to effectively manage volatility and cyclicity themselves. Those in favor of industry self-regulation point to the success of the CWT program at removing excess cows in response to weak milk prices. But the jolting nature of current industry losses has many looking to the government

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This case study was prepared by Kenneth McCorkle, executive vice president, Agricultural Industries, Wells Fargo Bank, as a basis for class discussion and represents the views of the author, not the university. The author would like to thank Tim den Dulk, president and chief executive officer of Fair Oaks Dairy Farm, for participating in this case. No part of this publication may be reproduced or transmitted in any form without written permission from Purdue University.

for solutions. The industry has a long history of reliance on government price supports to provide a safety net during periods of excessive supply. Is continued, if not greater, government intervention the answer to today's industry woes? Or, is this an opportunity for the industry to free itself from government intervention that some argue exacerbates supply problems? What adjustments to U.S. dairy policy, to industry-sponsored programs, and to individual risk management practices are helpful to assure a healthy dairy industry through the 21st century?

## **Tim den Dulk and Fair Oaks Dairy**

Tim den Dulk is an innovative, successful Midwestern dairyman with facilities in Michigan, Indiana (Fair Oaks Dairy), Ohio, and Wisconsin. His operations include nine dairies, totaling more than 30,000 milking cows; large-scale farming operations adjacent to each dairy facility; and a grain-handling company. In the 1990s, Tim moved from California's Central Valley to the Midwest, recognizing the opportunity to benefit from establishing large, efficient dairies in the Corn Belt, growing much of his own feed, supplying fluid milk to the Midwestern and Southeastern United States, and managing margins through forward contracting, hedging, and options. To market their milk, Tim and his partner, Mike McCloskey, were instrumental in founding Continental Milk Products, a cooperative that sells its members' milk to Southeast Marketing Agency, a group of cooperatives that supplies the majority of Class I milk to the Southeast. Throughout the latest depressed phase of the dairy cycle, Tim's operations have remained profitable.

In early September 2009, Tim decided to take a more active role in influencing public dairy policy. As a national industry leader with a strong vested interest in sound government policy, he applied to and was selected for a position on the new Dairy Industry Advisory Committee, which was created by the Secretary of Agriculture. To prepare for this new role, Tim reviewed current and proposed tools that the government, industry, and dairymen could use to address milk price volatility and supply issues. From this review, he hoped to: (1) clearly define the industry's immediate and longer-term challenges, (2) identify appropriate objectives of national dairy policy, and (3) clarify the roles each entity—the individual dairyman, the industry, and the government—should play in meeting these challenges.

Specifically, Tim pondered the following programs and risk management tools, some of which were in place and some of which were proposals, to see how they might fit together to form the basis for a healthy, responsive industry.

1. Government Programs
  - a. Federal Milk Marketing Orders
  - b. Dairy Price Support Program
  - c. Milk Income Loss Contract Program
  - d. Tariff Rate Quota Program
2. Industry Programs
  - a. Cooperatives Working Together
  - b. Dairy Farmers Working Together
  - c. Growth Management Plan

### 3. Individual Dairy Opportunities

- a. Hedging
- b. Options
- c. Cash Forward Contracting
- d. Livestock Gross Margin Insurance for Dairies

Other proposals were in various stages of discussion. The National Farm Coalition was lobbying for an \$18/cwt emergency floor price for milk. Dairymen in several states were requesting bailouts from the federal government's 2009 stimulus/spending bill. The House and Senate had each passed a version of a \$350 million Dairy Aid Package, the details of which were under negotiation. In December, they announced a compromise bill, the Dairy Economic Loss Assistance Program, which would provide \$290 million in aid (approximately \$0.32/cwt to eligible producers). The National Farmers Union was calling for an updated support price to reflect cost of production increases, tariffs on imported dairy solids, and some form of federal milk inventory management program. Senator Charles Schumer of New York had introduced legislation to create a tariff rate quota program on foreign dairy proteins.

Tim recognized that this flurry of activity was not good for the industry, nor was its timing. Taxpayers were becoming increasingly leery of a spendthrift Congress; taxpayer revolts and modern day tea parties were erupting across the nation. Congressional approval ratings were near record lows. Being categorized with the growing list of industries bailed out by big government was not desirable. He hoped he could devise proposed roles for each party that would permanently eliminate the need for government bailouts.

Tim also recognized that any suggestions for changing the three parties' existing roles would require the consideration of many factors, including:

#### *Industry structure*

The domestic dairy industry consists of a wide variation in dairy sizes, from less than 100 head to more than 30,000 head. Since smaller dairies tend to be concentrated in individual states with political influence, any changes to policy would necessarily need to consider the interests of both small and large dairymen. The nation's dairies vary not only in size, but also in cost structure, distance from processor, and products produced from milk delivered. These differences could impede efforts to build industry consensus for change.

#### *Regional differences*

The U.S. dairy industry has become increasingly diverse over the years, with each region vying for an advantage. Over the past few decades, the Western states have enjoyed such compelling advantages that these regions have grown with little regard for their impact on alternative regions. However, as grain prices and transportation costs have increased, the Western states are losing some of these advantages, while Midwestern regions are benefiting. Thus, the industry's interests are increasingly divided by region.

#### *Historical government price support*

The domestic dairy industry has operated with a government-supported price safety net for 60 years. The purpose of this safety net has been to assure the consumer a reliable supply of

affordable milk and milk products. This price support was designed to cushion the financial blow during the depressed phase of the pricing cycle.

#### *Global markets*

The recent exposure of American dairies to the global economy has proven to exacerbate industry cyclicalities.

#### *Technology*

A key technological breakthrough—the availability of sexed semen—is improving dairymen’s ability to rapidly expand cow numbers in response to high milk prices (Exhibit 8).

As a large, successful player in the industry, Tim knew his voice would be influential in his new role. He had succeeded in the dairy industry, as currently regulated, by developing a highly efficient, low-cost production capability, adopting and implementing appropriate margin management tools, and serving the fluid milk needs of the higher-priced Southeast and Midwest markets. Certainly, more stable milk prices were easier to manage than the wildly fluctuating conditions that now characterized the industry. But how much freedom should dairymen give up to achieve greater stability? What combination of government, industry, and individual programs is the best solution to the industry’s woes? Does this combination address the right problem without creating unintended and undesirable consequences? What should Tim propose to the industry and to the Secretary of Agriculture?

## **U.S. Dairy Industry**

The U.S. dairy industry is largely a production-driven, commodity business where low cost per unit production/distribution is a key success factor. Approximately 30 percent of the milk supply is consumed as fresh, fluid milk (Class I). Despite significant regional production cost differences, milk is produced in every state partially to meet local fluid milk demand because: (1) U.S. consumers demand fresh rather than reconstituted milk for drinking; (2) fluid milk is perishable; and (3) fluid milk is expensive to transport (milk is nearly 90 percent water). While regional milk production generally meets regional consumers’ needs, some areas, notably the Southeastern United States, import a significant portion of their fluid milk supply from outside.

The other 70 percent of the nation’s milk supply is processed into a wide variety of dairy products, including yogurt and cream cheese (Class II milk), cheese and whey (Class III milk), and butter and non-fat dry milk (Class IV milk). Since these products are typically less perishable and more concentrated in value, thus less costly to transport, they are often produced near low-cost production regions where the combination of the milk price and transportation cost can be optimized. As a result, a high percentage of milk produced in lower-cost dairying regions, such as California, Idaho, New Mexico, and Wisconsin, is used for Class III and Class IV products, while a high percentage of milk produced in high-cost regions, such as the Northeast and Southeast, is used for Class I and Class II products.

The dairy industry’s production sector consists of approximately 9.2 million cows on about 80,000 dairy farms located in all 50 states with concentrations in California, Wisconsin, New York, Pennsylvania, Idaho, the upper Midwest, New Mexico, and Texas (Exhibit 9). The top 20 states,

each with more than 100,000 cows, constitute 84 percent of the nation's herd. The nation's dairies produce nearly 190 billion pounds of milk per year.

For three decades, Western states, particularly California, Idaho, and New Mexico, have increased their share of the nation's cow herd at the expense of the large Midwestern and Northeastern states. But water and regulatory constraints (including environmental restrictions) have been curtailing growth in Western states (particularly California) for the past decade. Midwestern states, such as Indiana and Michigan, have been the beneficiaries of growth opportunities.

Like most of agriculture, the dairy industry has become progressively more concentrated as fewer, larger dairies produce an increasing percentage of the nation's milk supply. In 1998, smaller dairies (less than 200 head) produced 53 percent of the supply. By 2008, these smaller dairies produced only 28 percent. Conversely, larger dairies (more than 2,000 head) that produced only 8 percent of the nation's milk in 1998, produced 46 percent by 2008 (Exhibit 10). This trend, while dramatic, has lagged behind the concentration of other sectors in the livestock industry, such as poultry, hogs, eggs, and cattle.

As a commodity business, the dairy industry consists of dairymen focused primarily on low-cost production. Low cost has been achieved through economies of scale from dairy expansion, improved herd genetics resulting in continued growth in milk per cow, linear programmed feed rations maximizing milk output per dollar of feed cost (feed cost represents 50 percent to 60 percent of total dairying costs), and application of technologies including rBST and sexed semen. (Over the past few years, food retailers' rejection of rBST, a hormone injected into cows to increase milk production, has caused the general decline in the use of this technology in the United States.) Thus, the nation's dairymen have a long history of adopting technology to decrease production cost and to push milk production per cow upward, a trend that has continued through the past decade (Exhibit 11).

After years of relative feed and transportation cost stability, the dairy industry was shocked in 2007–2008 when grain and oilseed prices rocketed to historic highs concurrent with the rising cost of transportation (Exhibit 12). Causes of this new volatility include: (1) the government's mandated fuel use of corn-based ethanol effectively linking corn prices to oil price volatility, (2) increased exposure of commodity prices to global economic growth, and (3) speculative investment in commodities. Many economists predict a future of increased price volatility for feed grains, as well as energy costs.

The rapid rise in feed and transportation costs had dramatic impacts on the U.S. dairy industry. First, it disrupted the regional advantage Western dairying states had enjoyed for years. Western dairy growth was fueled by the availability of inexpensive grain delivered to local markets. When grain prices and transportation costs rose, the Midwestern states benefited. Secondly, high grain prices led to the breakdown of the traditional Western dairy model of ownership of many cows on as little (expensive) land as possible. Suddenly, those with significant low-cost land holdings were in a position to grow a higher percentage of their own feed, which provided a cost advantage over those with limited land. Finally, high, volatile feed costs significantly increased the risk profile of the dairy industry. Historically, the industry's primary risk factor was milk price volatility, but suddenly feed cost volatility became of equal importance.

