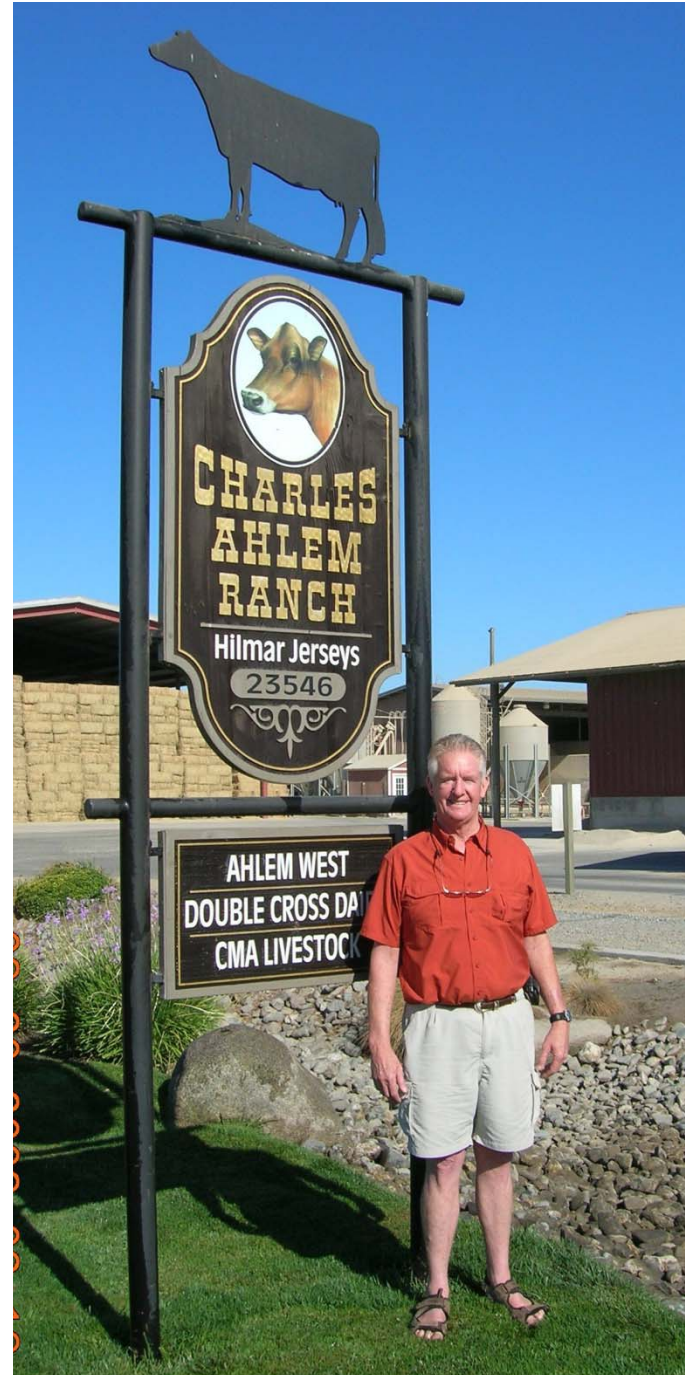


The Challenges and Opportunities of U.S. Dairy Policy

The Western Dairy Farmer Perspective

Charles Ahlem

Charles Ahlem Ranches









What is going on?

Ethanol Mandate:

- 40% of corn production used for Ethanol
- Paradigm Shift
 - Purchased vs. Grow Feed

Outcome:

