

Milk Producer



Newsletter of Milwaukee Cooperative Milk Producers

Sept/Oct 2011

New Version Would Give Farmers Choice of Opting for Government Safety Net

ARLINGTON, VA – The National Milk Producers Federation’s Board of Directors voted in favor of a revised approach to reforming federal dairy policy, with the key change of allowing farmers an individual choice between receiving the financial protection of a government safety net, or opting out of such protection.

As originally proposed back in 2010, NMPF’s **Foundation for the Future** (FFTF) program contained a government-subsidized safety net, the Dairy Producer Margin Protection Program, to protect against periods of low milk prices, high feed costs, or a combination of the two. This program offered a Basic level of subsidized insurance coverage, plus the option of Supplemental fixed-cost coverage partially paid by farmers. The FFTF program also contained the Dairy Market Stabilization Program, which was a mandatory means to reduce market volatility by discouraging new milk production during periods of compressed margins.

Under the revised approach backed today by NMPF, the Dairy Producer Margin Protection Program (DPMPP) would continue to be voluntary, but if a producer opts to participate in the DPMPP, his/her participation in the Dairy Market Stabilization Program (DMSP) would then be mandatory. If a producer chooses not to participate in the insurance program, then participation in the DMSP would not be required. As with NMPF’s original reform package, the Milk Income Loss Contract program would be eliminated, as would the Dairy Product Price Support Program. The NMPF Board believes that the new approach will result in beneficial changes to the legislative version of Foundation for the Future, which is expected to soon be formally introduced in the House of Representatives by Reps. Collin Peterson (D-MN) and Mike Simpson (R-ID).

“Based on the feedback we received this summer from our cooperative membership, and during our grassroots tour, when 1,300 farmers came to 12 cities to talk with us about Foundation for the Future, we decided that a slightly different approach to reforming dairy policy was the best way to go,” said Randy Mooney, NMPF Chairman, and a dairy farmer from Rogersville, MO. “Clearly, a number of farmers are uncomfortable about having a mandatory government program to manage milk production. So we are endorsing a new approach which gives farmers a clear choice.”

“This new approach of making the Market Stabilization program optional will appeal to those who philosophically do not want government telling them what to produce. At the same time, those who want the benefits of a government safety net must accept some government-led market stabilization as the price of that protection,” Mooney said.

The other changes endorsed today by NMPF include:

- Increasing the Basic Plan’s coverage to 80% of a producer’s production history on margins between \$0.00 and \$

4.00 per cwt. In the legislative draft of FFTF released earlier this summer, the Basic coverage was limited to 75% of a farm’s production history.

- Giving farmers the option of acquiring coverage for their production growth under the Supplemental Plan. Under such an option, the production history would be revised annually as the producer’s production grows. The percentage of the producer’s production history to be covered, and the premium rate per cwt., would remain fixed over the life of the Farm Bill.
- Accepting an administrative fee to be charged to all producers signing up for margin protection coverage under the DPMPP, with modest fees on a sliding scale. This will help keep the cost of the program to a minimum.
- Eliminating the distribution of 50% of producer-generated funds to the U.S. Treasury under the Dairy Market Stabilization program, ensuring that all of the monies generated by producer withholdings would be available to purchase dairy products for donation to non-commercial food assistance programs as originally proposed.

Lastly, the revised FFTF package endorsed by NMPF alters how reforms to the Federal Milk Marketing Order system would be pursued. Under NMPF’s original approach, the legislation would have specifically prescribed how competitive prices and a streamlining of the classified pricing system were to be implemented by the USDA, without a hearing process. The new version directs the USDA to eliminate the cumbersome end product price formulas and make allowances for Class III, and use a competitive pay price instead to determine the Class III price. It also specifies that after USDA makes its decision, a majority vote by producers will put the changes into effect. If the changes are not approved, the current Federal Order provisions remain in place. “The underlying objectives we have been pursuing for the past two years – offering a better dairy program featuring protection, stability, and growth – remain intact in what our Board has endorsed today,” according to NMPF President and CEO Jerry Kozak. “But by making some adjustments, we strongly believe that many of the concerns raised in the past year to our first approach now have been addressed and eliminated.”