## 2006–2008 Export Market Growth

Through 2005, the U.S. milk market was largely domestically focused. Total milk product exports constituted less than 5 percent of domestic production. This inward focus was attributable to low-cost production in New Zealand and Australia, subsidized exports from the European Union (EU), and a domestically supported price that reduced U.S. competitiveness internationally. However, beginning in 2006, U.S. milk exports began to grow rapidly. Drought-curtailed production in Australia and New Zealand, global milk shortages, a weakened U.S. dollar, and rapid growth in demand from developing countries all coincided and opened unprecedented growth opportunities for dairy product exports. Indicative of the global milk shortfall, the EU announced on June 14, 2007, its decision to eliminate all dairy product export subsidies.

By 2007, the U.S. dairy industry had expanded to meet this new demand; exports were consuming 10 percent of domestic milk solids production. The world markets had sent economic signals to U.S. producers that a greater supply was needed, and U.S. dairymen had responded. (In retrospect, some dairymen believe this “new” demand was more perceived than real as exports to China and Southeast Asia did not reach forecasted levels.)

The timing of these new export markets was particularly important. On December 19, 2007, President George W. Bush signed into law the 2007 Energy Bill, which mandated that a rising percentage of the nation’s fuel be bio-fuels, and that initially, corn-based ethanol would fulfill most of this mandate. Speculation that such government action was coming set off an ethanol-plant building spree throughout the Midwest and beyond. As ethanol consumed a rising percentage of the corn crop, this government mandate effectively tied corn prices to oil prices. When oil prices soared in 2008 to \$140/bbl, corn prices followed, peaking at more than \$7/bushel in 2008. Seven dollar corn versus its historically stable average of just more than \$2/bushel dramatically changed the cost structure of the average dairyman.

Unfortunately, all the factors contributing to demand growth in 2006–2008 reversed themselves by early 2009. A global recession demonstrated just how income elastic many of these new markets were—lower income quickly translated into lower demand. Drought conditions in New Zealand and Australia ended, and both countries quickly ramped up production to benefit from strong global dairy product prices. The EU reinstated its export subsidies to help alleviate its growing dairy product surplus. And, the U.S. dollar strengthened, making U.S. dairy exports less competitive.

All of these factors reduced demand for American dairy product exports, creating an almost immediate excess domestic supply. For milk, with a highly inelastic domestic demand, a 5 percent increase in supply had a nearly 50 percent negative impact on the milk price. The national all-milk price plunged from more than \$20/cwt to \$11.30/cwt within months. Despite natural attrition and CWT-induced herd reductions, milk prices remained depressed. Even the steep drop in feed grain prices was insufficient to keep dairies profitable.

Such turbulent times forced dairymen to reassess their assumptions and business practices, ultimately, seeking alternative strategies beyond focusing strictly on low-cost production. Some of the more successful dairymen combined their tight cost control with an emphasis on milk marketing. For example, some dairymen created supply relationships with regional cheese manufacturers

focusing on improving the processor's procurement logistics. Large cheese manufacturers benefit from purchasing several truckloads of milk per day from a single dairy in close proximity to the plant rather than sending trucks long distances that require multiple stops to fill each truck.

Another successful strategy dairymen increasingly adopt is the use of combinations of corn, soybean, and milk futures, options, and forward sales contracts to manage commodity price volatility, locking in profits during favorable phases and minimizing losses during unfavorable phases of the cycle.

## **Government Regulation, Industry Self Regulation, and Individual Discipline**

The U.S. dairy industry is among the most intricately government-regulated industries in American agriculture. Through a system of marketing orders, price supports, direct subsidies, and import restrictions, the government attempts to maintain a degree of industry stability. Within this framework, the industry and dairymen have adopted programs to address supply, price, and income issues. Current and proposed programs are described below:

### ***Government Programs***

#### *Federal Milk Marketing Orders*

Federal Milk Marketing Orders have been part of the dairy industry for more than 70 years. The three objectives of these orders are: (1) to assure consumers an adequate supply of fluid milk at reasonable prices, (2) to promote producer price stability and orderly marketing, and (3) to provide adequate producer prices to assure sufficient current and future milk supplies. The orders achieve these objectives by ensuring that dairy farmers within a given geographic region are paid relatively uniform prices for their product.

A Federal Milk Marketing Order is a regulation issued by the U.S. Department of Agriculture that requires the buyer, or handler, of fluid milk to perform certain functions. Fluid milk handlers must pay dairy farmers not less than a certain minimum price for their milk, depending on how that milk is used. Milk going into bottled form is valued at the highest level; milk used for soft goods, such as ice cream and yogurt, is assessed at an intermediate value; and milk used for hard goods, e.g., cheese, butter, and skim milk powder, is valued at the lowest level. A federal order requires that payments to farmers within that particular area be pooled, so that even though one farmer's product may be bottled and another's made into cheese, they each are paid the same uniform price, called the blend price.

Currently 10 regions representing 67 percent of U.S. milk production are regulated by a Federal Milk Marketing Order. Those regions of the country that aren't subject to a federal order may have a state milk marketing order (e.g., California) or operate under no marketing order (e.g., Idaho). The price that farmers are paid varies monthly and is based on supply and demand forces affecting the marketplace. Federal orders are not meant to shield dairy producers from the swings in the marketplace. Rather, they are a means of ensuring a degree of fairness among producers within a specific geographic region.

### *Dairy Price Support Program*

Since 1949, the federal government, through the USDA, has supported the price of milk through its standing offer to purchase excess milk at set prices in three forms of storable product: nonfat dried milk (NFDM), butter, and cheddar cheese. At the current support prices of butter (\$1.05/lb), NFDM powder (\$0.80/lb), and cheese (\$1.13/lb), the support price equates to \$9.90/cwt of milk back to the dairymen. On July 31, 2009, the support price was temporarily raised approximately 15 percent by increasing the USDA offer price for NFDM and cheese. This new support price structure was to cover the months of August, September, and October 2009, in an attempt to ease the pressure on the nation's dairymen. Legislators and industry officials were in discussion to make this increase permanent or increase it further.

The dairy price support program was originally designed to assure an adequate supply of milk. However, the program has been misused or misapplied on multiple occasions by policy makers. During the late 1970s, Congress raised the support price above market clearing levels without an adequate supply control mechanism that resulted in a rapid expansion in milk production. Five years of bad policy required 10 years to correct. During the 1980s, the dairy program set fixed relative prices for butter, powder, and cheese. Without the flexibility to adjust to market conditions, the government became the primary market for NFDM during much of this period. While government supplies of NFDM grew, demand for milk protein was filled by cheaper substitutes—imported casein and whey solids. During the 1990s, the government purchase price for butter dictated the price for butter fat. Though consumer demand for butter fat was declining, the support price was encouraging butter fat production; thus, government stockpiles of butter ballooned.

Unfortunately, experience suggests the lessons from the examples above are soon forgotten, and mistakes are repeated. Some believe the program remains significantly flawed by design. In addition to the deficiencies noted above, the program can distort global trade by keeping U.S. milk prices higher than global milk prices. Though dairy production represents 11 percent of all U.S. farm receipts, the dairy price support program accounts for more than 30 percent of permitted trade and distorts support under World Trade Organization rules.

The USDA's management of the dairy price support program is another contentious issue. It manages the government-owned dairy products resulting from the program for multiple purposes. The USDA is not required to minimize costs, so it can choose to sell these commodities back into commercial markets or donate them domestically or internationally.

### *Milk Income Loss Contract Program*

The Milk Income Loss Contract (MILC) program is primarily designed to assist small dairymen. It provides financial assistance to dairymen when milk prices fall below a specified level on the first 2.985 million pounds of milk produced (about 145 cows) so long as their total adjusted gross income is less than \$500,000. Unlike the dairy product support price, MILC payments are given directly to qualifying dairymen and adjusted monthly for changes in feed cost and fluid milk prices. For large dairymen, this payment is insignificant or non-existent.

### *Tariff-Rate Quotas*

Tariff-Rate Quotas (TRQs) restrict imports of various products by imposing limits to the amount of each product that can be imported at favorable tariff rates. The Dairy Tariff-Rate Import Quota



Licensing Regulation, under the authority of the Secretary of Agriculture, provides for the issuance of licenses to import certain dairy products under tariff-rate quotas. Dairy products subject to TRQs may only be imported into the United States at the low-tier tariff by firms holding these licenses and only under the terms and conditions of the regulation. Each license authorizes the license holder to import a specified quantity and type of dairy product from a specified country of origin.

The importation of nearly all milk products is subject to TRQs with two noticeable exceptions: milk protein concentrate (MPC) and casein. MPC and casein are relatively new commercial milk products with rising global demand. As of December 2009, congressional bills to bring these products under the TRQ program were under discussion.

### ***Industry Programs***

#### *Cooperatives Working Together*

Since 2003, the 70 percent of dairymen belonging to cooperatives have implemented a voluntary check-off system whereby each participating dairyman is assessed \$0.10/cwt of milk produced. This assessment primarily goes to fund a dairy herd buyout program at times when milk prices are depressed and herd reduction is deemed necessary. Cooperatives Working Together (CWT) solicits bids from the industry—the price at which bidding dairymen are willing to liquidate their herds, agree to idle their facility, and not to re-enter the dairying business for a specified period. CWT funds may also be used to subsidize dairy product exports.

#### *Dairy Farmers Working Together*

Since the CWT program covers only the 70 percent of the nation's dairymen that deliver to cooperatives, a Dairy Farmers Working Together (DFWT) program has been proposed to cover all dairy farmers. DFWT would eliminate the free rider problem—dairymen who benefit from the CWT's investments, but do not contribute to its funding. This program would be mandatory and run by the industry.

#### *Growth Management Plan*

Under a Growth Management Plan, all dairymen would pay a “market access fee” per hundredweight on all milk produced. These market access fees would be pooled. The industry would set an allowable annual percentage growth in the milk supply. If the actual supply exceeds the previous year's supply plus the allowable percentage growth, dairies that did not exceed the allowable growth percentage would receive refunds from the pool. While the Growth Management Plan would be a coordinated effort by the industry to manage supply growth, it would require government involvement for enforcement; thus, some in the industry argue it is really a government program.

### ***Individual Dairy Opportunities***

#### *Hedging*

Dairies are fortunate in that Class III milk futures prices are traded on the Chicago Mercantile Exchange, as are the principal input costs—corn and soybean meal. Thus, dairymen have the opportunity to manage their gross margins by buying corn and soybean futures and selling milk futures to lock in acceptable margins. Many of the successful dairymen, including Tim den Dulk, were using hedging as a risk management tool.

### *Options*

The use of put and call options is a variation of a hedging strategy. A dairyman buys the right, but not the obligation, to purchase (a call option) feed at a fixed price and concurrently buys the right, not the obligation, to sell milk (a put option) at a fixed price. Although the dairyman must pay for these options upfront, they avoid the margin calls that can result from hedging, and they provide downside protection without sacrificing much upside potential.

Some dairymen argue that two limitations of milk hedging and options reduce their effectiveness at managing commodity price risk in the dairy industry: (1) margin call requirements or options premiums are frequently beyond the financial means of many dairymen, particularly during the weaker phases of the milk price cycle; and (2) milk futures and options are relatively thinly traded.

