

***Dairy Price
Stabilization Program***

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A Quick Research Project

Let's pretend for a minute:

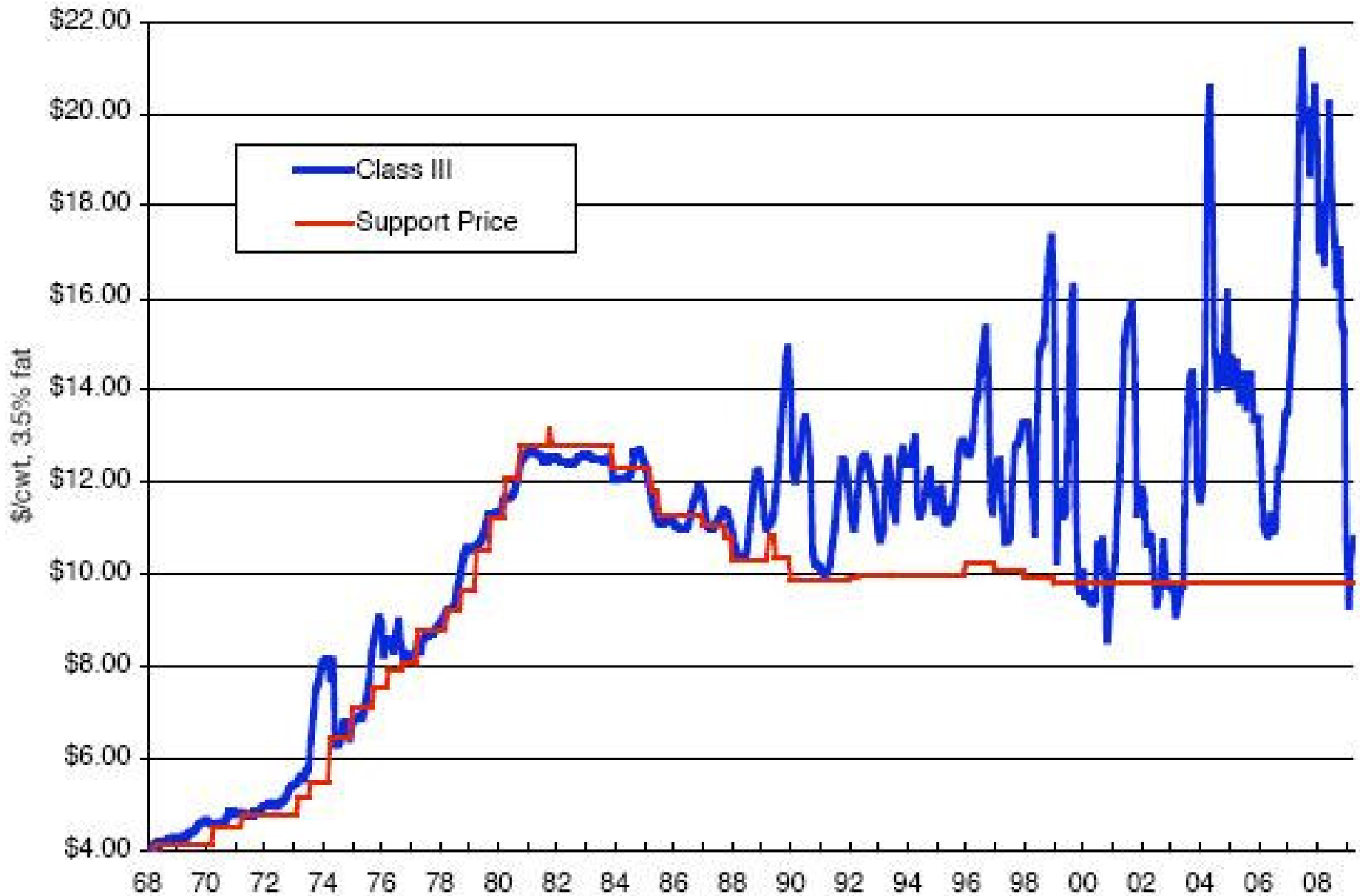
- \$17.50 per hundredweight in December
- \$18+ per hundredweight in January
- February, March and April look like \$18-\$19

What's going through your mind?

