

# Two Tiered Structured Dairy Pricing Program

Presented by the: *National Farmers Organization*

The National Farmers Organization is an Agricultural Marketing Cooperative representing our member's interest in marketing their grain, livestock, and milk. We recognize the extreme financial difficulties that currently exist on family sized dairy farms. We are entering into our fifth year of low milk prices (slide #1) and a solution to help keep family farms in business is critically important.

Much of the problem causing the low dairy prices is overproduction. We have seen a steady increase in milk production over the years (slide #2). This increased production has simply outpaced demand.

All this extra production is being generated by significantly less farms (slide #3). In fact we have lost 94% of our dairy farms in the past 48 years. We have seen a dramatic shift from *family sized farmers* to *corporate controlled large dairy farms* (slide 4) on the latest information released by the USDA. And the trend is continuing based on information supplied by Dr. Vitaliano of the National Milk Producers Federation (slides #5 & 6).

This transition in our industry is due to one fact, very large dairy farms have a huge cost advantage over smaller farms (slide#7). In fact, based on USDA information a 500 cow herd has \$4.21 per CWT higher production cost than a 2000 cow herd operation (slide#7). Put another way, a price high enough to allow smaller family farms to break even, would generate significant profits for very large dairy farms.

We believe we need a *structural change* to the way we pay dairy farmers in America (slide#8). The current Federal Milk Orders recognize the different values of finished products (slide #9). If we can recognize that fluid milk is more valuable than milk used to make butter or milk powder, why not recognize the different cost to generate that milk in the first place.

What if we took our established \$4.21 difference in cost, rounded it to \$4.00 even and paid every dairy farmer a \$4.00 “adjuster” on up to the first one million pounds of milk they produced (slide#10). We are NOT proposing to increase cost to consumers, simple reallocate the money currently available in the Federal Order pool (slide #11). Our example shows (slide #12) how each sized dairy in the Central Federal Order would have fared using our proposal. You can see (slide #13) how this program balances or evens out the margin per cow on each sized farm. We could use different levels for the tier one price. We have examples of using a 450,000 and a 750,000 level as the tier one adjuster. (Slides #14&15).

What our program does is evens out the margins per CWT on different sized dairy farms. (Slide #16). Our program helps keep family farms viable while still leaving the “supply and demand” balance we currently have with our milk pricing systems. Our system would require several major changes to the current structure (Slide #17). We would have to require all milk to be pooled and not allow “depooling” when advantageous to do so. We believe our program could be administrated by the current Federal Milk Market Administrators with very little additional cost (Slide #18).

To summarize, our Structured Dairy Pricing proposal would allow smaller farms an opportunity to have the difference in cost offset in part by a better price. It would slow the loss of family sized dairy farms. Our program would **not** burden the consumers with higher prices than the normal supply and demand balance that is built into the system now, and our program would not strap tax payers with huge administrative and regulatory cost. We believe it is important to America to retain and protect our Family Farms and Rural Communities. Any questions or comments on our proposal can be sent to Dick Bylsma at [dbylsma@nfo.org](mailto:dbylsma@nfo.org)