Holstein Association USA, Inc.
Dairy Price Stabilization Program

September 2, 2009

The volatility in dairy product prices and dairy producer milk prices is extremely difficult for dairy producers, milk processors and end users of milk and dairy products to manage. The U.S. All Milk price averaged $15.13 for 2005, just $12.88 for 2006, a record high of $19.13 for 2007 and $18.32 for 2008, the second highest on record. But, the U.S. All Milk price was a record monthly high of $21.90 November of 2007, started 2008 with a January price of $20.50 only to fall to $15.60 by December and down to $11.50 for February 2009. Such volatility creates major problems for dairy producers to manage cash flow and make capital investment decisions. When prices are at their lows returns over feed costs become unfavorable and even negative. These unfavorable returns have a negative impact beyond the dairy producer level. Farm input suppliers are negatively impacted as dairy producers reduce their purchases of feed, seed, fertilizer, crop chemicals, machinery and other inputs. These lower input purchases negatively impact local businesses and communities.

Program objectives:

- To prevent severely depressed producer milk prices that result in low and negative returns over feed costs to dairy producers.
- To reduce the volatility of dairy product prices and producer milk prices and thereby reduce the price risk to dairy producers, dairy processors and end users of milk and dairy products.
- Provide flexibility in allowing dairy producers who wish to expand their dairy operations as well as providing for new producers who wish to enter dairying.
- To complement and not replace other existing dairy programs such as the federal dairy price support program and the Milk Income Loss Contract Program. In fact, this program would reduce the federal government cost of both of these two programs.
- Provide for a long run dairy program for seven years with a five year review for continuation and/or modifications based on past performance.

Program provisions:

- The program is mandatory in that all states will be included. However, it is flexible in that individual producers may decide to expand their dairy operation and new producers are allowed to enter the dairy industry. States having programs to grow their dairy industry will still be able to implement such programs.
- For the purpose of this legislation, the term “new producer” shall be defined as any individual or group of individuals entering the dairy business, none of whom have any interest in milk producing cows at the time of this bill’s enactment.
- Upon implementation of the program, each dairy producer will be assigned an initial base of raw milk marketings using an average of the calendar years 2007, 2008, and 2009.
- There will be a committee setup to review individual appeals.

- For those producers with less than a 3-year history, calendar year 2009 will be their initial allowable milk marketings base. Each producer's base will be divided into their quarterly historical milk marketings. Bases are a moving base whereby at the beginning of the next 12-month period, a producer's base will be the recent past 12 months. The base is assigned to the producer owning the producer license for the dairy operation.
- Bases can be transferred by filing the exchange with the Farm Service Agency.
- Multiple dairy producers can combine their bases from two or more facilities into one dairy facility provided each producer holding one of the bases to be combined remains engaged in milk production of the operation in the combined facility.
- In all other instances a producer's base evaporates once the owner of the producer license no longer is actively producing and marketing milk.
- The program will be administered by the U.S. Secretary of Agriculture with an advisory Board, hereafter referred to as Board, appointed by the Secretary from nominations. The Board will include two dairy producers from each of 6 regions—the West, South, Southeast, Central, Midwest and Northeast; one consumer representative, one representative of dairy product firms (cheese, butter, milk powder or other manufactured products), one representative of a fluid milk bottler, and a dairy economist advisor to the Board.
- The U.S. Secretary of Agriculture in consultation with the Board will forecast the market for fluid milk and manufactured dairy products (total commercial disappearance) that includes both the domestic market, any foreseen government purchases, and exports for each quarter of the next 12 months. Taking into consideration the current level of milk production, a determination will be made as to the needed change in U.S. milk production to fulfill the market needs for each quarter of the next 12 months allowing for a producer raw milk price that is positive over operating costs as determined by the Board. The Board will meet quarterly with the U.S. Secretary of Agriculture to revise forecasts and to forecast out by quarter for the next 12 month period. The market needs by quarter is referred to as "allowable milk marketings".
- Dairy producers who maintain their milk marketings by quarter within the "allowable milk marketings" are not directly impacted by the program. Recognizing that milk production is affected by weather, feed quality, herd health, etc., a producer who exceeds the "allowable milk marketings" for a given quarter will not be impacted provided that their milk marketings for the entire 12 month period are within the "allowable milk marketings" and if so, any "market access fees" collected will be refunded.
- Dairy producers who produce at or below their "allowable milk marketings" will not be impacted with a reduction in base in the future marketing period/s.
- Dairy producers who wish to expand their dairy operation and exceed the "allowable milk marektings" will be assessed a "market access fee" per hundredweight on milk marketings that exceed their "allowable milk marketings" level. This "market access fee" will initially be determined by the U.S. Secretary and the Board, but we expect it will be in the range of $6.00 to $9.00 per hundredweight on this "new" milk. Based on historical performance of the program, this market access fee may be increased or