A Quick Research Project

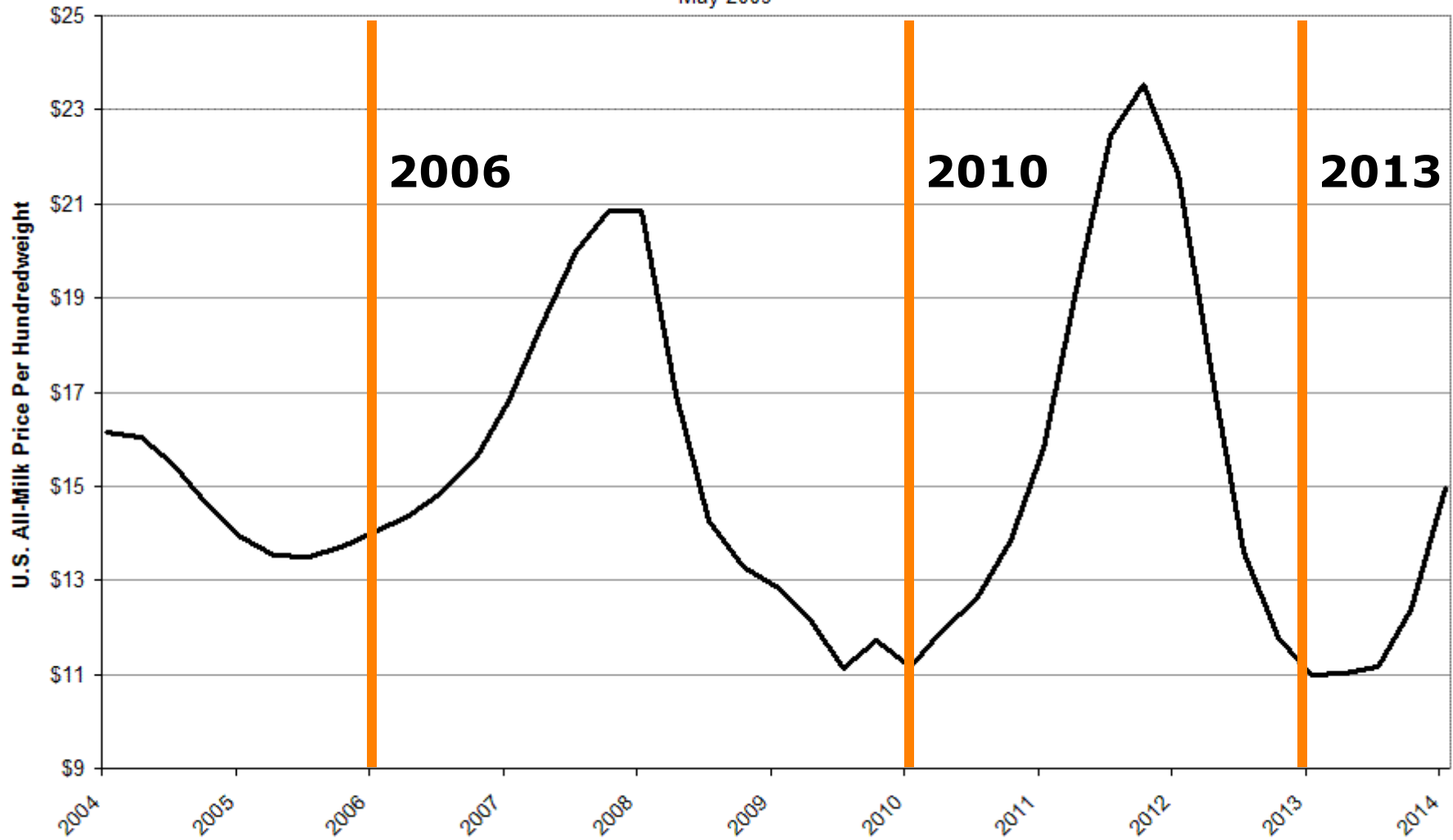
What's going through your mind?

- Relieved
- Getting your dairy back in shape?
 - Put more wholeseed back in the ration?
 - Feed more energy?
 - Look for a few heifers to fill “holes”?
- Whatever you do, you feel an urgency, because after all, you can't imagine that the good times will last, right?



Courtesy of Cornell University's Program on Dairy Markets and Policy

Baseline Projection is we do nothing
Cornell University's Program on Dairy Markets and Policy
May 2009