### *Cash Forward Contracting*

Alternatively, many processors offer dairymen opportunities to fix their milk price under forward contracts. Often, processors offer two types of contracts: a fixed-price contract (equivalent to a hedge) and a floor-price contract (equivalent to a put option purchase). While this risk management strategy has proven successful in certain cases, it introduces handler credit risk that can be substantial during periods of extreme milk price volatility.

### *Livestock Gross Margin Insurance for Dairies*

Unlike the use of hedging, options, or cash forward contracting, the Livestock Gross Margin Insurance for Dairies (LGM-Dairy) program establishes a floor on the dairyman's gross margin, i.e., it manages both the milk price and the feed costs. It works as if the dairyman owns a put for selling his milk (establishing a floor selling price) and owns a call on purchasing his feed (establishing a ceiling purchase cost). Unlike crop insurance, the LGM-Dairy program is not subsidized by the government. University of Wisconsin studies show that the program is much cheaper than using traditional options to protect the dairymen's net revenue under most circumstances and deductibles. Currently, the LGM-Dairy program is available in 34 states, but not California, Oregon, Idaho, or the Southeastern United States.

As Tim weighed the pros and cons of each established or proposed industry program, he was concerned not only for the short-term, but also for the long-term health of the industry. For example, short-term elevated price supports clearly reduce the industry's red ink, but probably delay the necessary supply adjustment and make competing on world markets even more difficult. The MILC program, which provides subsidies to small dairies, also changes the normal economic adjustment of the milk supply and favors one group of dairymen over another. The CWT program, designed to help the industry address its oversupply issues using industry funding, is financially supported only by its participants, despite providing benefits to all dairymen. Furthermore, rumors surfaced that dairymen might be raising heifers specifically for anticipated CWT buyouts, a means of gaming the system that would consume CWT funds with no impact on the milk supply. Such gaming might become easier as sexed semen technology becomes more widespread.

## Discussion Questions

1. What are the challenges that dairymen, the dairy industry, and government policy are seeking to address?
2. What entity is best positioned to solve each of these challenges?
3. What are the repercussions and potential unintended consequences of each program, both those that are already in place and those that have only been proposed?
4. What program or combination of government, industry, and individual programs is the best solution to the industry's challenges?
5. Are there other alternatives that might be equally effective?
6. What lessons from the dairy industry can be applied to other commodities?

## Exhibit 1

### USDA expected to raise dairy product support price – July 22, 2009

USDA plans to announce a temporary increase in the price it pays for surplus dairy products, a move proposed by the National Milk Producers Federation and several members of Congress to help support sagging milk prices, pending clearance by the Office of Management and Budget.

Secretary of Agriculture Tom Vilsack told dairy industry leaders last week in Wisconsin that the decision would be announced “within days” and that the increase would be greater than what NMPF sought, the Wisconsin Cheese Makers Assn. Said in its weekly newsletter. NMPF suggested boosting the price paid for cheese by 6 cents per pound to \$1.19 for barrel cheese and \$1.16 for blocks and the price of non-fat dry milk to 84 cents per pound, a 4-cent increase, from July through September. It did not propose to increase the purchase price for butter.

Sen. Patrick Leahy, D-Vt., and 19 other Democrats in the Senate last week called for “a significant short-term hike in the floor price the federal government pays for milk and dairy products” in order “to restore a meaningful safety net for America’s dairy farmers.” At a Wisconsin protest rally last week, Vilsack acknowledged concerns of some 100 organic farmers who proposed that USDA shut down “factory farms” that are certified to market organic milk. Although he was applauded for comments about changes in the management of organic food policy, he avoided a promise to revoke certification of farms based on size.

“We are changing the folks who will be in charge of the organic program at USDA so that it accurately reflects the hopes, concerns, and aspirations of all organic farmers in this country,” he said, adding that USDA “does not cater to one aspect of agriculture over another.” It was not clear whether his personnel reference was to civil service staff at the Agricultural Marketing Service or to political appointees who have been changed since the inauguration.

The House Agriculture dairy subcommittee Tuesday held the second of three hearings into the depressed dairy farm economy but found no consensus from dairy farmer witnesses or members on potential congressional action. Minnesota dairy farmer Scott Hoese, representing the National Farmers Union, and Paul Rozwadowski of Wisconsin, for the National Family Farm Coalition, endorsed higher price guarantees, supply management and limitations on imports of milk protein concentrates. Imported MPCs are used to make “garbage cheese,” Rozwadowski said.

But Donald DeJong, a producer from Hartley, TX, opposed supply controls and proposed elimination of the price support program. “We have too many farms with too many cows producing too much milk for the markets that we have at this time,” he said. “Milk has to leave, cows have to go, and, unfortunately, some farms will have to go as well.”

## Exhibit 2

### CWT Announces Third Herd Retirement of 2009

Maximum Level of Bids Again Capped At \$5.25; Two-Week Window to Participate

ARLINGTON, VIRGINIA—Cooperatives Working Together is implementing its third herd retirement in 2009, effective October 1, 2009. All bids submitted must be postmarked no later than October 15, 2009. This is the fourth herd retirement that CWT has conducted in the past 12 months. “The herd retirement of late 2008, plus the two herd retirements so far in 2009, have removed 226,000 cows from the nation’s dairy herds,” said Jerry Kozak, President and CEO of the National Milk Producers Federation, which manages Cooperatives Working Together. “Those efforts have helped adjust the supply of milk more in line with demand. This third herd retirement of 2009, along with a stabilizing global economy, should further accelerate the recovery in dairy farmers’ prices.”

As with past herd retirements, producers wishing to submit bids into the program must have been members of CWT, either through their membership in a CWT member cooperative or as an individual, effective January 2009. Producers whose bids were selected in previous herd retirements will not be eligible to bid again. This round will once again include a bred heifer option. The maximum bid CWT will consider is \$5.25 per hundredweight of milk, which was the same bid ceiling as the previous round. CWT will select bids beginning with the lowest bid with consistent milk production. However, given budgetary considerations, there is no guarantee that every producer submitting a bid up to the maximum \$5.25 bid level will be accepted, cautions Jim Tillison, CWT’s Chief Operating Officer.

As with the two previous herd retirements of 2009, producers whose bids are accepted in this herd retirement will be paid in two installments: 90% of the amount bid times the producer’s 12 months of milk production (from September 1, 2008, through August 31, 2009) when it is verified that all cows have gone to processing plants. The remaining 10% plus interest will be paid at the end of 12 months if neither the producer nor the dairy facility – whether owned or leased – go back into in the commercial production and marketing of milk during that period.

Once the bid selection process is completed, farm audits should begin the first week of November and be completed by early December. “While NMPF continues to work on long-term solutions to make positive changes in the economic structure of the dairy industry, this latest in the series of herd retirements that CWT has implemented will, along with the other actions NMPF has taken, help provide needed relief to dairy farmers need now,” said Kozak.

Bid forms for both the herd retirement and the bred heifer option, a bid calculator, as well as the answers to frequently asked questions, are available on the CWT website, [www.cwt.coop](http://www.cwt.coop).

Cooperatives Working Together is being funded by dairy cooperatives and individual dairy farmers, who are contributing 10 cents per hundredweight assessment on their milk production through December 2010. The money raised by CWT’s investment is being apportioned between two supply management programs that strengthen and stabilize the national all milk price. For more on CWT’s activities, visit [www.cwt.coop](http://www.cwt.coop).

## Exhibit 3

### **USDA Announces New Dairy Economic Loss Assistance Payment Program to Provide Financial Relief to Struggling Dairy Producers**

WASHINGTON, Dec. 17, 2009—Agriculture Secretary Tom Vilsack today announced the implementation of the new Dairy Economic Loss Assistance Payment (DELAP) program. The 2010 Agricultural Appropriations Bill authorized \$290 million for loss assistance payments to eligible dairy producers.

“Through this program, eligible dairy producers will receive economic assistance that will help stabilize their operations during these tough economic times,” said Vilsack. “I have personally heard from hundreds of struggling dairy farmers from all across our country who have been hit hard by declining prices over the past year, and now, we’ll be able to offer them help.”

Milk prices declined substantially through early-to-mid-2009, with the national price for milk averaging \$16.80 per hundredweight (cwt.) in the fourth quarter of 2008 and averaging \$12.23 per cwt. in the first quarter of 2009, a 27-percent decline. On average, the price U.S. dairy producers received for milk marketed in the summer of 2009 was about half of what it cost them to produce milk.

Eligible producers will receive a one-time direct payment based on the amount of milk both produced and commercially marketed by their operation during the months of February through July 2009. Production information from these months will be used to estimate a full year’s production for an operation to calculate the payments, using a 6-million pound per dairy operation limit.

A national per hundred weight payment rate will be determined by dividing the available funding of \$290 million, less a reserve established by FSA, divided by the total pounds of eligible milk production approved for payment. Based on current information, FSA estimates that 875 million cwt. of milk production will be eligible for payment. The reserve will cover new applicants and appeals. The expected payment rate is approximately \$0.32 per cwt.

Through much of this past year, USDA took a number of steps to provide relief to dairy farmers around the country. Some of these steps include:

- USDA reactivated USDA’s Dairy Export Incentive Program (DEIP), to help U.S. dairy exporters meet prevailing world prices in addition to encouraging the development of international export markets in areas where U.S. dairy products are not competitive due to subsidized dairy products from other countries.
- USDA spent approximately \$1 billion in fiscal year 2009 on purchases of dairy products (Dairy Product Price Support Program) and payments to producers (Milk Income Loss Contract (MILC)).
- USDA increased the amount paid for dairy products through the Dairy Product Price Support Program (DPPSP). USDA estimates that these increases, which were in place from August 2009 through October 2009, increased dairy farmers’ revenue by approximately \$243 million.
- In March, USDA transferred approximately 200 million pounds of nonfat dry milk to USDA’s Food and Nutrition Service, which will not only remove inventory from the market, but also support low-income families struggling to put nutritious food on their tables.

## Exhibit 4

### Dairy Farmers in Desperate Straits

Los Angeles Times, May 29, 2009—Falling prices are forcing many to sell their cows for meat. Some are threatening to dump milk into sewers. Two have committed suicide. In California, the No. 1 dairy state, the pain is felt keenly. By Jerry Hirsch

The California Milk Advisory Board continues to ply its “Happy Cows” advertising campaign, but there are few happy dairy farmers right now.

Frustrated with low milk prices, dairy farmers are selling cows for hamburger meat and threatening to dump milk into sewers. Many are burning through their life savings hoping to survive the slump, and others are exiting the business.

Two farmers have killed themselves.

The pain is being felt throughout the U.S. industry, but it’s especially keen in California, the No. 1 dairy state. The Golden State’s 1,800 dairies produce \$7 billion worth of milk annually, more than one-fifth of the nation’s supply. Slumping international demand combined with an American public ordering fewer cheese pizzas has turned the milk market sour.