Kozak went on to point out that NMPF’s Foundation for the Future proposal, along with **the initial legislative discussion draft** released this summer by Rep. Peterson and cosponsored by Rep. Simpson, allowed the dairy industry and Congress “to kick the tires and really scrutinize the best way to reform dairy policy. We’ve listened, we’ve analyzed and considered options, and now we’re endorsing a course correction that will still take us to the same place, only with greater unanimity and support from dairy farmers, and hopefully from others across the industry and on Capitol Hill.”

Mooney added that “it’s time everyone in the dairy industry recognizes that the Peterson-Simpson bill offers the best – and perhaps only – opportunity to create an effective safety net that allows us to take advantage of the challenges and opportunities of a global marketplace.”

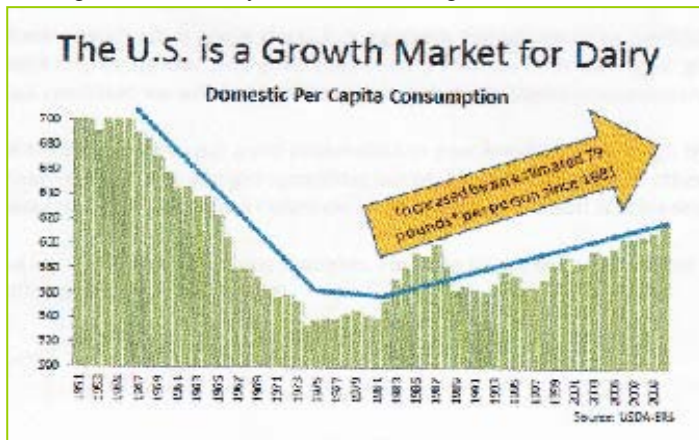
The Midwest Dairy Coalition, of which Milwaukee Milk Producers is a member, currently does not support the NMPF plan in its current form. While many changes have been made to the plan to make it better for our members and farmers, there is still work to be done before the plan can be fully supported.

Discussions will continue at a rapid pace as the House and Senate Agriculture Committees face an October 14 deadline for submitting agriculture budget cut parameters to the Budget Super Committee.

DAIRY AS A GROWTH MARKET

While exports are very important to future growth, so is the large untapped potential of domestic sales. The U.S. continues to be a growth market for dairy.

Look at the domestic per capita consumption data below. Since the checkoff began, things have really changed! Time and time again, the industry has shown if we give the consumer what



they want, how they want it, and where they want it, we can get new, incremental sales.

For example, consider the various uses for cheese at foodservice throughout the day: breakfast burritos, burgers, lunch pizzas, cheese fries and other items. Dairy checkoff staff is working every day with these restaurants to develop new cheese-friendly menu items.

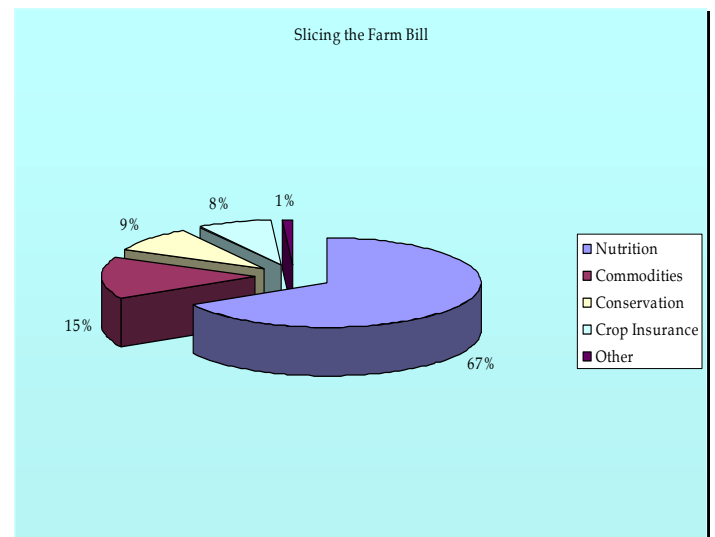
How about the tremendous change in cheese sold on pizza through product reinvention and marketing? We have sold two billion pounds of additional milk per year alone in this effort. This includes specialty beverages such as coffee-flavored dairy drinks, smoothies and many other products at national restaurant chains. We started that change with McDonald’s, and others followed at no cost to dairy producers.

