NATIONAL MILK PRODUCERS FEDERATION
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FOUNDATION FOR THE FUTURE

Rethink What's Possible:
Protection, Stability & Growth

Protection. Stability. Growth.

A New Direction for U.S. Dairy Policy

www.futurefordairy.com

NATIONAL MILK PRODUCERS FEDERATION

Foundation for the Future:

DEVELOPED BY PRODUCERS, FOR PRODUCERS

When the need for dramatic change to dairy policy became evident, the National Milk Producers Federation (NMPF) called upon its dairy producers and cooperative members for guidance during the development of Foundation for the Future.

The NMPF Strategic Planning Task Force formed subcommittees to address the current programs and policies impacting the dairy industry, and consider what needs to be changed. These included: the Dairy Producer Margin Protection Program, Federal Milk Marketing Order Reform, and the Dairy Market Stabilization Program. These subcommittees worked for more than a year, seeking input and compiling recommendations from industry peers including the American Farm Bureau Federation, Holstein Association USA, and Milk Producers Council, to name a few.

FOUNDATION FOR THE FUTURE

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The Solution Providing

PROTECTION, STABILITY & GROWTH

Offers Protection

- Replaces federal dairy support programs that provide no margin protection
- Initiates new Dairy Producer Margin Protection Program to prevent equity loss

Creates Stability

- Revises Federal Milk Marketing Order programs
- Establishes new Dairy Market Stabilization Program to prevent extreme margin and price volatility

Inspires Growth

- Safeguards producer income by protecting equity
- Enhances export opportunities to grow demand for U.S. dairy products

Dairy producers have been asking for dairy policy reform that not only helps them recover from catastrophic losses experienced in 2009, but also helps control dairy margin volatility.

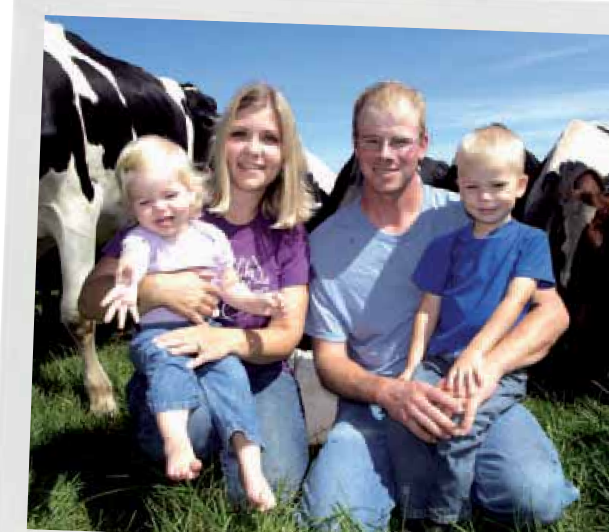
Foundation for the Future offers a fresh approach to U.S. dairy policy – an approach that requires a new way of thinking about milk pricing systems and the impact margin has on individual dairy operations, and treats producers equally, regardless of operation size or location.

Foundation for the Future makes significant policy changes that will help safeguard equity, and stabilize dairy markets to foster a more economically viable and secure future for all sectors of the dairy industry.