Current prices are about half of what it costs California producers to feed and milk their herds; every carton sold in the supermarket represents a loss on the farm. Farmers are staying afloat by getting loans secured by every cow, tractor and acre they own. But experts say that if milk prices don’t rise in the coming months, many farmers will burn through their cash and go out of business.

“This is an unbelievable career wreck. The amount of wealth being destroyed in this industry every week is just mind-boggling,” said Geoffrey Vanden Heuvel, who owns dairies in Chino and Corona. “The emotional toll this is taking is just amazing.”

Two California dairy farmers killed themselves in the last six months out of despair over finances, according to associates. Farm groups report a jump in stress-related health issues among dairy farmers.

“We are getting more phone calls and concerns about suicides than ever,” said Michael Rosmann, executive director of AgriWellness Inc., a Harlan, Iowa, nonprofit operating mental-health hotlines for farmers in seven Midwestern states.

Through much of last year, the average milk price hovered around \$17 per 100 pounds—although consumers purchase milk by the gallon, the industry measures by pounds. The bottom fell out of the market when the economy tanked last fall. Prices now hover around \$10, according to the California Department of Food and Agriculture. Farmers generally need at least \$16, and often more, per 100 pounds to break even, depending on their debt, feed requirements and other factors.

It's good for shoppers. A gallon of milk at Stater Bros. is just \$2.02, down 28% from \$2.79 a year ago. But it has created havoc in dairyland.

“It is a mess. The market just disappeared with the global economic crisis, and unfortunately for dairy producers, they can't simply turn the cows off to reduce the supply of milk,” said Michael Marsh, chief executive of Western United Dairymen in Modesto.

“It's particularly tragic because these family farms are multi-generational operations, several of which will have a foreclosure or a bankruptcy as the last of their legacy to California agriculture,” Marsh said.

Tom Marchy remembers learning how to milk cows from his grandfather on the family's spread in Stanislaus County. Now 48, he saw disaster looming in the industry last fall and called it quits.

His biggest customer had just canceled his milk contract, and “it was hard to find anyone else to ship to so I just got out.”

He sold his herd, about 1,100 black-and-white Holsteins, to a farmer starting a dairy in Oklahoma. Marchy received \$1,950 a cow, about \$800 more than he would get if he were trying to sell now. Marchy then planted 140 acres of corn on his property in the rural town of Waterford east of Modesto. He continues to tend some heifers, waiting for those young females to mature to milk cows.

Those cows too will be shipped to Oklahoma. Marchy doesn't plan to resume the life of a dairyman.

“This is a young man's game. Unless you are big enough to hire people to do the work for you, it's a hard life,” he said.

Collectively, U.S. farmers need to slash milk production by about 5% to bring supplies in balance with current demand, “but we have no good mechanism to do that,” dairy owner Vanden Heuvel said.

One initiative will send about 103,000 milk cows to slaughter over the next several months, a move that will reduce the milk supply by about 1%. It is operated by Cooperative Working Together, a voluntary organization in Arlington, Va., that assesses members 10 cents per 100 pounds of milk to use for periodic herd retirement.

The current reduction is the largest ever by the group and buys out 388 farms.

The National Family Farm Coalition is calling for more emergency action to protect the nation's 57,000 dairy farmers. The NFFC is one of several farm groups urging Congress and the U.S. Department of Agriculture to set an emergency floor price of \$18 per 100 pounds of milk.

So far, the main government action has been to buy up 238 million pounds of nonfat dry milk powder and 4.6 million pounds of butter since prices started to fall in October. Last week, the USDA said it would provide subsidies to export up to an additional 150 million pounds of nonfat dry milk, 46 million pounds of butterfat and 6 million pounds of cheese to help dry up the surplus. Cumulatively, these USDA actions will support milk prices by about 70 cents per 100 pounds of milk, said Roger Cryan, a National Milk Producers Federation economist.



Longer term, some farm groups want to change milk price regulations to better account for the cost of production in the system.

The price California farmers get for their milk is tied to sales of butter and cheddar cheese on the Chicago Mercantile Exchange combined with prices for dry whey and dry milk. Federal regulators and other states use similar formulas.

Farmers have faced low prices before, but what's different this time around is that their cost for feed and other expenses is high compared with what the milk sells for, said Bill Schiek, an economist with the Dairy Institute of California in Sacramento.

“They are just bleeding cash,” Schiek said.

Some farmers now are thinking of doing the unthinkable—dumping their milk as part of a national protest next week. “If they are not going to allow us to make a living, we will just dump it down the drain,” said Arie DeJong, who owns several dairies and 20,000 cows in California and Arizona. “We just can't keep losing money like this.”

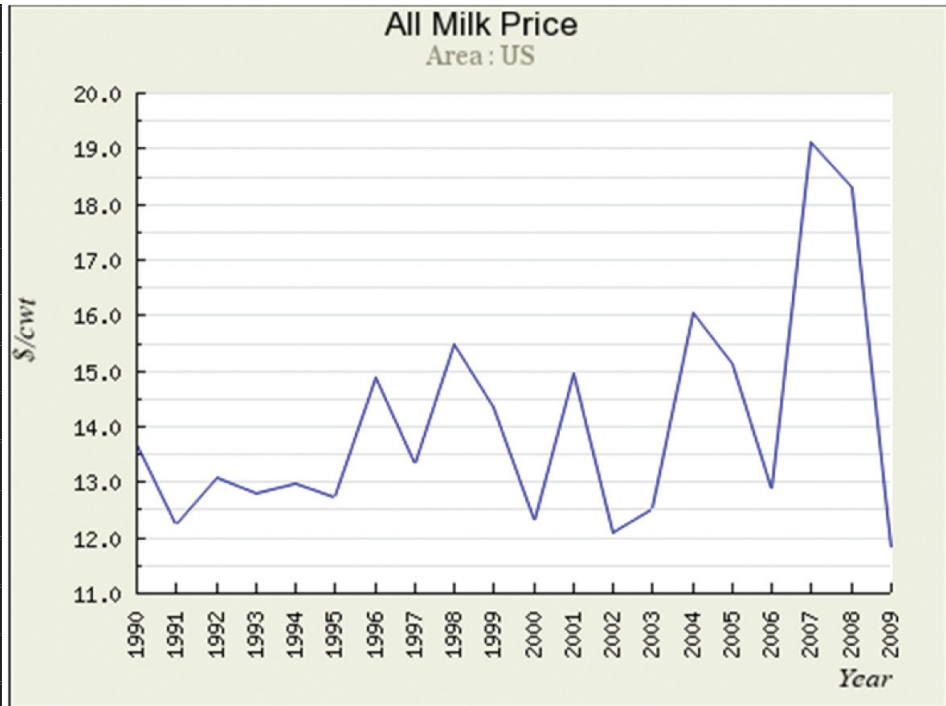
Luis Bettencourt, an Idaho farmer who owns one of the biggest dairy companies in the nation, is considering dumping two days' worth of milk production—about 8 million pounds.

“Why not?” he said. “We ain't getting any money for it anyway.”

## Exhibit 5

### Average All-Milk Prices, 1990-2009

Year	Value
1990	13.68
1991	12.24
1992	13.09
1993	12.80
1994	12.97
1995	12.74
1996	14.88
1997	13.34
1998	15.50
1999	14.36
2000	12.32
2001	14.97
2002	12.11
2003	12.52
2004	16.05
2005	15.13
2006	12.88
2007	19.13
2008	18.29
2009	11.82



## Exhibit 6

<b>CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS</b>			
	COMPARISON BY AREA FOR THE SIX MONTHS ENDED JUNE 30, 2009 (BASED ON AVERAGE AMOUNTS PER HUNDREDWEIGHT OF MILK)		
	Southern California	San Joaquin Valley	Kern County
<b>Income:</b>			
Milk sales	\$ 11.06	\$ 10.66	\$ 11.26
Calves and other	0.30	0.30	0.15
<b>Total income</b>	<b>\$ 11.36</b>	<b>\$ 10.96</b>	<b>\$ 11.41</b>
<b>Cost of operations:</b>			
<b>Feed:</b>			
Grain	\$ 5.77	\$ 6.47	\$ 6.38
Hay and other	2.21	3.31	3.49
<b>Total feed</b>	<b>\$ 7.98</b>	<b>\$ 9.78</b>	<b>\$ 9.87</b>
<b>Labor, (including fringe costs)</b>	<b>\$ 1.71</b>	<b>\$ 1.47</b>	<b>\$ 1.35</b>
<b>Herd replacement costs</b>	<b>\$ 2.01</b>	<b>\$ 1.30</b>	<b>\$ 1.41</b>
<b>Other costs:</b>			
Milk hauling	\$ 0.44	\$ 0.32	\$ 0.33
State and association charges	0.19	0.23	0.21
Veterinary, breeding, testing, etc.	0.29	0.37	0.32
Supplies	0.61	0.54	0.50
Repairs and maintenance	0.39	0.43	0.55
Utilities	0.29	0.28	0.25
Occupancy costs	0.49	0.76	0.44
Depreciation - equipment	0.22	0.23	0.37
Interest	0.69	0.43	0.58
Miscellaneous	0.78	0.85	0.61
<b>Total other costs</b>	<b>\$ 4.39</b>	<b>\$ 4.44</b>	<b>\$ 4.16</b>
<b>Total cost of operations</b>	<b>\$ 16.09</b>	<b>\$ 16.99</b>	<b>\$ 16.79</b>
<b>Net loss</b>	<b>\$ (4.73)</b>	<b>\$ (6.03)</b>	<b>\$ (5.38)</b>

## Exhibit 6 (continued)

	Arizona	Idaho	New Mexico	Panhandle
<b>Income:</b>				
Milk sales	\$ 11.38	\$ 11.18	\$ 12.39	\$ 12.64
Calves and other	0.22	0.25	0.22	0.11
<b>Total income</b>	<b>\$ 11.60</b>	<b>\$ 11.43</b>	<b>\$ 12.61</b>	<b>\$ 12.75</b>
<b>Cost of operations:</b>				
<b>Feed:</b>				
Grain	\$ 5.18	\$ 6.12	\$ 6.88	\$ 6.61
Hay and other	3.41	4.06	2.40	2.59
<b>Total feed</b>	<b>\$ 8.59</b>	<b>\$ 10.18</b>	<b>\$ 9.28</b>	<b>\$ 9.20</b>
Labor, (including fringe costs)	\$ 1.43	\$ 1.64	\$ 1.59	\$ 1.78
Herd replacement costs	\$ 1.48	\$ 1.47	\$ 1.26	\$ 1.90
<b>Other costs:</b>				
Milk hauling	\$ 0.40	\$ 0.24	\$ 0.66	\$ 0.61
State and association charges	0.40	0.20	0.50	0.30
Veterinary, breeding, testing, etc.	0.30	0.41	0.31	0.36
Supplies	0.70	0.82	0.62	0.62
Repairs and maintenance	0.33	0.60	0.53	0.40
Utilities	0.31	0.20	0.26	0.31
Occupancy costs	0.77	0.41	0.37	0.54
Depreciation - equipment	0.16	0.40	0.31	0.44
Interest	0.47	0.54	0.36	0.68
Miscellaneous	0.63	0.75	0.94	0.67
<b>Total other costs</b>	<b>\$ 4.47</b>	<b>\$ 4.57</b>	<b>\$ 4.86</b>	<b>\$ 4.93</b>
<b>Total cost of operations</b>	<b>\$ 15.97</b>	<b>\$ 17.86</b>	<b>\$ 16.99</b>	<b>\$ 17.81</b>
<b>Net loss</b>	<b>\$ (4.37)</b>	<b>\$ (6.43)</b>	<b>\$ (4.38)</b>	<b>\$ (5.06)</b>

Source: Genske, Mulder, and Co.