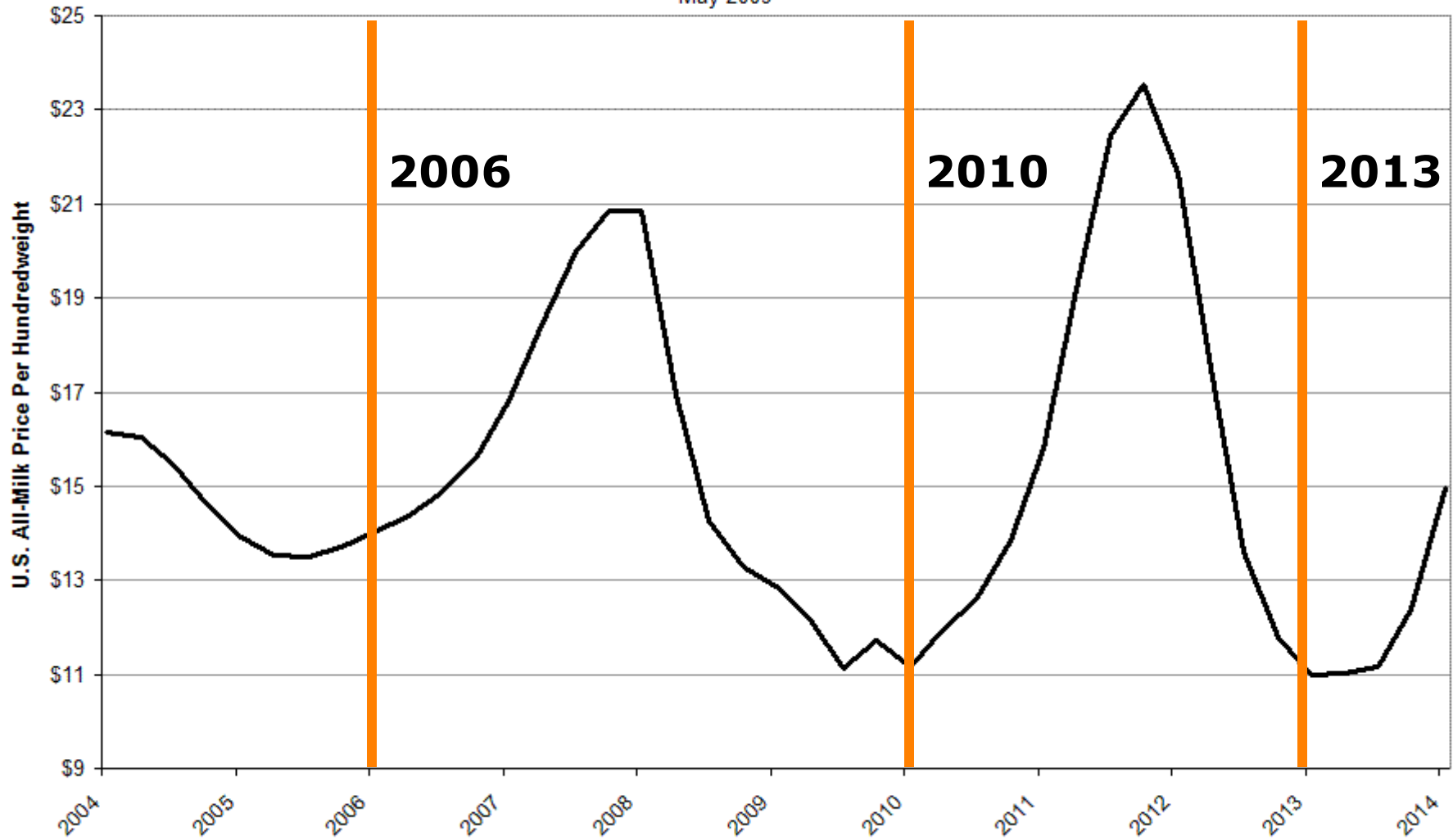


****According to economic model created by Cornell University's Program on Dairy Markets and Policy (CPDMP), this is what the next 5 years could look like.***

What's Changed?

- Back then...
 - Small 30-50 cow farms that housed their cows in a fixed tie stall barn, which was not easily expanded.
 - During times of a profitable milk price, that model of dairying could not be rapidly expanded.
- Now...
 - The “Western-Style” of dairy farming has spread to the entire country.
 - Producers have easily expandable milking facilities, with the know-how, the technology and the capital to rapidly expand production.
 - During times of a profitable milk price, every dairy has the incentive – and the ability – to rapid increase expansion.

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What Can We Conclude From This?

- Price alone will no longer keep supply and demand in reasonable balance.
- Our industry is hard-wired to overproduce
 - The “magic of pooling”
 - Our ability to rapidly increase production
- This may be new for us, but most manufacturers have always been able to produce more than the market can absorb.

We need a new tool to keep better supply/demand balance

Why have the government involved in the dairy industry at all?

- Milk is unique
 - You have to produce it and sell it every day, to a buyer that does not have to buy it every day.
- This creates an unequal balance of power at the negotiating table
- This is exactly why the industry asks the government to be a “referee.”

So What Can We Do?

- The Dairy Price Stabilization Program
 - One stated goal: maintain better alignment in supply and demand.
 - The program creates incentives, not government mandates.
 - Over the years, demand for milk has been amazingly steady, 1-2 percent per year, growing largely with population.
 - The problem is when we increase production by 3-4 percent per year.

**U.S. Secretary of Agriculture
Dairy Producer Board**

(12 producers + 3 processor representatives + 1 economist advisor)

The Secretary and Board set two numbers each quarter.