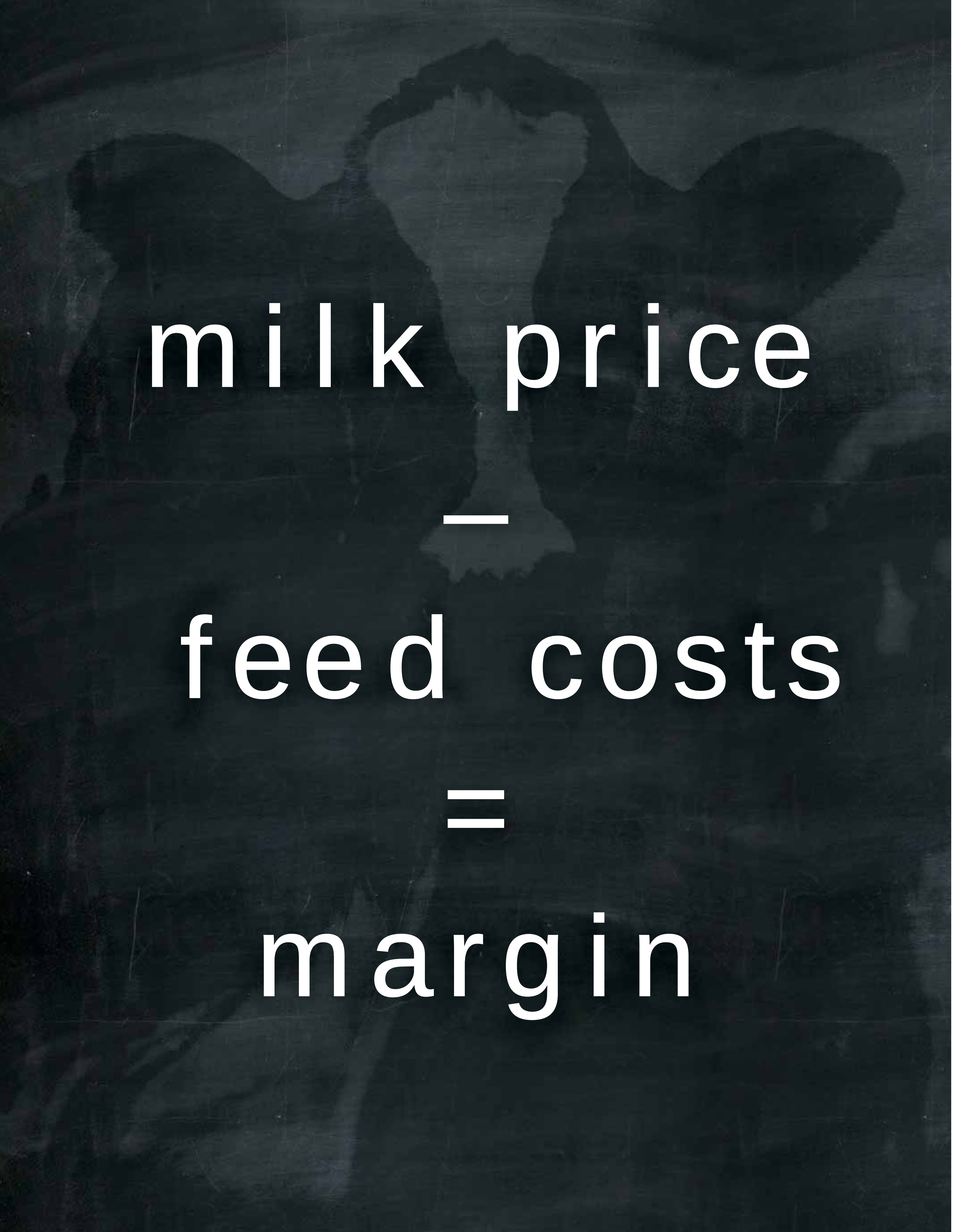
Terry & Jill Hauser
Oakland, Maryland

"Compared to the current federal safety net programs, Foundation for the Future offers dairy farmers a much higher level of protection against losing equity, as we did in 2009."

"We believe that the dairy policy reforms of Foundation for the Future will help us protect our farm and grow our business."



Glen & Sadie Frericks
Melrose, Minnesota



Why Should Producers Care About MARGINS?

By Randy Mooney
Missouri Dairy Producer
FFTF Strategic Planning Task Force Chairman

Milk price minus feed costs equals margin.

Who knew that a simple mathematical equation would impact producers' lives so greatly?

Yet, in 2009, a painful dose of low milk prices and high input costs created a serious imbalance to this equation, yielding dangerously low margins. These low margins ate away the hard-earned equity of many dairy farmers, including mine, and left many of us in the red, and for some, closed the door on our business and way of life for good.

The economic hardship of the past several years revealed that relatively high milk prices do not guarantee producers profitability when accompanied by high input costs, which is why their financial viability depends more on a positive relationship between milk prices and feed costs than on milk prices alone.

To prevent future hardship, producers need a firm foundation that will help them survive when faced with such challenges. Safety net programs that hinge solely on price, especially price targets formulated in the 20th century, failed us in the past and will surely fail us in the future.

In June 2009, the National Milk Producers Federation (NMPF) Strategic Planning Task Force began exploring different approaches to dairy policy that would work to achieve more effective protection for producer margins and reduce volatility. Based on the listening and brainstorming that the task force did with a variety of producer groups around the country, they developed Foundation for the Future, a package of reforms that dramatically improves dairy policy. This dairy policy package contains the tools necessary to protect equity and grow marketing opportunities for producers.

Foundation for the Future serves as a new roadmap for dairy policy by focusing on margin protection rather than price support. Although this is a new way of thinking, it is an essential shift for bolstering profit potential, improving equity, and stabilizing dairy markets. It brings much-needed change to many aspects of current dairy programs, some of which have existed for decades and were developed for a relatively closed domestic market.

Foundation for the Future

A package of reforms that dramatically improves dairy policy. This dairy policy package contains the tools necessary to protect equity and grow marketing opportunities for producers.

Today's market is greatly influenced by global demand and supply, as the 2008 record prices and their disastrous 2009 plunge clearly demonstrated. The plunge wiped out a significant amount of dairy producers' equity, leaving us with debts that will take years to repay. Putting these policy changes in place will assure the United States' place in the world market. The programs in Foundation for the Future will put the U.S. dairy industry in a better position to thrive in the years ahead.

It's time to change, and to help secure a successful future for U.S. dairy producers.

Holes in the Current Federal Safety Nets:

WHY AREN'T CURRENT PRICE SUPPORT PROGRAMS WORKING?