## Exhibit 7

### ESTIMATED INCOME AND EXPENSES ARIZONA DAIRY FARMS FOR THE YEAR 2010

	<b>PER CWT</b>
<b>INCOME:</b>	
Milk	\$14.00
Milk futures	0.00
Calves and heifers	0.15
Patronage dividend	0.15
Other	0.05
<b>Total income</b>	<b>\$14.35</b>
<b>EXPENSES:</b>	
<b>Feed:</b>	
Hay, silage and farming	\$4.00
Grain	4.65
<b>Total feed</b>	<b>\$8.65</b>
<b>Herd replacement cost - 15% DECREASE</b>	<b>\$1.80</b>
<b>Other operating expenses:</b>	
Interest and rent - 20% INCREASE	\$0.91
Equipment lease	0.16
Labor	1.31
Depreciation - other	0.85
Milk hauling	0.78
Industry assessments	0.30
Supplies	0.60
BST	0.02
Corral cleaning - 30% INCREASE	0.15
Repairs and maintenance - 10% INCREASE	0.30
Utilities	0.45
Taxes and licenses	0.15
Insurance	0.13
Fuel and oil	0.15
Legal and accounting	0.06
Employee benefits	0.05
Veterinary and breeding	0.15
Testing and trimming	0.06
Hauling livestock	0.02
Miscellaneous	0.01
Less cost of raising heifers	(0.45)
<b>Total other expenses</b>	<b>\$6.16</b>
<b>Total expenses</b>	<b>\$16.61</b>
<b>NET INCOME</b>	<b>(\$2.26)</b>
<b>AVERAGE DAIRY STATISTICAL DATA:</b>	
Average daily production per cow	66
Herd turnover rate	40%
Loss per milking cow per day	\$1.49
Feed cost per milk cow per day	\$5.14

Source: Genske, Mulder, and Co.

## Exhibit 8

### From Science, Plenty of Cows but Little Profit

**September 29, 2009—By William Neuman**

HANFORD, Calif.—Three years ago, a technological breakthrough gave dairy farmers the chance to bend a basic rule of nature: no longer would their cows have to give birth to equal numbers of female and male offspring. Instead, using a high-technology method to sort the sperm of dairy bulls, they could produce mostly female calves to be raised into profitable milk producers.

Now the first cows bred with that technology, tens of thousands of them, are entering milking herds across the country—and the timing could hardly be worse. The dairy industry is in crisis, with prices so low that farmers are selling their milk below production cost. The industry is struggling to cut output. And yet the wave of excess cows is about to start dumping milk into a market that does not need it.

“It’s real simple,” said Tony De Groot, an early adopter of the new breeding technology, who milks 4,200 cows on a farm here in the heart of this state’s struggling dairy region. “We’ve just got too many cattle on hand and too many heifers on hand, and the supply just keeps on coming and coming.”

The average price farmers received for their milk in July was \$11.30 for 100 pounds, down from \$19.30 in July 2008. The retail price of milk has not dropped as much, but it is down 24 percent in a year, to an average of \$2.91 a gallon for milk with 2 percent fat.

Desperate to drive up prices by stemming the gusher of unwanted milk, a dairy industry group, the National Milk Producers Federation, has been paying farmers to send herds to slaughter. Since January the program has culled about 230,000 cows nationwide.

But the sorting technique, known as sexed semen, is expected to put 63,000 extra heifers into milk production this year, compared with the number that would be available if only conventional semen had been used, researchers estimate. That number will jump to 161,000 next year, and farmers fear it could double again in 2011. While that is a fraction of the 9.2 million milk cows nationwide, the extra cows this year and next could roughly equal those removed from production by the industry’s culling program.

Economists expect milk prices to recover only gradually, which has farmers worried about the impact of so many extra heifers and the milk they could produce.

“Just as the industry starts to recover from these difficult times, we’re going to see these heifers enter the marketplace,” said Ray Souza, president of Western United Dairywomen, which represents farmers who produce about 60 percent of the milk in California. “At the very worst it could certainly stop the recovery altogether and send us into another price recession.”

The sorting technology relies on slight size differences between the Y chromosome, which produces male offspring, and the X chromosome, which produces female offspring and has a slightly larger

amount of genetic material, or DNA. After it is collected from a bull at a stud farm, semen is mixed with a dye that sticks to DNA. A machine detects the extra dye sticking to X chromosomes and sorts the sperm. The sorted semen is frozen and sold to farmers who use it to inseminate their livestock.

(A fertility institute outside Washington is studying whether the same technique can be used safely in people. If it won approval from the Food and Drug Administration, the technology would let parents choose their baby's sex.)

When the technology was first marketed widely to farmers in 2006, it represented a long-awaited breakthrough, and was embraced because global milk demand was outstripping supply.

A typical Holstein herd using conventional breeding methods will produce 48 percent female offspring and 52 percent male. The male calves are usually sold for little money to be raised as meat, and the females are raised as milk producers. But the sorted sperm produces 90 percent or more female offspring, allowing farmers to expand their herds more efficiently.

At Mr. De Groot's farm on a recent afternoon, a worker removed a slender pink tube of sexed semen from a liquid nitrogen canister, where it was kept frozen. He passed it to a colleague who inserted it into a heifer's body. The cow munched on feed, seemingly oblivious. If the insemination took, her calf would almost certainly be female.

The technology's impact is being felt now, at the depths of the dairy industry's hard times, because of the long lag time in raising cows born of sexed semen to the point that they have calves of their own and thus enter milk production.

Mr. De Groot, 74, first turned to sexed semen during the long economic boom because he wanted to expand his herd. "When the world was short of milk we were all told, 'We need more milk!' Everybody was crying for more milk," he said in his farm office, decorated with trophies for the high quality of his milk. But his plans were interrupted by the economic crisis, which caused booming dairy exports to dry up and curbed demand at home, sending prices tumbling. At the same time, feed costs remained high, squeezing farmers from both sides.

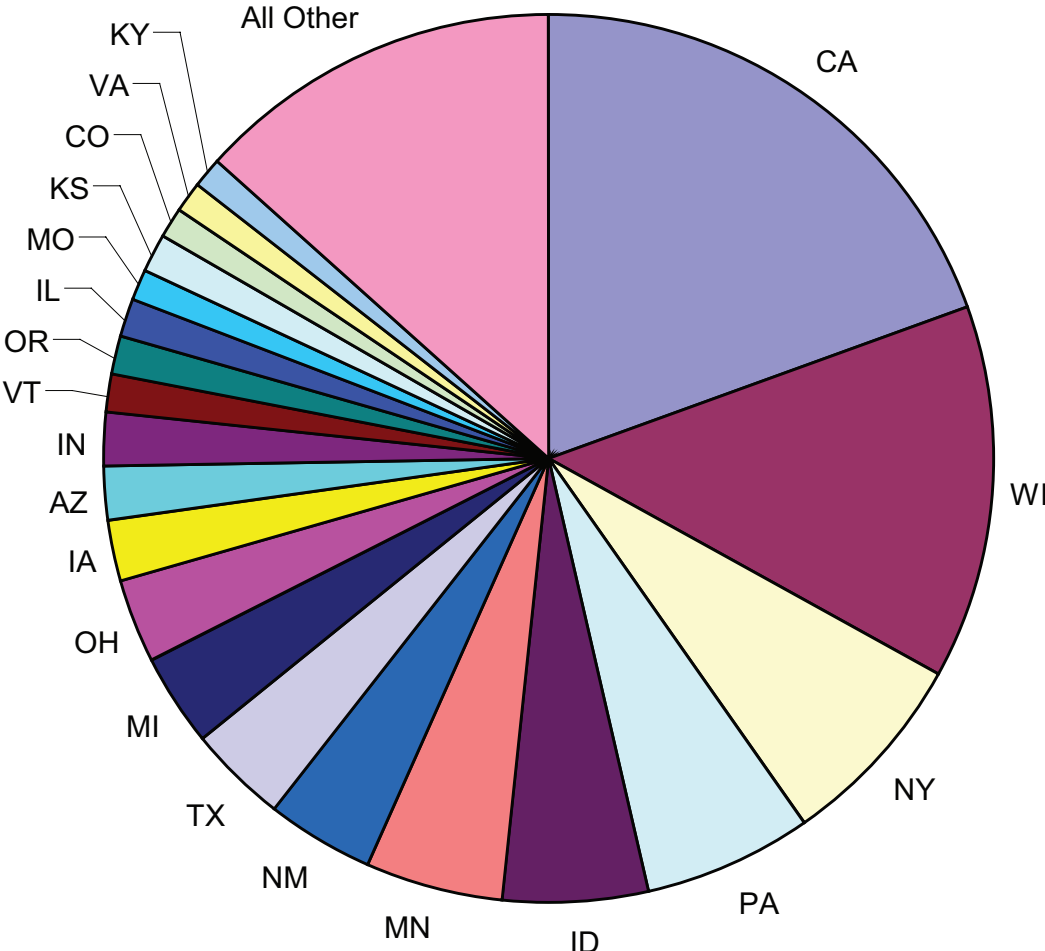
Mr. De Groot, who has used the technology with only a portion of his livestock, estimated that he would get up to 350 additional heifers a year by using sexed semen. But he cannot expand his herd because dairy processors will not buy the extra milk. So for the time being, as the sexed semen offspring come of age, he will put them into the herd in place of lower-producing animals. That will drive up output too, though not as much as expanding the total number of cows.

Scott Bentley, dairy product manager at ABS Global, in DeForest, Wis., a major producer of sexed semen, said that in the long run, the technology should be a boon. But first, the industry has to get through its worst economic crisis in decades.

"This is a really exciting thing," Mr. Bentley said of the technology. "And this is very difficult times. And you combine the two and realize it didn't work as well as we hoped."