decreased, but cannot be increased for dairy producers currently being assessed the "market access fee" for the current 12-month marketing period. If the market access fee would drop while a producer is expanding, the fee could go down (because we need more milk), but a fee would never go up once locked in for 12 months.

- For dairy facilities who expand marketings beyond the "allowable milk marketings" and pay a "market access fee", their fees would be collected and redistributed back to the dairy producers who held their milk marketings within the "allowable milk marketings". Redistribution of "market access fees" will be done annually at the anniversary date of the inception of this program.
- Once it is determined that a dairy producer has expanded milk marketings beyond the "allowable milk marketings" for a given quarter, the dairy producer will have the "market access fee" deducted for the proportional amount of "new" milk from their milk check in the following quarter and for the next three quarters. The dairy producer's higher milk marketings during the first quarter and following three quarters having a "market access fee" becomes the new and higher historical base to which milk marketings for the quarters for the next 12 months will be compared to.
- For new producers without a full year of milk marketings or those entering after the implementation date, their base will begin being established with their first full quarter of milk marketings and for the next three quarters. A new producer who begins producing milk on January 10, 2010 will begin establishing his or her base and paying any fees on "new milk" (which may be all of their milk if they are not the transferee of existing allowable milk marketings) on April 1, 2010 through March 31, 2011.
- Half of the new producers' market access fees will be deferred to the corresponding quarter during their second year of operation. Then, consistent with how the program is written for existing producers, the new producer is eligible for market access fee dividends if they stay under their allowable milk marketings, even though they will be paying market access fees on year one's milk marketings.
- New producers lose the ability to defer market access fees after their first full four quarters of operation. This includes a new producer who pays no market access fees during any time during their first four quarters.
- As with Milk Income Loss Contract payments dairy producers will file their milk production history and monthly milk marketings with their area USDA Farm Service Agency (FSA) office to establish a milk base. Dairy producers will authorize their milk plant or dairy cooperative to submit their milk marketings directly to the FSA office. If a dairy producer's milk marketings exceed the "allowable milk marketings" for a given quarter, the FSA office will notify the dairy producer's milk plant or dairy cooperative to deduct the "market access fee" starting the following quarter and for the next three quarters and submit the fees to the FSA office. Area FSA offices will submit "market access fees" collected to the national FSA office where they will be pooled and a value per hundredweight will be calculated for distribution to all dairy producers who had not exceeded the "allowable milk marketings".

- The Federal Milk Market Administrator or State Market Administrator, will, if solicited, provide information to use to verify reported producer milk marketings from dairy plants.

Administrative costs:

- An assessment of no more than two cents per hundredweight will be assessed against all milk marketings to cover administrative costs of the program. Milk plants are to submit these assessments directly to the national FSA office.

For more information, please contact:

John M. Meyer, Chief Executive Officer, Holstein Association USA, Inc.; email: jmeyer@holstein.com.