By Ken Nobis
Michigan Dairy Producer
Michigan Milk Producers Association Chairman

The 2009 drop in dairy prices taught the industry a valuable lesson about the correlation between milk prices and input costs —just because milk prices plummet doesn't mean input costs are going to follow.

Producers are still recovering from the effects of low milk prices and high input costs. Producers also learned that in a crisis, the current milk price-based programs they had relied on for assistance, such as the Dairy Product Price Support Program and Milk Income Loss Contract program, totally failed them.

Why isn't the Dairy Product Price Support Program working?

Dairy Product Price Support Program Stats:
- Developed to provide government support for farm-level milk prices – in 1949!
- Targets a milk price far below today's cost of production
- Establishes pricing targets for cheese, butter, and nonfat powder

The Dairy Product Price Support Program is predicated on price, so in order to maintain milk prices and balance dairy markets, the government purchases products and withholds them from the market until prices are restored. Once this happens, withheld inventories are reintroduced to the markets. "With the price support program, we're focused on the price of milk. Essentially, the purpose is to create higher dairy prices and if too much milk is produced, the U.S. government buys the excess inventory," says Ken Nobis, a Michigan dairy producer and chair of the Foundation for the Future Dairy Producer Margin Protection Committee. This program actually slows real price discovery and generates milk prices far below the average producer's production costs. "The price support program is not an effective level of support because it's too low. There has never been a time in the last 10 years when the support price covered producers' cost of production," says Nobis.

He explains that in today's marketing environment, where exports are a significant factor in driving U.S. dairy product demand and influencing stronger milk prices, the Dairy Product Price Support Program offers little, if any, support to producers because it isolates the U.S. milk supply from the world market. "The price support program actually serves as a price support mechanism for the entire global market," Nobis explains. "There are certain countries that are lower cost producers just because of their climate. All they have to do is price their product just under the support price offered in this country and they're going to have the lowest cost product and maintain a presence in the export market."

Further inadequacies of the Dairy Product Price Support Program include:

- Stifling product innovation for in-demand products such as protein-standardized skim milk powder and specialty milk proteins, creating a competitive disadvantage for the United States compared to global dairy vendors
- Falling behind on program objectives of purchasing butter, cheese, and nonfat dry milk
- Seeking outdated price levels that offer minimal price support targets, which can't stand up to higher input costs

Clint & Kara Burkholder
Chambersburg, Pennsylvania

"Foundation for the Future provides a stronger safeguard for our farm's equity, compared to the programs in place now. It can be the foundation for a new generation on our farm."

Why isn't the Milk Income Loss Contract program sufficient?

Milk Income Loss Contract Program Stats:
- Pays producers for only 45 percent of the difference between $13.69 and the actual Class I base price with little consideration of input costs
- Limits loss coverage to 2.985 million pounds per year, per producer

Although the Milk Income Loss Contract (MILC) program writes producers a check when domestic milk prices fall below the specified level, it does not address low operating margins, nor is it able to offset high feed costs. If milk prices are at average levels and feed costs are high, producers can suffer substantial losses and not receive any support from the MILC program.

In addition, since MILC limits protection levels to a maximum of 2.985 million pounds per year, any increase in milk production reduces the percentage of milk covered by MILC.

For example, a producer with 145 cows will have 100 percent of his or her milk covered, while a producer with 500 cows might only have 29 percent of his or her milk covered. In reality, this program only provides protection for 30 percent of the total U.S. milk supply.

Bottom line… producers need effective protection.

Read more about the solution…

Dairy Producer Margin Protection Program:

DAIRY'S INSURANCE POLICY FOR THE FUTURE

Insurance is a familiar term among producers.

But what about insurance for milk?
Is there such a thing as milk insurance?

A new direction for dairy producer protection

The increased volatility in milk and feed markets in recent years, along with the desire to safeguard producer equity, inspired a new kind of insurance – margin insurance, in the form of the Dairy Producer Margin Protection Program. This program is intended to replace current federal safety net programs and support producer margins instead of just milk prices. The Dairy Producer Margin Protection Program enables producers to protect or insure their margins (defined as the All-Milk Price minus feed costs) against:

- Catastrophic market conditions, which can result in severe equity loss such as those experienced in 2009, and
- Long periods of low margins, such as those in 2002 and 2003.

"Through this approach, we're trying to take some of the volatility out of the market. Producers don't like it, processors don't like it, retailers don't like it, and consumers really don't like it," says Ken Nobis, a Michigan dairy producer and chair of the Foundation for the Future Dairy Producer Margin Protection Committee. "We're going to try to control the volatility by offering a wider protection device than what we currently have."

Nobis explains that there has never been a time in the last decade when the Dairy Product Support Program covered the cost of production for dairy producers.

The plan is to eliminate current federal safety net programs and use those government resources to support the Dairy Producer Margin Protection Program.