[http://www.nytimes.com/2009/09/29/business/29dairy.html?\\_r=1&hp=&pagewanted=print](http://www.nytimes.com/2009/09/29/business/29dairy.html?_r=1&hp=&pagewanted=print)

**Exhibit 9**  
**U.S. Dairy Herd: Distribution by State**



Source: USDA

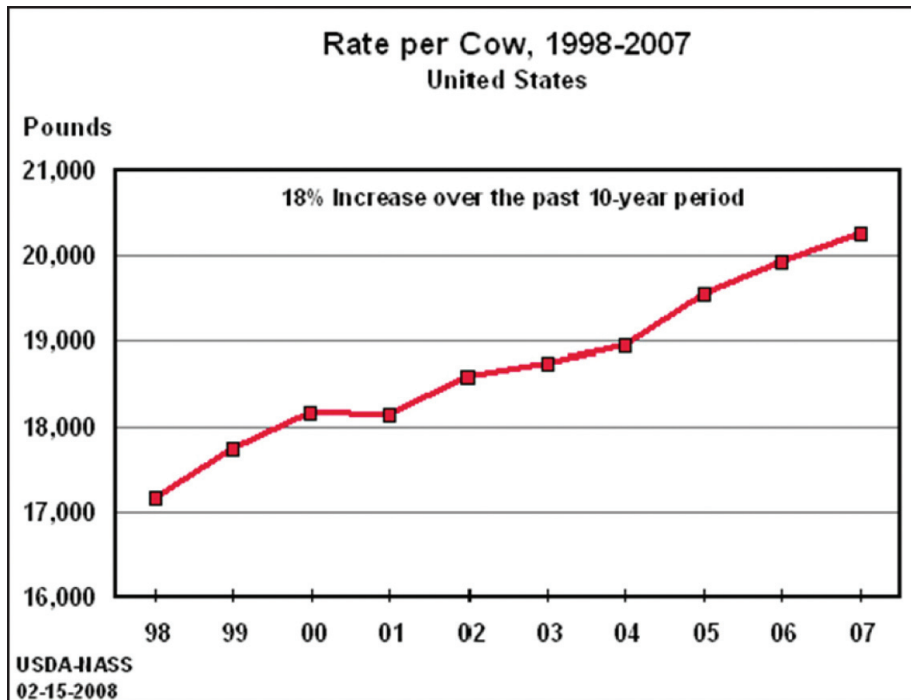


## Exhibit 10

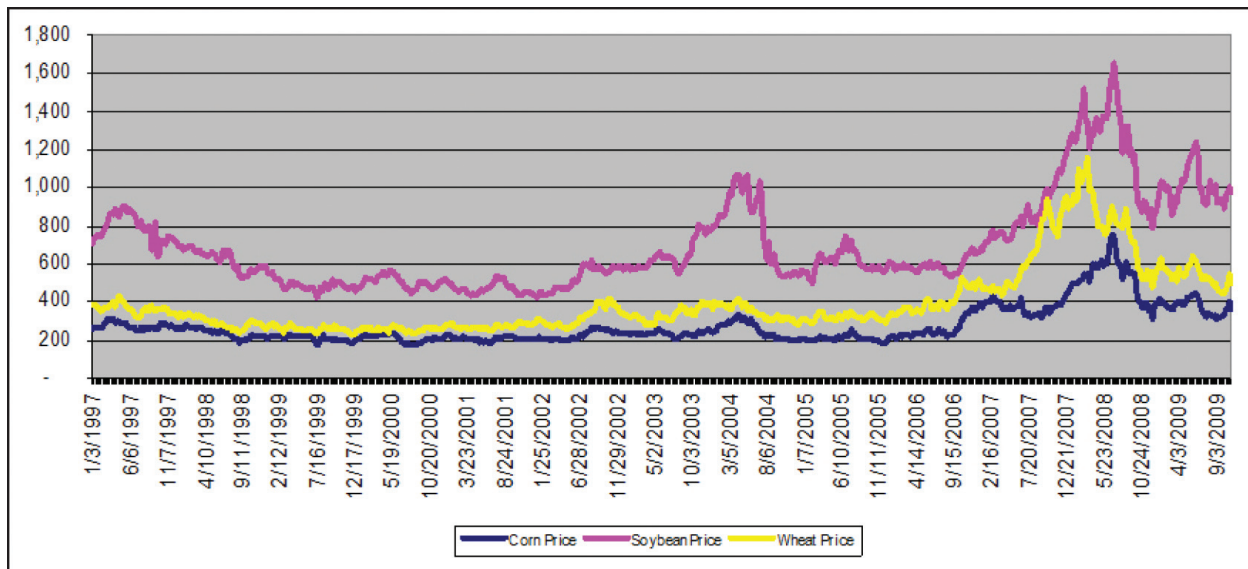
### U.S. Dairy Herd Size Distribution: 1998–2008

	# of Head							
Year	1–29 Hd	30–49 Hd	50–99 Hd	100–199 Hd	200–499 Hd	500–999 Hd	1,000–1,999 Hd	2,000+ Hd
1998	2.3	9.0	22.5	19.0	16.7	11.2	10.9	8.4
1999	2.0	8.6	21.0	17.9	17.3	12.5	11.4	9.3
2000	1.8	7.7	19.4	17.2	18.0	13.8	11.6	10.5
2001	1.7	6.7	18.3	16.2	17.9	12.8	13.2	13.2
2002	1.5	6.1	17.1	15.2	16.8	13.9	13.8	15.6
2003	1.5	5.7	16.5	14.8	16.2	13.8	13.4	18.1
2004	1.4	5.4	15.7	14.2	16.3	14.0	13.1	19.9
2005	1.3	5.1	15.2	13.5	15.3	14.3	13.4	21.9
2006	1.2	4.9	14.2	13.0	15.2	13.4	14.6	23.5
2007	1.3	4.0	12.0	12.0	13.7	12.3	16.1	28.6
2008	1.2	3.9	11.5	11.8	13.1	12.5	15.5	30.5

## Exhibit 11 Milk Production per Cow by Year, United States



## Exhibit 12 Nearby Futures Prices of Major Grains



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## Class Prices

*Federal Orders  
December*

III: 3.5%, \$14.98/cwt.  
IV: 3.5%, \$15.01/cwt.

*California December*

4b: 3.5%, \$15.04/cwt.  
4a: 3.5%, \$14.76/cwt.

## Next week

California's February Class 1 prices are announced Jan. 11. USDA updates milk production and prices estimates in its World Ag Supply & Demand Estimates report, Jan. 12. A dairy trade update is released Jan. 12-13. Final 2009 crop production totals, as well as current grains stocks, will be released Jan. 12. Check in for daily *Dairy Profit Weekly* news updates at [www.dairybusiness.com](http://www.dairybusiness.com).

## This Issue

- Dairy Industry Advisory Committee
- DPW Trends: Milk-feed price ratio; December class prices
- This week on DairyLine
- DPW numbers: Cow slaughter; November products
- DPW markets
- DPW industry
- DPW Washington: USDA & IRS

## Can diversity lead to dairy consensus?

Ag Secretary Tom Vilsack appointed 17 members to a national Dairy Industry Advisory Committee. The committee will review the issues of milk price volatility, dairy farmer profitability and consolidation, and suggest ways USDA can address dairy industry needs.

Representatives, nominated last fall, include nine producers or producer group representatives, four processors, and four people representing government, academia, retail and consumer interests. They include:

Name	State	Affiliation
Paul Bourbeau	Vermont	Paboco Farms, Inc.
Jay Bryant	Virginia	Maryland /Virginia Milk Producers Co-op
Erick Coolidge	Pennsylvania	Le-Ma-Ra Farm
Timothy Den Dulk	Michigan	den Dulk Dairy Farm, LLC
Debra Erb	New Hampshire	Springvale Farms/Landaff Creamery, LLC
James Goodman	Wisconsin	Northwood Farm
James Krahn	Oregon	Oregon Dairy Farmers Association
Edward Maltby	Massachusetts	Northeast Organic Dairy Producers Alliance
Rodney Nilsestuen	Wisconsin	Wisconsin Dept. of Ag
Andrew Novakovic	New York	Cornell University
Robert Schupper	Pennsylvania	Giant Food Stores
Manuel Souza	California	Mel-Delin Dairy
Patricia Stroup	California	Nestle
Sue Taylor	Colorado	Leprino Foods Co., Inc.
Edward Welch	Minnesota	Associated Milk Producers Inc.
James Williams	Georgia	Williams Dairy Trucking
Robert Wills	Wisconsin	Cedar Grove Cheese Inc.

All members will serve two-year terms, expiring Jan. 1, 2012. That puts a potential timeline for any policy consensus some time around the 2012 Farm Bill. The first meeting is planned for early 2010, and USDA is urging public participation.

Members of the committee serve without compensation, but with reimbursement of travel expenses and a per diem. Annual operating costs are estimated at \$70,000, with federal government support estimated at one staff person, one-quarter time. The deputy administrator of FSA Farm Programs will serve as the committee's executive secretary; the deputy administrator of Ag Marketing Service (AMS) dairy programs will serve as the committee's alternate executive secretary.

At first blush, the list of appointees seems tilted toward the East, with just four of the 17 appointees from "Western" states.

(continued on page 2)

## DPW TRENDS

### ▲ Milk-feed price ratio

The December milk-feed price ratio is 2.38, up from November's revised estimate of 2.23 and 1.92 in December 2008. An indicator of milk income relative to feed costs, December's ratio is the 25th straight month below 3.0. December's preliminary U.S. all milk price was estimated at \$16.30/cwt., +\$1.00 from November, +80¢ from December 2008 and the highest monthly price of 2009.

### ▲▼ Class prices

The December 2009 federal order Class III milk price is \$14.98/cwt., +90¢ from November 2009, but -30¢ from December 2008. The 2009 average is \$11.36/cwt., down from \$17.44 in 2008, and \$18.04 in 2007. The Class IV price is \$15.01/cwt., +\$1.76 from November and +\$4.66 from December 2008. The 2009 average is \$10.89/cwt., -\$3.76 from 2008.

California's December 4b milk price is \$15.04/cwt., +\$1.28 from November 2009 and +\$1.09 from December 2008. The 2009 4b average is \$11.05/cwt., down from \$16.85 in 2008 and \$17.46 in 2007. The December 4a price is \$14.76/cwt., +\$1.28 from November, and +\$1.09 from a year ago. The 2009 4a price averaged \$10.77, down from \$14.49 in 2008.

### ▼ 'rbST-free' prices

According to the American Farm Bureau Federation's quarterly Marketbasket Survey, shoppers in 32 states reported paying the following average prices for milk in half-gallon containers in the fourth quarter of 2009:

- regular milk: \$1.99, up 10¢ from the prior quarter, but down 16% compared to the same quarter a year earlier. (The price for one gallon of regular milk was \$3.04, up 17¢ from the prior quarter, but 20% less than 2008.)
- "rbST-free" milk: \$3.08, down 24¢ from the last quarter, and about 11% less than the fourth quarter of 2008. It is about 55% higher than the reported price of a half-gallon of regular milk. The retail markup on "rbST-free" milk = \$1.09/half-gallon X 23.25 half-gallons/cwt. = \$25.34/cwt.
- organic milk: \$3.57, down 20¢ compared to the third quarter, and down 4% compared to a year ago. It is about 80% higher than the reported price of a half-gallon of regular milk.