Study the results of new-style yogurts such as Greek yogurt, which typically uses more milk than traditional yogurts, and what that has done to a category that had begun to slow down. And, think of the more than 750 million units of milk sold in round resealable bottles at quick-serve restaurants each year, versus the fraction sold in the old gable-top cartons.

These examples represent billions and billions of pounds of self-sustaining domestic growth. Going forward, the industry can realize even more growth through snacking ... with Hispanic consumers... with those who are lactose intolerant or self-perceived lactose intolerant... and at schools, which make up our most challenging and important arena.

DMI is working closely with the industry on these growth opportunities, which prove the U.S. is a growth market for dairy, particularly since the checkoff came into existence nearly 30 years ago. Given the industry’s history of delivering on great sales opportunities, I am confident that we will continue to see growth in per capita consumption right here at home.

SLICING THE FARM BILL



As farmers talk about crafting dairy policies for the 2012 Farm Bill, let’s review who gets what under the current five-year bill.

Dairy programs – price supports, Milk Income Loss Contract (MILC) payments, Dairy Export Incentive Program (DEIP) – account for less than 2% of the total bill. Yes, agriculture commodity programs account for only 15% of the bill’s budget. An additional 9% is for conservation programs, 8% for crop insurance and 1% for miscellaneous programs.

Nutrition programs account for the biggest slice, with 67% of the bill’s estimated \$284 billion spent on programs such as food stamps – renames the Supplemental Nutrition Assistance program (SNAP). Nutrition programs became part of the farm bill in the 1930’s when hungry people were linked to surplus food – dairy, flour, lard, and seasonal fruits and vegetables – through a program similar to SNAP.

“As the US House and Senate agriculture committees determine how to slice the farm bill pie, they do so know it’s shrinking,” says Sheryl Meshke, AMPI senior vice president of public affairs and corporate strategy. “The dairy industry will be challenged to help craft policies that provide a safety net while being economically viable.”

Don't let the cure be worse than the Disease

Calvin Covington
Former Dairy Breed Association and
Milk Marketing Cooperative CEO

During the past decade milk prices have been up and down. Some years, especially in 2009, dairy farmers lost significant equity due to slim margins. There are dairy farmers and dairy manufacturers that are not pleased with the current method of price discovery. As a result, National Milk Producers Federation (NMPF) is proposing a set of major dairy policy changes. MN Congressman, Collin Petersen is championing the NMPF plan in Congress. New dairy policy may be needed, but overall, the NMPF-Petersen plan is an example of the cure being worse than the disease. Under the NMPF-Petersen plan, three major changes in Federal Orders are proposed. These changes result in milk pricing becoming more inequitable, less transparent, more complicated, and less beneficial to the industry.

The NMPF-Petersen plan eliminates the requirement that all regulated milk buyers pay dairy farmers a minimum price for their milk production. The only exception is pool distributing plants (plants that bottle milk) which are still required to pay a minimum price on all the milk they purchase. However, this leaves about 50% of milk regulated by Federal Orders not receiving a minimum price. Minimum prices may not always be at a profitable level, but minimum prices provide dairy farmers or their cooperatives some comfort in knowing they will receive a minimum value for their milk production. Plus, minimum prices help promote orderly marketing and provide an equitable playing field for both milk buyers and milk sellers.

Second, Federal Orders currently enforce the payment of minimum prices to dairy farmers or their cooperatives on regular dates each month. Milk buyers face penalties if minimum prices are not paid on those dates. If there are no minimum required prices, then Federal Orders are not able to enforce payment. In milk markets with many milk buyers, which allows for health competition, no enforced minimum prices or payment dates should not be an issue. Unfortunately, not all dairy farmers are in competitive markets. Having a governmental agency seeing that dairy farmers receive their milk checks on time is often an overlooked benefit of the Federal Order system.

Third, the NMPF-Petersen plan eliminates regulated multiple component pricing. Dairy farmers, especially in competitive markets, selling milk directly

to cheese plants should continue to receive equitable milk prices. However, dairy farmers currently receiving multiple component payments but not marketing their milk directly to a manufacturing plant or those located in areas with limited competition may have difficulty in maintaining equitable component prices. With all the emphasis on efficiency and sustainability today, it is ironic that the regulated milk pricing system could return to one that encourages production of 'white water' and not what gives milk its functional and nutritional value.