The Dairy Producer Margin Protection Program provides a margin floor, which will help offset either low milk prices or high input costs and prevent equity erosion. All dairy producers, regardless of operation size or region, would be eligible for free basic coverage along with voluntary supplemental coverage. The margin protection program will help dairy producers survive financially difficult times by paying them an insurance indemnity when catastrophic or significant losses occur.

How does Dairy Producer Margin Protection work?

Producers can insure up to 90 percent of their historical milk base using the highest annual milk production from among the last three years. The program will provide two coverage levels to address catastrophic losses: basic coverage, and supplemental coverage.

Basic coverage – Up to 90 percent of a farm's milk production is guaranteed a \$4.00 margin protection at no cost; will address catastrophic losses only.

Supplemental coverage – Producers can purchase additional margin insurance beyond basic coverage for up to an additional \$4.00 per hundredweight on up to 90 percent of their milk production. Premiums and payouts are determined by the level of margin guarantee selected and milk volume to be protected.

"The Dairy Producer Margin Protection Program is another tool to help producers manage their economic future. I see Foundation for the Future, in general, and this program especially, offering more protection than current policy."

KEN NOBIS - Michigan Dairy Producer and Michigan Milk Producers Association Chairman

"Foundation for the Future provides dairy farmers like us the opportunity to meet the growing world demand for dairy products and positions us to better compete in the export market."

Matt & Kristie Dorsey
Twin Falls, Idaho

Calculate margin insurance coverage at www.futurefordairy.com

The USDA will calculate the margin on a monthly basis using the All-Milk Price for that month, minus feed costs. The feed cost is calculated using the feed ration developed to more realistically reflect today's costs associated with feeding all dairy cattle (see New Feed Cost Measures inset on page 10). The USDA will calculate the average margin for a two-month period; the margin calculation will determine if basic and supplemental insurance payments will be issued.

In addition, signing up for margin protection insurance isn't complicated. The Dairy Producer Margin Protection Program isn't managed like car insurance or crop insurance; producers won't have to buy margin protection insurance from private insurance agents, or involve the USDA's Risk Management Agency.

The Dairy Producer Margin Protection Program is intended to be a federal farm program managed by the Farm Service Agency (FSA). Producers will only need to sign up once with their local FSA office.

CONTINUED »

Why Margin and Not Price?

In the future, the financial stability of dairy operations will depend on margins, rather than milk prices alone. The economic hardship experienced in the last two years testifies that high milk prices don't guarantee profitability when teamed with high input costs.

How will producers benefit from the Dairy Producer Margin Protection Program?

The opportunity for producers to insure up to 90 percent of their milk production history through the Dairy Producer Margin Protection Program will help offset low milk prices or high input costs, thus protecting producers from losing billions of dollars in equity as they did in 2009. The Dairy Producer Margin Protection Program will also protect producers' livelihood by providing additional security for those needing credit from the agricultural lending community.

"Participating in the Dairy Producer Margin Protection Program gives producers another tool to manage their economic future. It's not a program that guarantees profitability, but it should take some of the worry out of dairy farming," Nobis says.

Randy Mooney, a Missouri dairy producer, and NMPF's board chairman, sees margin protection playing a vital role in helping producers grow their businesses.

"Looking five years down the road, say you want to expand your dairy or bring your son or daughter into the business. With margin protection, you can take your business plan to your banker and say, 'I want financing to do this.' The banker is going to ask, 'What's the worst case scenario?' Under Foundation for the Future, we have a margin protection plan that tells us that we're going to get feed costs plus $4.00 per hundredweight. With margin protection, producers can go to their bankers and ag lenders and tell them their milk supply is protected."

Greg Peracchio
Tolland, Connecticut

"Foundation for the Future's programs will help address the volatility of margins on my farm, which is important if we are going to continue to farm for a fourth generation."

New Feed Cost Measures

The Dairy Producer Margin Protection Program requires calculating the margin over feed costs on a dollar per hundredweight of milk basis. Feed costs play a vital role in the Dairy Producer Margin Protection Program, as they are necessary for capturing the volatility of feed costs relative to an average or expected level. The measure used to calculate feed costs must be sensitive to the feed components' market volatility or variability.

With support from industry feed ration experts and nutritionists[1], NMPF developed a new feed ration that realistically reflects costs associated with feeding all dairy cattle, from calves to dry cows, on a dairy operation today. This new ration focuses on:

- Rations for a cow producing 68.85 pounds of milk per day during lactation
- Rations for hospital cows, dry cows, and replacement heifers of all ages
- Four ingredients that experience price fluctuations in the feed commodities market, resulting in changes in feed costs:
  - Shelled corn
  - Corn silage
  - Soybean meal
  - Alfalfa hay

[1] Steve Watrin, Land O'Lakes, Inc.; Ed Gallagher, Dairylea Cooperative, Inc.; Gordie Jones, DVM Central Sands Dairy, Wisconsin; Mary Beth Hall, Ph.D., USDA Forage Center; Terry Howard, Ph.D. (retired), University of Wisconsin; Mike Hutjens, Ph.D., University of Illinois; Randy Shaver, Ph.D., University of Wisconsin.