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(continued from page 1)

And, it remains to be seen whether a **group long on diversity will come up short on consensus.**

Vilsack actually had two options in creating panels to look at dairy issues. In addition to the newly formed Dairy Industry Advisory Committee, the **2008 Farm Bill called for the creation of a federal milk marketing order commission.** However, because **Congress failed to approve the necessary funding** for that commission, USDA said it would not create it.

For additional information, visit [www.ams.usda.gov/AMSv1.0/DairyAdvisoryCommittee](http://www.ams.usda.gov/AMSv1.0/DairyAdvisoryCommittee).

The **National Milk Producers Federation reorganized staff** to better address dairy issue in 2010. **Jaime Castaneda** was appointed as senior vice president, **Strategic Initiatives & Trade Policy**; **Dana Brooks** was promoted to vice president, **Government Relations**; **Jim Tillison** will assume the position of senior vice president, **Marketing and Economic Research**, continue to serve as chief operating officer of the **Cooperatives Working Together** program, and will supervise all matters related to federal milk

### *This week on DairyLine* [www.dairyline.com](http://www.dairyline.com)

Log on to [www.dairyline.com](http://www.dairyline.com) to read – and hear – conversations with dairy’s newsmakers:

- **Market analyst Mary Ledman, Principal of Keough Ledman and Associates Inc.**, expects the market to trade “sideways,” but sees potential strength as suppliers prepare bids to sell about 31 million lbs. of cheese to USDA under fiscal year 2010 ag appropriations bill emergency dairy aid provisions. **The bids are due Jan. 12**, but Ledman said it’s not unusual to see an uptick in markets before bids are reviewed by USDA. The cheese is to be delivered from March through December 2010.

- **Something to consider as the new Dairy Industry Advisory Committee meets:** Many of the issues the dairy industry struggles with today were with us 10 years ago, according to **National Milk Producers Federation’s Chris Galen**. Federal orders top the list, according to Galen, even though the market order system was revamped and changes implemented on in January 2000. “The net result is a general sense of dissatisfaction with the status quo and the feeling that the glass is half empty,” he said.

marketing orders; and **Dr. Beth Briczinski** was hired as director of **Dairy Foods & Nutrition.**

A meeting to organize a **cull cow fundraiser** to support the **Cal Poly dairy farm** will be held Jan. 12, 3 p.m., at the Durrer Barn, Modesto, Calif. Cull cow fundraisers will be held Jan. 25, in Escalante, and Jan. 26, in Turlock.

According to Dairyreporter.com, **Chinese authorities closed Shanghai Panda Dairy**, involved in the 2008 melamine scandal, and arrested three of its executives after finding more milk powder tainted with the toxic chemical.

A newly formatted **national dairy checkoff annual report** is available at [www.dairycheckoff.com](http://www.dairycheckoff.com). For a printed report, call 800-85DAIRY (853-2479).

**Fat or salt?** Dairyreporter.com reports **Arla Foods discovered a way to reduce fat content of fresh cheese** – such as cottage cheese – from 9% to 3%, without affecting its “creaminess.” A high pH, in connection with a higher salt content, produced a creamy fresh cheese with less fat.

**Grandma was right about warm milk.** In a joint venture, **New Zealand’s New Image and Somnaceutics** will test launch a **sleep-enhancing milk product in Taiwan.** A study by the Taiwan Society of Sleep Medicine showed the number of Taiwanese suffering from chronic insomnia has doubled in three years, with 22% of the country’s population of 23 million suffering from chronic insomnia. The product contains a high level of sleep-enhancing peptides.

**Bruce Hageman** joined **Dairy Farmers of America** as vice president of the co-op’s **Farm Services division**, which includes a collection of services and programs designed to improve on-farm efficiencies and increase profit margins, including risk management, health insurance, financial services and bulk buying programs.

**Sugar Wars II.** Remember when Pepsi blew Coca-Cola out of the water with its “new” sweetener? Now, the **Sugar Association** notes **Pepsi-Cola** reintroduced **“Pepsi Throwback,”** sweetened with sugar instead of high fructose corn syrup. The Sugar Association lauded Pepsi for giving shoppers an opportunity “to chose natural sweeteners instead of manufactured ones.”

## DPW NUMBERS

**Heifers imported from Canada**

- **Week ending Dec. 19:** 108 head; **year-to-date (Y-T-D) total** is 10,254.

**Dairy cow culls**

- **Week ending Dec. 12:** 52,000 head; **Y-T-D:** 2.715 million, up 239,900 from a year ago.

**Dairy cull cow slaughter**

**USDA’s National Ag Statistics Service** estimated **208,900 culled dairy cows** were slaughtered under federal inspection in November 2009, **down about 17,900 head from October 2009**, but 700 more than November 2008.

**January-November 2009 cull cow slaughter** under federal inspection totaled about **2.584 million head**, up about 221,600 head from January-November 2008.

**November dairy products report**

**USDA’s Dairy Products report** estimated **November 2009 production** (compared to October 2009 and November 2008, respectively):

- **Butter** – 120.1 million lbs.; +6.9%; -9.7%.
- **Nonfat dry milk** – 100.7 million lbs.; +10.1%; -24.7%.
- **Mozzarella cheese** – 281.2 million lbs.; +0.4%; +7.5%.
- **Total Italian-type cheese** – 362.7 million lbs.; +0.6%; +6.5%.
- **Cheddar cheese** – 248.5 million lbs.; -4.8%; +3.5%.
- **American-type cheese** – 332 million lbs.; -4.3%; -1.8%.
- **Total cheese** – 844.2 million lbs.; -2.1%; +1.9%.

**U.S. ice cream sales recession-proof?**

**Despite a down economy, U.S. ice cream and frozen dessert sales increased 2% in 2009**, topping \$25 billion, according to *“Ice Cream and Frozen Desserts in the U.S.: Markets and Opportunities in Retail and Foodservice, 6th Edition,”* by market research publisher **Packaged Facts**. U.S. sales – which account for almost one-third of the total global market – are forecast to hit \$27 billion by 2014, **Packaged Facts** reported.

DPW

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# DPW MARKETS

## Dairy Replacements

Jerome, Idaho (Jan. 6)	
Springers (top 150), 1,140 (top) 1,575	
Open heifers (300-400 lbs.)	137/cwt.
Thomasville, Ga. (Dec. 29)	
Fresh cows (2-5 yrs.)	1,400-1,600
Springers (bred 5-8 mos.) (2-4 yrs. old)	1,350-1,600
Open heifers (500-600 lbs)	700
Heifer calves (1-7 days)	55-75
Smiths Grove, Ky. (Jan. 5)	
Fresh cows (2-6 yrs.)	1,090-1,360
Springers (bred 5-8 mos.) (2-3 yrs. old)	1,080-1,590
Open heifers (150-250 lbs)	330-420
(300-400 lbs.)	430-580
(575-650 lbs.)	660-750
(few 800 lbs.)	790-825
Heifer calves (med.-large)	240-300
New Holland, Pa. (Jan. 6)	
Fresh cows	1,325-1,600
Heifers (bred 7-9 mos.)	1,300-1,550
(bred 4-6 mos.)	1,275-1,375
Open heifers (300-600 lbs.)	500-710
Springfield, Mo. (Dec. 22)	
Fresh cows	700-1,485
Bred cows (7-9 mos.)	850-1,120
(bred 1-6 mos.)	1,035-1,250
Heifers (bred 7-9 mos.)	900-1,360
Crossbreds	630-1,040
Heifers (bred 3-6 mos.)	1,050-1,350
Open heifers (188-270 lbs.)	250-410
(350-385 lbs.)	335-410
(400-460 lbs.)	510-650
(545-588 lbs.)	700-725
(620-785 lbs.)	710-830
Heifer calves	120-240
Sulphur Springs, Texas (Dec. 17)	
Fresh cows	900-1,250
Springing heifers	900-1,500
Heifers (small)	250-620
(breeding age)	590-810
Calves	30-240
Prices for supreme & approved only.	
Holsteins unless otherwise noted.	

Month	CME Class III Futures 200,000 lbs.; \$/cwt.			
	2010		2011	
	1/7	12/31	1/7	12/31
Jan.	14.18	14.22	15.79	15.87
Feb.	13.63	13.89	15.78	15.96
March	14.09	14.49	15.67	15.81
April	14.34	14.77	15.64	15.74
May	14.75	15.15	15.74	15.82
June	15.31	15.58	15.69	15.79
July	15.72	15.96	15.79	15.99
Aug.	15.83	15.99	15.80	15.80
Sept.	16.07	16.11	15.84	15.86
Oct.	15.99	16.07	15.90	15.90
Nov.	15.81	15.87	15.95	15.95
Dec.	15.84	15.92	15.95	15.95

\* Actual Class III price

### Nonfat Dry Milk/Whey (\$/lb.)

	East/Central		West
	1.375-1.42*		1.33-1.38*
Nonfat dry milk			
Dry whey	.365-.38*		.39-.425*
Animal feed whey	22-.37		

\* Most sales in this range

Source: USDA Dairy Market News, Jan. 7

### USDA/NASS prices/\$/lb.

Week	Nonfat dry milk	Dry whey
Jan. 2	1.2807	0.3857
Dec. 26	1.3327	0.3725
Dec. 19	1.2893	0.3691

### Order Class Prices - \$/cwt

Month	Federal orders			
	I base	II	III	IV
July '09	10.26	10.87	9.97	10.15
Aug. '09	10.04	10.86	11.20	10.38
Sept. '09	10.93	11.01	12.11	11.15
Oct. '09	12.38	11.93	12.82	11.86
Nov. '09	12.86	13.24	14.08	13.25
Dec. '09	13.99	14.25	14.98	15.01
'09 Y-T-D*	11.48	11.26	11.36	10.88
Jan '10	15.03			

### California order

Month	1 North	1 South	4a	4b
Aug. '09	11.71	11.98	10.21	11.29
Sept. '09	13.21	13.48	11.08	11.40
Oct. '09	13.75	14.02	11.54	12.69
Nov. '09	15.04	15.31	13.16	13.76
Dec. '09	16.04	16.31	14.76	15.04
'09 Y-T-D*	13.12	13.39	10.77	11.05
Jan. '10	18.22	18.49		

\* Year-to-date average

### Chicago Mercantile Exchange

Month	Cheddar Cheese		Butter	
	Barrel	Block	Barrel	Grade AA
	(\$/lb.)	(\$/lb.)	(\$/lb.)	(\$/lb.)
Jan. 7	1.4375	1.4100	1.3300	
Dec. 22	1.4300	1.7000	1.4700	
Dec. 17	1.4600	1.7000	1.3475	