The NMPF-Petersen plan claims that the use of a competitive price, instead of the current product price formula to establish milk prices, encourages the movement of milk to its highest value and new product innovation. These claims are misleading. The plan does use a competitive price to establish the cheese price. However, the plan continues to use a product price formula to price milk in milk powder. And, the plan included a provision to subsidize milk used in powder.

AS mandatory supply management program is included in the NMPF-Petersen plan. Setting aside whether one supports or opposes supply management, the proposed plan is inequitable. Penalties for overproduction are greater for milk with higher composition, higher quality, and produced in milk deficit areas. Such plan does not provide the proper economic signal.

Not to be completely negative, the NMPF-Petersen plan does propose ending the dairy product price support program. Eliminating the program will make the US a better dairy exporter and promote new product innovation.

What dairy policy changes are needed? Eliminate the dairy product price support program. The dairy margin protection plan is a good concept. But instead of reinventing the wheel, expand and simplify the current Livestock Gross Margin Program for Dairy. If changes are needed in Federal Orders, use the administrative hearing process instead of Congressional legislation. Such a process is open, transparent, allows all parties to be heard, and removes much of the politics. And, it is important that dairy policy encourages, not discourages, the production of milk of the greatest value. But, most of all: Don't let the cure be worse than the disease.

UPDATED: Statement from Agriculture Secretary Tom Vilsack on Reports of Record Agricultural Exports and Strong Farm Income

WASHINGTON, Aug. 31, 2011—Agriculture Secretary Tom Vilsack made the following statement on data released this week showing record U.S. farm exports and farm income:

"This year brought a host of challenges for America's farmers, ranchers and producers: Hurricanes, floods, drought and other extreme weather have driven thousands of Americans from their homes, destroyed crops, and threatened our rural communities. But despite the setbacks, American agriculture is thriving, demonstrating again that the men and women who own and operate America's farms and ranches are some of the most resilient in the world.

"We learned this week in the Farm Income report that both net cash income and net farm income are record in nominal terms and, adjusting for inflation, are at their highest levels since the early 1970s. Meanwhile, total farm debt declined nearly 2 percent.

"That's a major achievement and a testament to our farmers and ranchers, who continue to work hard, innovate and make smart business decisions in these challenging times. It shows that they are making good investments, reducing their debt, and using their resources wisely. Their success story is not celebrated often enough. And it is due, in part, to their willingness to seize opportunities in new markets, both domestic and foreign.

"Farmers are working with USDA and other partners to expand opportunities to sell their products regionally and in their own communities. Making these sorts of connections—so a farmer can sell to a local school, hospital, or a family just a few dozen or hundred miles away—helps keep wealth right here in America, and is creating good paying jobs in our rural communities.

"Our farmers are also the best in the world at finding consumers far from home. Today, a new forecast of U.S. agricultural exports confirmed that 'Grown in America' products remain in high regard and high demand in the rest of the world. The current U.S. export forecast for fiscal year 2011 is \$137 billion, \$22 billion higher than the previous record set in 2008 and \$28 billion above 2010. And exports for 2012 will remain equally strong and help to support over one million American jobs. In fact, taken as a whole, the United States is in the midst of experiencing the three best years in our history in terms of agricultural exports.

"Strong exports have enabled agriculture to remain one of only a few sectors of the U.S. economy to enjoy a trade surplus. This year's surplus is projected at \$42.5 billion—a record—and next year should be \$32 billion, the third-highest. In the months ahead, USDA will continue to work to maintain and expand this level of production through our commitment to agricultural research and development, removing barriers to trade, maintaining a strong safety net for farmers, and helping to expand our local and regional food systems. This is how we will build an economy that continues to grow, innovate and out-compete the rest of the world.

"The export forecast also highlights why we must move forward with pending trade agreements. Congress can help U.S. farmers and ranchers maintain a competitive advantage—and help to keep jobs here at home—by ratifying the South Korea, Colombia and Panama agreements. When fully implemented, those three agreements will immediately add more than \$2 billion per year to our economy and support thousands of additional jobs here in the United States."