DAILY QUANTITIES OF FEED INGREDIENTS FOR THE ENTIRE HERD

QUANTITY IN COMMERCIAL UNITS (UNITS/DAY)

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

Total feed cost per hundredweight of milk is determined by adding the total daily cost of purchasing the four feed ingredients used in the amounts shown in the table above and dividing the result by daily volume of milk marketed, which is 0.6885 hundredweight for each milking cow.

The Dairy Producer Margin Protection Program milk-feed margin is then determined for each month as the difference between the monthly price received by producers for all milk sold in the United States, the All-Milk Price (reported by USDA/NASS) minus monthly feed costs.

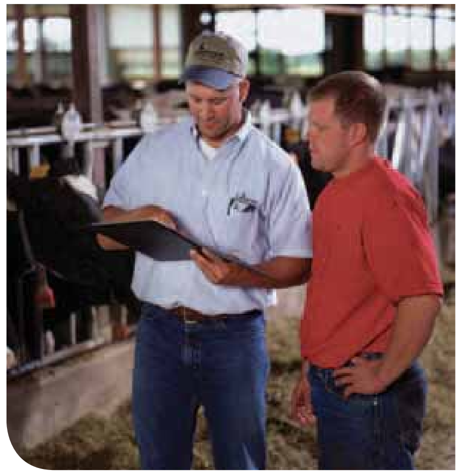
"When thinking about feed costs, most producers only think about the cost of feeding cows that are producing milk, and forget about the other dairy cattle such as dry cows, hospital cows, and heifers. The new feed cost measures outlined in the Dairy Producer Margin Protection Program account for all dairy cattle on the farm, from calves to milk cows. I went back and applied the new feed cost measure on my own farm and was amazed at how accurate it was in figuring my input costs."

KEN NOBIS - Michigan Dairy Producer and Michigan Milk Producers Association Chairman

Reforming Federal Milk Marketing Orders:

SUPPORTING CHANGE THAT SUPPORTS THE INDUSTRY

Understanding Federal Milk Marketing Order Reforms



While cheese manufacturers are likely to continue using the Chicago Mercantile Exchange (CME) price as one reference point for the cheese they sell, dairy farmers' milk price will no longer be tied directly to what happens on the CME, as it does now through the end product pricing formulas. A competitively-determined milk price will be less volatile than the current product price formulas, and their direct link to CME prices.

The Federal Milk Marketing Order (FMMO) system provides substantial benefits to producers, including the equitable pooling of minimum revenues, third-party audits of producer payments and the use of milk in plants, as well as important market information. However, the current end-product price formulas used to calculate minimum manufacturing milk prices create winners and losers between producers and processors, and even among cooperatives.

The make allowances and yield factors built into these formulas have become a source of conflict. Producers believe that make allowances guarantee a profit to processors and stifle the effectiveness of the Dairy Product Price Support Program. Processors insist that the formulas don't allow them to capture a fair return on their investment. In addition, they can put Federal Order processors at a competitive disadvantage with unregulated areas, state milk marketing orders and in the world market.

There is also concern by both producers and processors that the Federal Orders don't adequately address the difficulty and expense of balancing fluid milk supplies.

The primary objectives of Foundation for the Future's (FFTF) Federal Order reform proposal are to address the inequities and the inadequacies of end-product price formulas and improve price stability.

The FFTF Federal Order reform proposal focuses on adopting competitive pricing for manufacturing milk, maintaining minimum pricing for fluid milk, and allowing for new balancing programs to be considered in markets where needed. Many other elements of the Federal Orders, developed over the years for many specific reasons, are left as they are, including Class I differentials, marketing order areas, pool plant definitions, and producer pooling qualifications.

The FMMO reform program is more market-oriented while preserving the most valuable elements of Federal Orders. The use of a competitive pay price will enhance price discovery and facilitate the ability to export, offering greater opportunities for U.S. dairy products in the global marketplace.

Why revise FMMOs?

- End-product price formulas, make allowances, and yield factors create winners and losers
- Milk prices are too volatile
- More transparent milk price discovery is needed
- Current system stifles product innovation

What will Foundation for the Future's FMMO reform do?

- Discover a true market price for milk used in manufactured products, rather than a price generated by a formula using thinly-traded product values and make allowances
- Reduce price volatility through competitive pricing
- Encourage product innovation by not locking manufacturers into a minimum price based on the value of a product different than the one they produce
- Provide more equitable compensation to the cooperatives and other handlers who do the hard work of balancing fluid markets
- Maintain the core framework of FMMOs

What are the key FMMO revisions?