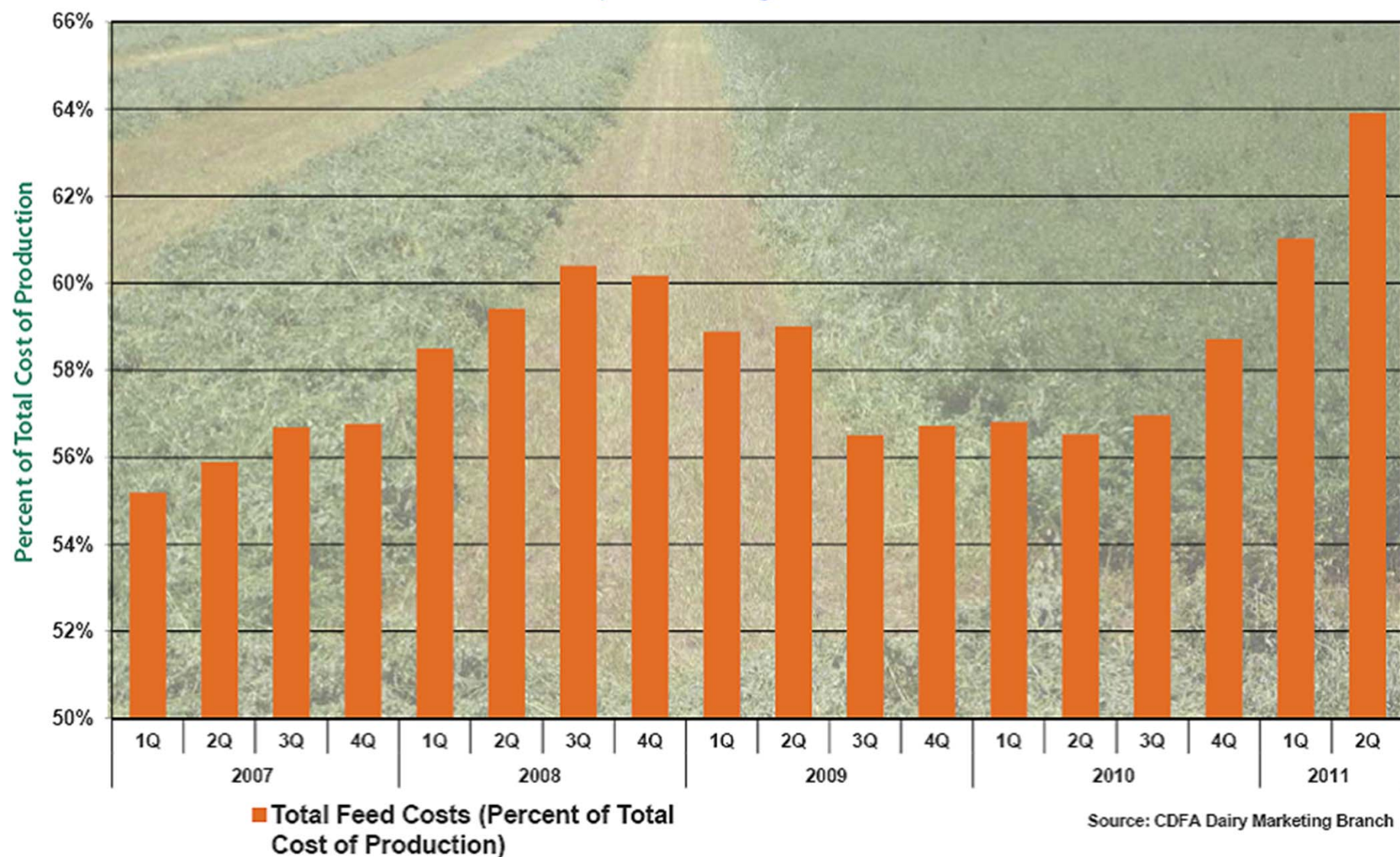
Margin Squeeze



Total Feed Cost As Percentage of Total Cost of Production

Based on California Cost of Production Survey

January 2007 through June 2011



Source: CDFA Dairy Marketing Branch

Need to increase revenue

- Argue over how to divide the revenue, rather than how to increase consumer demand and marketplace
- Need to focus on how to increase dairy demand



Industry responds to the system, not the marketplace





BOTTLE DEPOSITS

1/2 Gal. 10 Quarts 10
Pints 5 1/2 Pint 5

WIRE CARRIERS

All Sizes 50

Hours

9 AM to 9:30 PM
7 DAYS A WEEK

System allowed us to NOT focus on consumers

- Focused on how to get money out of system
- System encourages over production of wrong products
- No incentive for innovation
- Haven't focused on global customers like our international competitors



Our Opportunities



California Task Force

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California Ag Secretary Forms Dairy Future Task Force

SEPTEMBER 4, 2012
By: **Catherine Merlo**, Dairy Today Western and Online Editor



Goal is to seek long-term solutions for state's struggling dairy industry, with recommendations developed by year's end.

Seeking long-term solutions for the state's dairy industry, California ag secretary Karen Ross has invited 32 dairy farmers, cooperatives and processors to serve on a new California Dairy Future Task Force.

"I am determined to work with the dairy community to make the changes necessary to position farmers to take advantage of . . . opportunities and maintain California's status as a world leader in dairy production well into the future," **Ross writes in today's "Planting Seeds,"** a blog from the California Department of Food and Agriculture (CDFA).

CDFA Secretary Karen Ross wants task force members to begin work as soon as possible.

Reform Pricing

The desired outcome was for US dairy to become a Consistent Supplier to the global market

"Fortress USA"	Status Quo	Consistent Supplier	Global Dairy Player
<ul style="list-style-type: none"> • Complete focus on domestic market • Use of additional tariff and non-tariff barriers to overcome foreign competition • Supply mgt. as a means to balance production and demand, and limit volatility • Attempt to limit effects of globalization 	<ul style="list-style-type: none"> • Limited industry efforts to address globalization • Current policies and regulation • Opportunistic participation in global trade as prices allow • Individual companies may choose to develop differentiated export capabilities • Limited effort to manage volatility 	<ul style="list-style-type: none"> • Commitment to global opportunities for US milk supply • Broad efforts to improve commercial focus and align product portfolio • Collective effort to reform FMMO and price support • Efforts to improve forward contracts, futures markets • Strong domestic market as a basis for global trade • Joint industry efforts to build insight/capability 	<ul style="list-style-type: none"> • Consistent exporter strategy, plus: • Industry moves to an export focused model that includes milk supply and processing assets outside of US • Commercial and innovation capability development • May include off-shore investment and other significant efforts • Capabilities will support domestic market, though investments may be diverted globally

Better Tools to Manage Volatility

- Margin Insurance
(Goodlatte/Scott amendment)
- Forward Contracting



Manage our own supply

- Producers and Processor/ Cooperatives volume contracts
- More than 80% of the milk is controlled and marketed by dairy farmer owned cooperatives.



Long-term Solutions

- Focus on US and global consumer needs – make products people need and want
- Develop policy based on the market place with limited government intervention
- Manage our own supply



Thank You