The latest export data is available via the Global Agricultural Trade System at <http://www.fas.usda.gov/data.asp>. The latest Farm Income data is available at www.ers.usda.gov/Briefing/FarmIncome/

Federal Milk Order Class Pricing and Component Values for July/Aug 2011

Announced Class Prices	Upper Midwest Order 30		Central Order 32		Mid-East Order 33	
	July	Aug	July	Aug	July	Aug
	Class I	\$22.63	\$23.03	\$23.03	\$23.43	\$23.03
Class II	\$21.29	\$21.55	\$21.29	\$21.55	\$21.29	\$21.55
Class III	\$21.39	\$21.67	\$21.39	\$21.67	\$21.39	\$21.67
Class IV	\$20.33	\$20.14	\$20.33	\$20.14	\$20.33	\$20.14
Producer Price Diff.**	\$0.21	\$0.25	\$.21	\$.30	\$.52	\$.62

** Zone 1 Chicago per cwt/subject to location adjustments

(All per cwt. Class Prices at 3.5% BF Value)

Statistical Uniform Price*	\$21.60	\$21.92	\$21.60	\$21.92	\$21.91	\$22.29
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* Statistical Price = monthly Class III + PPD at 3.5% BF

Over Order Agency Class I Price	C.M.P.C.		I.M.M.A.		M.M.M.A.	
M.A. & processor fee not included in price	\$26.41	\$26.60	\$26.04	\$26.43	\$26.18	\$26.58

Farm Test Averages

BF test market average	3.59%	3.59%	3.51%	3.50%	3.54%	3.55%
Pro. test market average	2.92%	2.97%	2.94%	2.98%	2.93%	2.98%
OS test market average	5.74%	5.72%	5.71%	5.71%	5.71%	5.69%
Somatic Cell Ave.	274	286	259	274	246	262
Total Producer. Milk pooled (billion. lbs.)	2.80	2.80	1.20	1.10	1.40	1.40

Component Prices

	July	Aug
Butterfat Price	\$2.2511	\$2.2985
Protein Price	\$3.8292	\$3.8305
Other Solids Price	\$0.3608	\$0.3811
Somatic Cell Adj. Rate	\$0.001060	\$0.00107

Nass Monthly Product Price

	July	Aug
Cheese	\$2.1243	\$2.1402
Butter	\$2.0304	\$2.0695
Nonfat Dry Milk	\$1.6100	\$1.5739
Dry Whey	\$0.5494	\$0.5691

Gov. Milk Income Loss Payment	\$0.00	\$0.00
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DO NOT DELAY

The Largest Dairy Firms in the World

Company	Headquarters	2010 Revenues
Nestles	Switzerland	\$28 billion
Dannone	France	\$16.4 billion
Fonterra	New Zealand	\$12.1 billion
Lactalis	France	\$12.0 billion
FrieslandCampina	Netherlands	\$11.7 billion

The Largest Publicly Held Dairy Companies in N America

Company	Headquarters	2010 Revenues
Dean Foods Co	Dallas, TX	\$12.123 billion
Saputo Inc.	Saint-Leonard, QB	\$5.506 billion
Kraft Foods Global	Northfield, IL	\$4 billion
Kroger Co	Cincinnati, OH	\$2.3 billion*
ConAgra Foods	Omaha, NE	\$771 million*

The Largest Dairy Co-operatives in North America

Company	Headquarters	2010 Revenues
Land O'Lakes	St. Paul, MN	\$3.708 billion
Agropur Co-op	Longueuil, QB	\$3.49 billion
Prairie Farms Dairy	Carlinville, IL	\$2.5 billion
DFA	Kansas City, MO	\$2.333 billion
Darigold, Inc.	Seattle, WA	\$2.1 billion

The Largest Privately Held Dairy Companies in N America

Company	Headquarters	2010 Revenues
Schreiber Foods	Green Bay, WI	\$3.6 billion
Leprino Foods Co	Denver, CO	\$3 billion
HP Hood LLC	Lynnfield, MA	\$2.4 billion
Great Lakes Cheese	Hiram, OH	\$1.9 billion
Hilmar Cheese Co	Hilmar, CA	\$1.3 billion

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Welcome New Members

REMINDER: Please notify your field representative or the MCMP Office if you have any changes in your name, address, phone number or farm operation (i.e. new partners or incorporate)

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Pat Yeagle: (815) 291-4581

MCMP Office: (262) 786-3120