- Reducing the number of milk price classes to two – fluid and manufacturing
- Replacing end-product price formulas with competitive milk pricing system
- Maintaining "higher of" for fluid milk minimum price for manufacturing milk
- Maintaining current Class I differentials

How is the Class I price mover calculated?

It is the higher of either the:

- **Weighted average national competitive cheese milk price**
  - Proprietary cheese plants processing 250,000 lbs. of milk per day surveyed each month
  - Base month survey two months prior to the month for which the Class I price mover would be effective
  - Adjusted for change in NASS cheddar cheese price from first two weeks in base month and first two weeks of month immediately prior to effective Class I mover month

OR

- **Advanced current Class IV formula price as currently calculated**

Example:

October competitive cheese milk price
= $17.64

Adjustment for change in cheese value in October-November competitive cheese milk price
= ($0.60)

Adjusted October price ($17.64 - $0.60)
= $17.04

Advanced Class IV formula price
= $16.96

Class I price mover (higher of)
= $17.04

Dairy Market Stabilization Program:

AN EARLY WARNING SYSTEM FOR DAIRY PRODUCERS

In 2009, dairy producers didn't overproduce their way to extremely low margins.

Domestic and global market demand collapsed during the global recession, thus completing the trifecta of low milk prices and historically high feed costs to produce record-breaking low margins.

There was no warning that dairy markets would bottom out or that feed costs would continue to climb. Producers were left with billions of pounds of milk, and no market that could come close to covering their production costs.

In order to arm producers with a line of defense against the extreme volatility experienced in 2009, Foundation for the Future recommends the establishment of the Dairy Market Stabilization Program. When producer margins begin to slide, whether from the milk supply exceeding demand or feed costs creeping up, the Dairy Market Stabilization Program will intervene, acting like a smoke detector to alert producers that any additional milk production entering the market may significantly impact their overall margins. When this happens, producers will be encouraged to lower their milk marketings for a short period of time to restore balance and improve margins.

Neal Rea, a New York dairy producer, board chairman of Agri-Mark, and a member of the Dairy Market Stabilization Subcommittee explains that although supply management is a negative concept to some dairy producers, the Dairy Market


Neal Rea,
New York Dairy Producer

Stabilization Program Subcommittee for Foundation for the Future tried to design this program to be more market-oriented and balance the markets with the demand. "If your inventories are too high, you'll realize that you can't sell everything, so you really need to slow down production until you can bring it in line with the market," Rea advises.

How does the Dairy Market Stabilization Program work?

Just like the Dairy Producer Margin Protection Program, the Dairy Market Stabilization Program will be based on margin (All-Milk Price minus feed costs), which the USDA will calculate monthly. If the margin sinks below Dairy Market Stabilization Program trigger levels (see inset) for two consecutive months, the USDA will declare the program's activation 30 days before the month when the deduction in milk payments goes into effect. They will notify milk cooperatives, who in turn will alert producers to adjust production. Payment deductions will occur in milk checks. Based on these deductions, producers will see that it makes sense to adjust production, rather than produce milk and not receive payment for it.

Dairy Market Stabilization Program Trigger Levels:

- When the actual national margin is $6.00 or less for two consecutive months, producers will be paid the greater of 98 percent of their base milk marketings or 94 percent of their current milk marketing;
- When the actual national margin is $5.00 or less for two consecutive months, producers will be paid the greater of 97 percent of their base milk marketings or 93 percent of their current milk marketing;
- When the actual national margin is $4.00 or less in a single month, producers will be paid the greater of 96 percent of their base milk marketings or 92 percent of their current milk marketing.

Where does the money go?

Funds collected through the Dairy Market Stabilization Program will not be redistributed to producers. Doing so would provide the means for producers to expand production during times when the Dairy Market Stabilization Program is not in effect, and therefore would work against the goal of the program. Instead, the monies collected will be put toward programs that stimulate domestic dairy product consumption. A Dairy Market Stabilization Program board will be established to direct the use of the money and will comprise both producers and cooperative representatives from across the country. The board's purpose is to determine the most effective use of the monies collected from the program. Examples for consideration include:

- Purchasing dairy products for food assistance programs
- Incorporating dairy products in school nutrition programs
- Developing product innovation and new dairy product uses

The Dairy Market Stabilization Program is designed to act swiftly and infrequently to restore market balance. In fact, when applying this program to the last 10 years, the Dairy Market Stabilization Program would have only activated five times, with the longest interval lasting six months, and the other four intervals lasting about two to three months.

Randy Mooney, Missouri dairy producer and board chairman for the National Milk Producers Federation, says that the biggest question producers have about the Dairy Market Stabilization Program is, "Will it control my business?" "My answer to that is, 'No.' We have a growing world economy and we're feeding the world. We're going to be able to grow and supply the world with dairy products as long as the U.S. dairy industry wants to." Mooney adds, "We need triggers that kick in fast, otherwise we're going to have massive devastation like we did in 2009. We need a system in place that actually puts supply and demand back in line to help producers get it back to where it's profitable so they can continue to feed the world."

