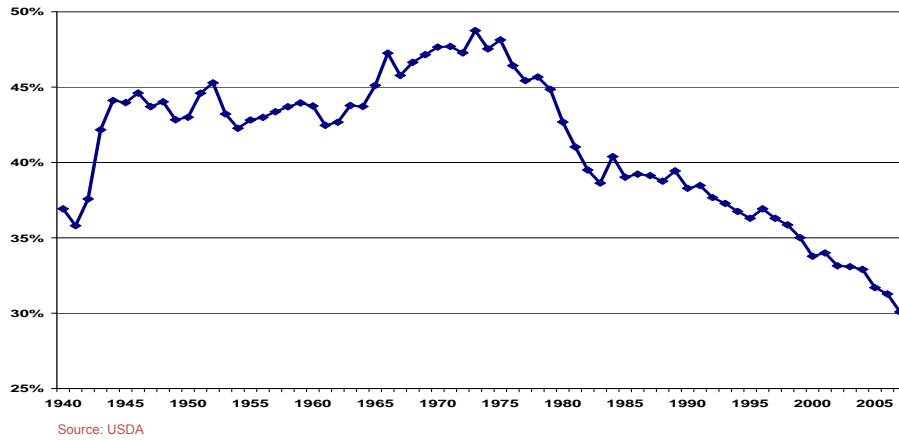


Processors Perspective on Dairy Policy

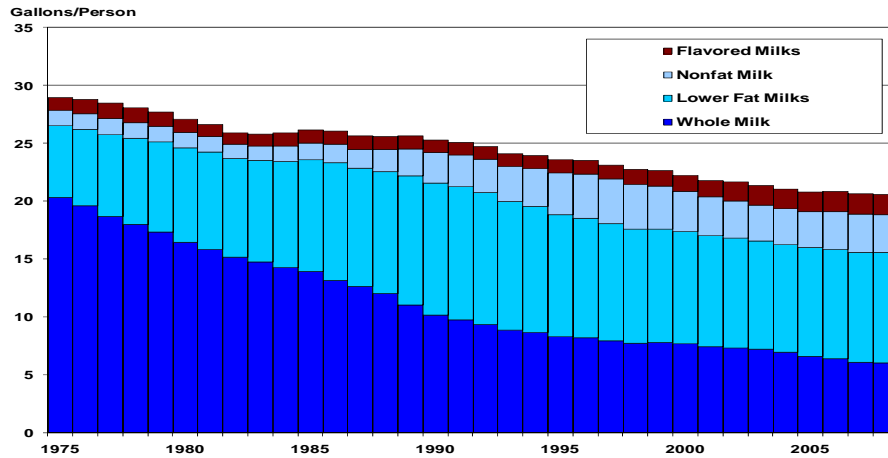
- **Milk Consumption is Declining**
- **Foreign Investment**
- **Standard of Identity**
- **Price Volatility**
- **How do Dairy Policies Currently Measure Up?**

The percent of farm milk used in fluid milk products has declined for over 30 years



Always good. Always Hood

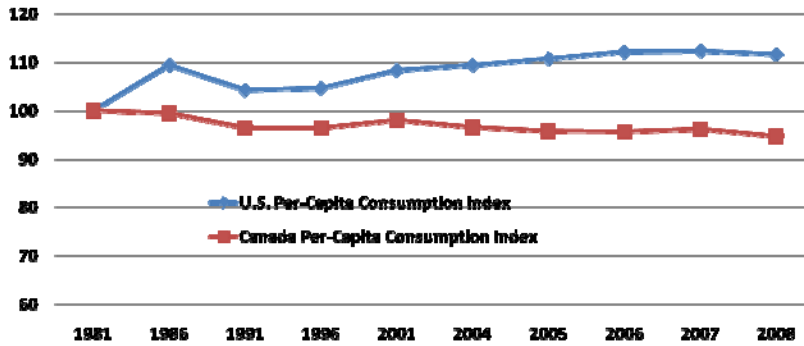
Per Capita Consumption of Fluid Milk Products in Long Term Decline



Always good. Always Hood

Canada per-capita consumption of dairy is declining while the U.S. continues to grow

