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
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

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).
### Reform Pricing

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

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<thead>
<tr>
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<th>&quot;Fortress USA&quot;</th>
<th>Status Quo</th>
<th>Consistent Supplier</th>
<th>Global Dairy Player</th>
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<tbody>
<tr>
<td><strong>Complete focus on domestic market</strong></td>
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<td>Limited industry efforts to address globalization</td>
<td>Commitment to global opportunities for US milk supply</td>
<td>Consistent exporter strategy, plus:</td>
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<td><strong>Use of additional tariff and non-tariff barriers to overcome foreign competition</strong></td>
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<td>Current policies and regulation</td>
<td>Broad efforts to improve commercial focus and align product portfolio</td>
<td>Industry moves to an export focused model that includes milk supply and processing assets outside of US</td>
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<td><strong>Supply mgmt. as a means to balance production and demand, and limit volatility</strong></td>
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<td>Opportunistic participation in global trade as prices allow</td>
<td>Collective effort to reform FMMO and price support</td>
<td>Commercial and innovation capability development</td>
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<td><strong>Attempt to limit effects of globalization</strong></td>
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<td>Individual companies may choose to develop differentiated export capabilities</td>
<td>Efforts to improve forward contracts, futures markets</td>
<td>May include off-shore investment and other significant efforts</td>
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<td>Limited effort to manage volatility</td>
<td>Strong domestic market as a basis for global trade</td>
<td>Capabilities will support domestic market, though investments may be diverted globally</td>
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<td>Joint industry efforts to build insight/capability</td>
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This document was prepared by the Innovation Center and is based on research and analysis conducted with the support and assistance of Rain & Company, a global management consulting firm.
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