Facts About Base Milk Marketings:

- The producer's milk marketing base is defined as the average of the three most recent months' milk marketings prior to the notification from the USDA, or the same month in the previous year.
- The base is not permanent, it expires when the reductions in payments end.
- Dairy operations make an annual base selection, choosing either the same month in the previous year or the three month average as their base.

The following examples demonstrate how the Dairy Market Stabilization Program is designed to work.

SCENARIO:

- The margin for April and May is below the $6.00 margin trigger level
- USDA announces the Dairy Market Stabilization Program will take effect in July
- The pay price for July is $14.00/cwt.

Producer A:

- Base milk marketings 1,000,000 lbs.
- Markets 1,010,000 lbs. in July
- Paid for 980,000 lbs. (1,000,000 lbs. X 98%)
- Deduction from May milk check:
  - 1,010,000 lbs. – 980,000 lbs. = 30,000 lbs.
  - 30,000 lbs. X $14.00/cwt. = $4,200.00 deducted from milk check

Producer B:

- Base milk marketings 1,000,000 lbs.
- Markets 1,200,000 lbs. in July
- 1,200,000 lbs. – 98% of base (980,000 lbs.) equals 220,000 lbs.
- 6% of 1,200,000 lbs. = 72,000 lbs.
- Deduction from May milk check:
  - 72,000 lbs. X $14.00/cwt. = $10,080.00 deducted from milk check

Expert Analyses:

WHAT DO THE EXPERTS SAY ABOUT FOUNDATION FOR THE FUTURE?

Experts put Foundation for the Future to the test

Many people put a great deal of thought and time into making Foundation for the Future the solution for mending the dairy industry's economic crisis. With the entire industry's livelihood on the line, the following organizations conducted independent and unbiased analyses on Foundation for the Future:

- American Farm Bureau Federation's (AFBF) Economic Analysis Department
- University of Missouri Food & Agriculture Policy Research Institute (FAPRI)
- Charles Nicholson (California Polytechnic State University) and Mark Stephenson (University of Wisconsin-Madison)

In general, all three analyses show agreement with the Foundation for the Future. More specifically, they all reveal a reduction in margin volatility under Foundation for the Future policies.

Analysis # 1

FAPRI Analysis

For the past 25 years, Congress has called upon the University of Missouri Food & Agriculture Policy Research Institute (FAPRI) to conduct independent and unbiased analysis of both current and proposed dairy policies for U.S. agriculture. FAPRI provided two different analyses for Foundation for the Future.

Analysis of NMPF's Foundation for the Future Program

The first report analyzes Foundation for the Future's impact on milk production, dairy product prices, and dairy producer margins. In addition, it captures the factors that determine U.S. milk supply and the demand for dairy products and interprets how the interaction of market supply and demand factors, in conjunction with government dairy programs, will determine future dairy prices and production levels under a wide range of possible future market conditions.

The analysis revealed two key results:

1. Replacing current federal safety nets with the Dairy Producer Margin Protection Program and Dairy Market Stabilization Program will not have a negative impact on dairy market fundamentals. However, it also does not mean that current dairy policy offers producers the same level of equity protection as Foundation for the Future when significant adverse market conditions strike.
2. The Dairy Producer Margin Protection Program offers better protection for producer equity, especially when it's most needed. Even though the Milk Income Loss Contract program may trigger more often than the Dairy Producer Margin Protection Program, it covers only 45 percent of the price difference on a maximum of 2.985 million pounds of milk production. The Dairy Producer Margin Protection Program, by comparison, covers 90 percent of a producer's base milk production, providing a greater floor for protecting producers' income.

Marty & Lisa Burken
Clinton, Iowa

"I believe the Dairy Market Stabilization Program, in addition to the other programs in Foundation for the Future, acts as another line of defense against dairy market volatility. If production costs cut our margins, or the milk supply exceeds demand, then producers aren't going to get a decent return. The stabilization program can prevent that."

FAPRI Analysis Continued

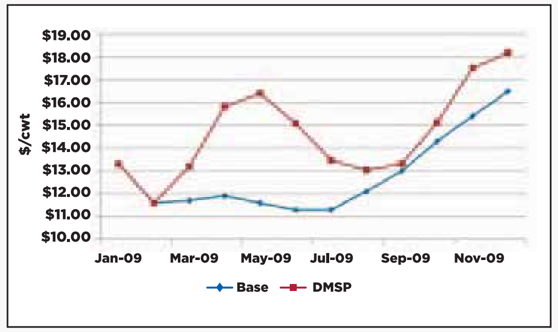
The Economic Impact of the Dairy Market Stabilization Program on 2009 Dairy Markets

The second report focuses solely on the operation of the Dairy Market Stabilization Program (DMSP) and measures the monthly impact of the program, had it been in effect in 2009.