Per-Capita Dairy Consumption Index



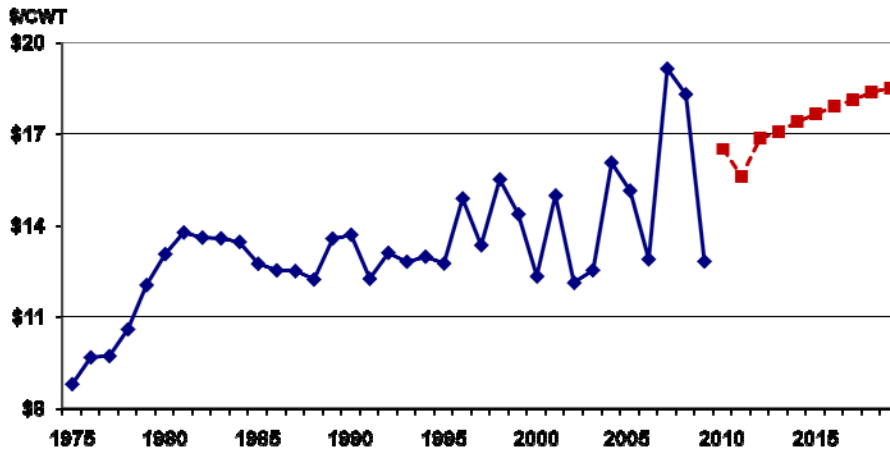
*U.S. consumption on a milk equivalent basis

* Canada consumption on a milk solid equivalent basis

Source: USDA and Statistics Canada

Always good.
Always Hood

Greater price volatility is real, but so are higher annual average prices



Source: USDA, NASS and OCE

Always good.
Always Hood

Two approaches to manage price volatility

- **Government Intervention on a market-wide level**
 - *Regulated pricing schemes*
 - *Production quotas/supply management*
 - *Regional winners & losers*
- **Farm and firms manage their own individual risk**
 - *Most agricultural commodities in the US*
 - *Government subsidized revenue protection*
 - *Innovation and dairy demand growth* □

Always good.
Always



Policy should support efforts to help dairy industry use risk management tools

- **Subsidize dairy focused insurance programs**
 - *No USDA premium subsidies offered for LGM-Dairy*
- **Other ag commodities receive high premium subsidies**
 - *Total premium subsidies were \$5.42 billion in 2009*
 - ✓ *Corn: \$2.04 billion*
 - ✓ *Soybeans: \$1.19 billion*
 - ✓ *Wheat: \$1.09 billion*
- **Dairy options pilot program**
 - *Something similar needed today*

Always good.
Always



IDFA's Dairy Policy Blueprint

- **Principles for a 21st century dairy policy**
 - *An effective dairy farm safety net based on farm income or milk margin*
 - *A competitive orientation focused on fostering innovation and growth*
 - *Consistent with enhancing demand rather than controlling prices and supply*
 - *Supportive of trade expansion*

Always good.
Always



IDFA's Dairy Policy Blueprint

- **Margin insurance or revenue insurance safety net replacing both the Price Support Program and MILC program**
- **Federal Order reform needs a comprehensive panel review, not legislative edicts**
- **Permanent forward contracting**

Always good.
Always



IDFA Federal Order Reform Principles

- **Competition for farm milk is local/regional; any reform must allow for local competitive factors to determine farm milk prices**
- **Complex, product price formulas encourage farm milk to move based on regulations, not markets; reform should eliminate formula pricing**
- **Classification system is too complex; reform should have no more than two classes**
- **Current program no longer provides sufficient incentive to move milk to Class I; reform should address this issue**

Always good.
Always



Back to Basics Proposal

- **Simplifies classification by having only two classes of milk use:**
 - **Fluid use continues as Class I**
 - **All other uses will be Class II**
- **Class II will have no minimum price:**
 - **Local/regional market conditions determine the price paid for farm milk by all plants**
 - **USDA surveys/audits price paid by all plants and reports regional farm milk prices and a national, weighted average competitive pay price**

Always good.
Always



Back to Basics Proposal

- **National average competitive pay price becomes the Class I mover**
 - Class I differentials remain the same
 - Pooling regulations remain the same

- **Part of the Class I differential becomes a Direct Delivery Differential**
 - Not pooled; paid to farms/coops for milk shipped to Class I plants and used in Class I products
 - Remaining part of Class I differential is pooled

Always good.
Always



Summary points

- **The dairy industry has changed significantly since the Federal Order and Dairy Price Support programs were implemented in the 1930's and 1940's**
- **There is great potential for growth in demand for US dairy products both here and abroad**
- **But we face real marketplace challenges and must find the best ways to position our products, innovate and meet new market opportunities**
- **Our current policies and programs limit opportunities for growth rather than encourage it**

Always good.
Always



Implementation?

- IDFA is committed to working with other dairy industry groups to reach a consensus on moving dairy policy reforms forward

Always good.
Always 

THANK YOU!

Always good.
Always 