Allowable year-over-year growth
in milk production per facility.
(normally 1 – 3 percent)

Market access fee to be paid by
facilities that exceed the allowable year-
over-year growth in milk production.
(normally \$0.50 - \$1.50 per hundredweight)

**All market access fees that are
paid by expanding dairies will be
distributed to all other dairies.**

*A dairy can choose to maintain
their production within the
allowable year-over-year
growth, and collect their pro-
rata share of the market
access fees that are paid.*

OR

*A dairy can choose to expand its
production beyond the allowable
growth and pay a market access fee
for the first year of the expansion.*

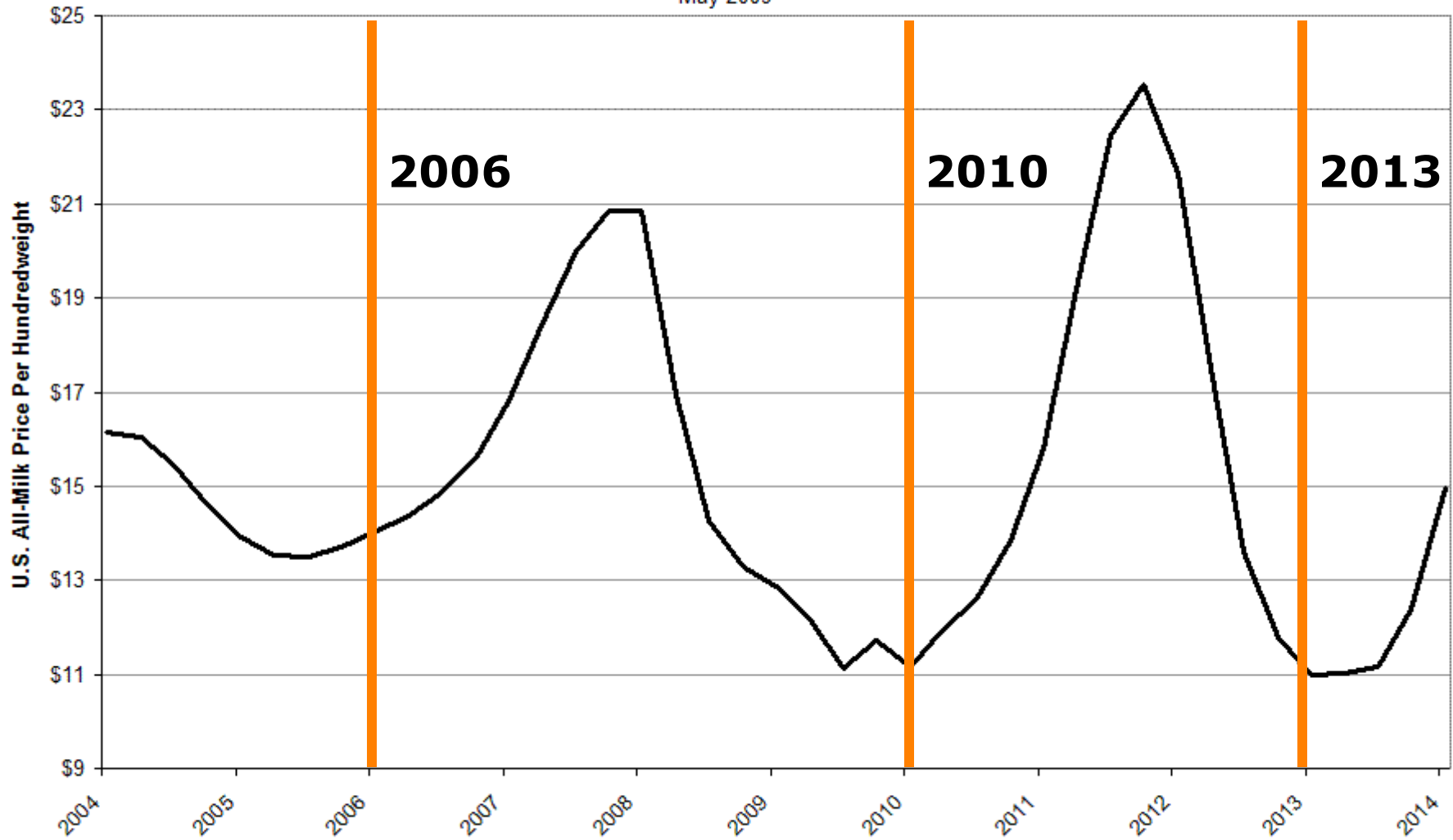


**The decision of whether or
not to expand production
remains with each individual
dairy, just as it is now.**

The Future Of Our Industry At Stake

- Nature of milk has not changed.
- If producers want to control our future, we need the government to be the referee.
- Other animal agriculture sectors have gone down the “deregulated” road. Those industries are now dominated by the processors.
- We are offering a program designed to keep control of the milk supply in producers hands.

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Questions?

For more information, please visit:

www.stabledairies.com