### USDA/NASS Cheddar Cheese

Week ending	U.S.		MN/WI		Other	
	Barrel (\$/lb.)	Block (\$/lb.)	Barrel (\$/lb.)	Block (\$/lb.)	Barrel (\$/lb.)	Block (\$/lb.)
Jan. 2	1.4878	1.7004	1.4782	1.7430	1.4914	1.6963
Dec. 26	1.4994	1.6917	1.4945	1.7172	1.5030	1.6883
Dec. 19	1.5145	1.6747	1.5030	1.7336	1.5258	1.6680

## Grain Futures

	Jan. 7, 2009		
	Corn \$/bu	Soybeans \$/bu	Soy Meal \$/ton
Jan. '10	--	10.18	307.00
Mar. '10	4.17	10.26	298.20
May '10	4.28	10.31	293.50
July '10	4.37	10.35	293.20
Sept. '10	4.40	10.15	288.20
Dec. '10	4.43	10.00*	279.20
Mar. '11	4.53	10.16	282.50
May '11	4.59	10.11	280.50
July '11	4.64	10.15	280.50

Chicago Board of Trade \* Nov. '10

## Regional Feeds

	Jan. 6-7, 2010		
	Cottonseed \$/ton	Soy 46-49% \$/ton	Corncob \$/bu
Madison, WI <sup>1</sup>	285	337	3.90
Zumbro Falls, MN <sup>1</sup>	283	360	3.60
Orangeburg, SC <sup>1</sup>	205	396	5.08
Okcechobee, FL <sup>1</sup>	243	398	5.14
Lynden, WA <sup>2</sup>	325	379	5.62
Turlock, CA <sup>2</sup>	295	375	5.46
Sulphur Springs, TX <sup>2</sup>	215	371	5.13
North Java, NY <sup>2</sup>	258	382	4.70

1/ F.O.B. prices 2/ Approx. delivered prices

\* Previous week NA = not available

## Distillers Dried Grain

Jan. 6, USDA - (\$/ton)	
Eastern Corn Belt	115-145
Chicago	116-125
Lawrenceburg, Ind.	130
Nebraska	102-124
Minnesota	90-108
Kansas	130-140
Iowa	95-115
Northern Missouri	124-137
St. Louis	120-140
Wisconsin/E. Minnesota	mostly 110-120
California	166-172

## MILC Projected Payments (\$/cwt.)<sup>1</sup>

Month	FY 2009	FY 2010
Oct.	0.0000	0.6030*
Nov.	0.0000	0.3735
Dec.	0.0000	0.00
Jan.	0.0000	0.00
Feb.	1.5135*	0.00
March	2.0056*	0.00
April	1.5863*	0.00
May	1.4673*	0.00
June	1.8411*	0.00
July	1.5435*	0.00
Aug.	1.6425*	0.00
Sept.	1.2420*	0.00

Projected as of 12/29/09 by NMPF (www.nmpf.org/milk\_pricing/milc\_payments)

\* Actual payment

Annual payment caps apply to fiscal year

## Alfalfa Prices

For USDA's weekly hay price report, visit [www.ams.usda.gov/mnreports/lswfeedseed.pdf](http://www.ams.usda.gov/mnreports/lswfeedseed.pdf).

# DPW INDUSTRY

**Maine's Own Organic Milk Company (MOOMilkCo)**, 10 organic dairy farms previously dropped by **H.P. Hood** - have joined with Maine Farm Bureau and the Maine Organic Farmers and Gardeners Association to form a limited liability corporation. **Smiling Hill Dairy**, Westbrook, Maine, will process whole, 2%, 1% and skim organic milk for the group.

The **U.S. Food and Drug Administration** intends to ask a federal court to shut down **Quesos Mi Pueblito**, a Passaic, N.J. cheese manufacturer with an alleged history of operating under insanitary conditions and producing cheese contaminated with *Listeria monocytogenes*.

**Kraft Foods** will sell its frozen pizza business, including **DiGiorno**, **Tom Stone and Jack's**, as well as the **Delissio** brand in Canada and the **California Pizza Kitchen** trademark license, to **Nestle**, for \$3.7 billion. Kraft estimated its frozen pizza business generated \$1.6 billion in net revenue in 2009. Nestle currently sells pizza products under **Stouffer's** and **Lean Cuisine** brands.

Kraft said proceeds from the sale will be used in its pursuit of the **England-based food maker Cadbury**. However, Kraft's largest shareholder, **Berkshire Hathaway**, run by billionaire investor **Warren Buffett**, voted against the issuance of up to 370 million shares to acquire Cadbury. Berkshire Hathaway said it would oppose the move until it sees Kraft's final offer, due Jan. 19.

**Domino's Pizza chair and CEO David Brandon**, featured speaker at the 2009 joint annual meeting of the **National Milk Producers Federation**, **National Dairy Board** and **United Dairy Industry Association**, will leave the pizza delivery chain to become **athletic director at the University of Michigan**, his alma mater.

**Alpenrose Dairy**, Portland, was named **Oregon's No. 1 Most Admired Company**. Alpenrose has produced a full line of dairy products for almost 94 years.

The **New Jersey Food Council** announced opposition to a proposed **2¢/gallon tax on all fluid milk** sold in New Jersey, a tax to help the state's dairy farmers.

# DPW WASHINGTON

U.S. Ag Secretary Tom Vilsack announced that **USDA and the Internal Revenue Service** agreed to an **electronic exchange of information** to ensure entities receiving federal farm payments comply with adjusted gross income provisions established in the of the 2008 Farm Bill. The process will allow **USDA's Farm Service Agency (FSA) and Natural Resources Conservation Service (NRCS)** to review data from tax returns and compare statements to adjusted gross income (AGI) limits established in the Farm Bill. According to USDA, **no actual tax data will be transmitted, and written consent will be required from each producer** for this process. No mention was made of what, if anything, will be done to producers who do not provide consent. Vilsack said the plan will **enhance USDA program integrity by reducing fraud** in federal farm programs.

USDA implemented the new **Supplemental Revenue Assistance Payments (SURE)** program. Farmers can begin applying for the program at county FSA offices. SURE provides crop disaster assistance payments to eligible producers on farms that have incurred crop production or crop quality losses. The assistance amount is equal to **60% of the difference**

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**between the SURE farm guarantee and total farm revenue.** For more information, visit your local FSA county office or [www.fsa.usda.gov](http://www.fsa.usda.gov).

Vilsack said **USDA has already made more than \$175 million in disaster payments** to America's livestock producers under the standing provisions of the **Livestock Indemnity Program (LIP) and the Livestock Forage Disaster Program (LFP)**. For more information or to apply for LIP or LFP, visit your FSA county office or <http://www.fsa.usda.gov>.

The **National Cattlemen's Beef Association (NCBA)** filed a petition in the District of Columbia Circuit Court of Appeals challenging the **Environmental Protection Agency's (EPA)** recent **greenhouse gas (GHG) "endangerment finding" rule**. Under the rule, EPA defined air pollution to include six greenhouse gases, and stated that manmade GHG endanger public health and the environment. It is seen as the next step in mandating **GHG regulation under the Clean Air Act**.

**NCBA asked the Obama Administration** to explore trade options after Taiwanese lawmakers announced **additional restrictions on U.S. beef imports**, due to alleged safety concerns. **After two years of negotiations**, the U.S. and Taiwan reached an agreement, finalized in October, which would have brought Taiwan into compliance with **World Organization for Animal Health guidelines**, thus allowing imports of U.S. beef and beef products from cattle of all ages. However, early this year, Taiwan banned some beef product imports after being pressured

by consumer groups, who are now collecting petition signatures to **hold a national referendum on banning some U.S. beef imports**. U.S. beef exports to Taiwan averaged \$112 million during 2006-2008, and were on pace to set a record in 2009.

"The decision by Taiwan authorities to place domestic politics over science raises serious concerns," according to a joint statement by USDA and the Office of the United States Trade Representative. "This action will also undermine Taiwan's credibility as a responsible trading partner and will make it more challenging for us to conclude future agreements to expand and strengthen bilateral trade and economic ties."

**EPA proposed stricter health standards for smog** – also known as ground-level ozone. The proposal sets the **"primary" standard**, which **protects public health**, at a level between 0.060 and 0.070 parts per million measured over eight hours. EPA is also proposing a **separate "secondary" standard to protect the environment, especially plants and trees**. Depending on the level of the final standard, EPA said the proposal would **yield health benefits between \$13 billion and \$100 billion**. Estimated **costs of implementing this proposal range from \$19 billion to \$90 billion**. EPA will take public comment for 60 days after the proposal is published in the *Federal Register*. The agency will hold **three public hearings**: Feb. 2, in Arlington, Va. and Houston; and Feb. 4, in Sacramento, Calif.

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## DAIRYBUSINESS

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## Supplemental Reading

### European Farmers' Anger Spills Into the Streets of Brussels

**October 5, 2009—By Stephen Castle**

BRUSSELS—After months of complaints by European dairy farmers angry over low prices, protesters in Brussels on Monday poured milk onto the streets, hurled eggs and other missiles, and started fires that filled the air with black smoke.

Police helicopters hovered overhead as hundreds of tractors—and some cattle—blockaded the area outside the European Union's headquarters while agriculture ministers met in an emergency meeting.

The gathering of ministers, convened after pressure from France, failed to produce any breakthroughs apart from a decision to set up a committee to report on the dairy industry in June.

Monday's protest was the latest by farmers who dumped around three million liters of milk on fields in Belgium last month.

"There's a very serious crisis in the milk sector," said the Swedish agriculture minister, Eskil Erlandsson, who headed Monday's discussion. "We didn't take any decisions today, but we identified areas where the future policy needs to concentrate on."

The protest organizers, the European Milk Board, said that more than 1,000 tractors and 5,000 people took part on behalf of "more than 80,000 dairy farmers".

The group said milk prices are below 75 percent of production costs. Another European farm union organization, Copa-Cogeca, says that milk prices have plummeted 30 percent in a year and that dairy producers will lose up to 14 billion euros before the end of the year if nothing is done.

The European Commission, however, said that the average milk price increased slightly in the last two months and that the price of butter and skimmed milk powder had risen 7 to 9 percent in three months.

The commission said it expected to spend up to 600 million euros supporting butter and skimmed milk prices this year and proposed to continue this policy throughout the winter.

In recent years the European Union has sought to reform its subsidy system and aims to phase out milk quotas, which limit production, by 2015.

Some 20 of the 27 countries in the European Union have called for changes that would give producers the ability to organize more effectively so as to increase their clout in dealing with supermarket chains and dairy companies.

Other critics want more export subsidies and some would like to keep the quotas — though that has been ruled out by the European Commission.

Harald von Witzke, professor of international agricultural trade and development at Humboldt University in Berlin, said the protests were the symptom of the pain caused by a gradual reform of rigid controls on the dairy sector.

“The system has postponed the pain being felt, but now the pain is even greater,” he said adding that making concessions to the farmers “would make matters worse in the long run.”

<http://www.nytimes.com/2009/10/06/business/global/06milk.html>