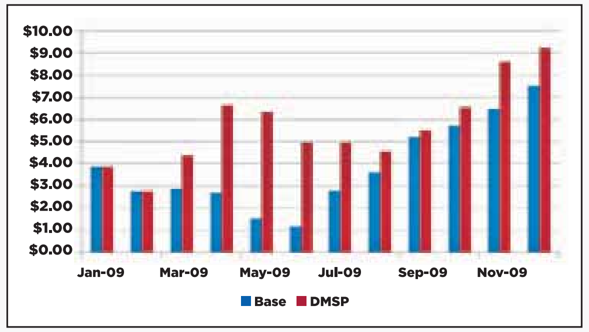
The analysis shows the following:

It is estimated that the operation of the DMSP in 2009 would have resulted in:

1. Reduced milk supplies during the months of DMSP operation (March, April, May and September, October, November).
2. Increased milk prices and margins by \$2.21/CWT, March through December 2009.
3. Increased dairy producer cash receipts totaling \$3.4 billion, March through December 2009.
4. Cheese purchases using DMSP during the months milk marketings were not restricted provided additional margin recovery.



The graph shows that milk prices remain above the baseline (or actually observed) 2009 monthly levels for every month starting in March 2009 under the DMSP. There are two components responsible for this price increase. First, the direct effect of the DMSP reduces milk marketings and thus raises milk prices. Second, the portion of the program that uses monies generated from the above allowable marketings to purchase cheese also increases milk prices.



The operation of the DMSP will raise FFTF margins as a result of curbing excess milk supplies and using program monies to purchase cheese from the marketplace. The graph shows the FFTF margin using actual 2009 data relative to the FFTF margin that would have occurred due to the market adjustments of smaller milk supplies and cheese purchases from the DMSP.

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Analysis # 2

AFBF Analysis

The American Farm Bureau Federation (AFBF) Economic Analysis Department's research explores Foundation for the Future's effect on the following components:

a) impact on milk prices, b) cost of the base and supplemental insurance tiers, c) price of producers' premiums on supplemental coverage, d) operation of the supply management program, and e) impacts on changes to milk pricing and federal orders.

Their examination reveals that:

1. Supplemental coverage premiums are at reasonable costs for producers.
2. While AFBF policy opposes supply management, the Dairy Market Stabilization Program is easily the least prohibitive and most market-oriented of all proposed supply management programs.
3. Competitive pricing, as part of Foundation for the Future's Federal Milk Marketing Order Reform, is a step in the right direction for the dairy industry.

Analysis # 3

Nicholson-Stephenson Analysis

Charles Nicholson (California Polytechnic State University) and Mark Stephenson (University of Wisconsin – Madison) released "Analysis of Proposed Programs to Mitigate Price Volatility in the U.S. Dairy Industry," which presents the results of their analysis on the impact of the Costa-Sanders Bill, the Marginal Milk Pricing Program proposed by Agri-Mark, and Foundation for the Future.

This analysis, also referred to as the "Nicholson-Stephenson analysis" uses a model of the U.S. dairy industry, which measures the volatility of milk prices and dairy producer incomes, and produces a baseline forecast for 2010-2018. Their analysis reveals the following results:

1. All three programs reduced price volatility, with Foundation for the Future reducing volatility by an average of $0.62 per hundredweight. Foundation for the Future resulted in a small reduction in milk production (0.4-0.7 percent) and increased the All-Milk Price by $0.17 per hundredweight. Compared to current policy, Foundation for the Future reduced government expenditures from $3.2 billion to $1.6 billion for 2010-2018.
2. Foundation for the Future generated the highest average Class III price.
3. Foundation for the Future produced the highest level of milk price income over feed costs for all farm sizes relative to the Nicholson-Stephenson baseline without shocks and the second highest (slightly less than the Marginal Milk Pricing Program), relative to the baselines with imposed shocks. However, the measure of milk price income over feed costs used in the analysis does not include program payments, such as Foundation for the Future's margin insurance program payments, and is therefore not a fully-comprehensive measure of net incomes.

To review the published reports of these analyses, visit www.futurefordairy.com.

Foundation for the Future

Rethink What's Possible: Protection, Stability & Growth

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* Denotes NMPF Officer ** Cooperatives Working Together Coop Member Only

NMPF realizes that Foundation for the Future requires a new way of thinking about U.S. dairy policy, milk pricing systems, and the impact of margin on individual operations. We encourage you to reach out to your industry peers, who served on the subcommittees, to ask questions and gather the information you need in order to better understand Foundation for the Future. A stronger understanding will help us move forward with these new dairy policy initiatives as a united industry and achieve a more economically viable and secure future for U.S. dairy producers.

Dairy Policy Reform That's Possible

Visit www.futurefordairy.com to support Foundation for the Future and follow updates about the dairy policy reform program.