

Dairy Proposal from United Dairymen and Service Groups

The following proposal is a collaboration brought together after interviews of over 200 Dairymen and Women from across the United States. Their thoughts and opinions are expressed here and on the Facebook site United Dairymen and Service Groups hereafter known as (UDSG)

What this proposal does and how it works:

This proposal works primarily through a two-part system with additional points to render the proposal more pertinent to the changing times ahead of the dairy industry.

Part 1: Herd Population Quota what is it and how does it work?

Herd population quota is a system in which rapid herd expansions are dealt with in a more stable environment and meant to prevent massive swings in herd expansions in response to rapid changes in price. This new idea will also provide for better governance in manure management and Non-farm and foreign investment. While it is accepted that expansions will occur one must add accountability to such expansions and provide for some means in which to control how non-farm investment is used along with foreign investment to compete with family-run operations who for no fault of their own are being forced to compete for market share with corporate style monies. With that said, one could also argue that foreign investment also puts American Dairy farms at risk of being essentially taken over by other countries which puts our own dairy food supply at risk of foreign control.

Herd Population quota was designed to start the farm business entity on a level playing field and allow for expansion as both consumer demand increases and as business entities become mature and are passed on from generation to generation as is customary of so many farmers and farm families in the United States. It was also an idea conceived with the notion that “mega” dairies are indeed more efficient with several advantages over small family farm operations in such areas as economies of scale and purchasing power in competition for land and available resources.

The following example below shows a simple idea with a simple family run operation. For all examples we will use “business entity’ to describe all classes of business such as sole proprietor, LLC, LLP, and S corp. All applications for expansion are handled on a first come first serve basis according to a time stamp on the application on file with FSA.

Example:

A business entity is formed and begins to operate under the Tier 1 classification on 1-1-2018 milking approximately 125 cows with raised replacement heifers. Through careful management and a whole host of other variables that happened to go right, the business entity then decides it would like to expand and on 1-1-2020 files for an expansion through the NRCS office. The business entity then would like to expand to 400 milking cows plus heifers. Under the NRCS guidelines this would make that business entity a Tier 2 operation and so therefore they would be given second priority. Meaning that after all Tier one applications are satisfied then Tier 2 applications would be granted on a first come first serve basis.

As the Business entity continues to age and grow this same process is repeated over and over until such time as the business entity either decides to pass it on to the next generation or liquidate or is foreclosed on. **If the entity is passed on to family members then the business is allowed to keep all earned population quota and continue on in the same fashion as the previous generation.** In the event that the business entity is to be sold to a non family member as part of an expansion for another business entity then that population quota is returned back to the quota “pool” to be redistributed through the Tier system. In order for the Non family member buyer to acquire said quota he or she must apply through NRCS/FSA application process. (please keep in mind that herd quota is never bought it is simply applied for) Once quota is available then transfer of quota may occur and the expansion is accepted.

Vertical integration and investors:

Under this system vertical integration and direct investment in dairy farms outside of the Tier system would not be allowed (For new construction dairies). Investors would not be allowed to invest into Mega dairy status and seemingly overnight start milking in Multi-thousand cow operations in **direct competition with family run and generation earned business entities.** They must start from the bottom like any other business entity and work their way up in size and scale.

How does this accomplish supply management?

It is generally understood that mega dairy business entities are being built at an alarming rate and **are** outcompeting smaller dairy business entities in economies of scale. Many of these dairy business entities are being built in a relatively short

period of time and once built consume massive numbers of animal units to fill the needs of the dairy. This proposal would help slow that process to allow changes in the market place such as increases in demand to keep pace with growing production.

Production and differences:

Other factors such as inefficiencies can play a big part in reducing overall supply. Let's assume shall we that a 10,000 milking cow operation averages 80lb/day production

$$10,000 \times 80 = 800,000 \text{ lbs/day}$$

Now let's say said dairy has a 2% increase in production due to professional management and efficiencies in harvesting crops.

$$800,000 \times 0.02\% = 16,000 \text{ lb/day increase}$$

Now for comparison let's say the equivalent number of cows was in 100 different herds of 100 each ranging over 25 sq miles. Due to weather, multiple ownerships, machinery inefficiencies, and a host of other depleting factors that same 10,000 cows were only able to manage 1.5% increase.

$$800,000 \text{ lbs} \times 0.015\% = 12,000 \text{ lb/day increase}$$

As one can decipher from this example, simple inefficiencies can indeed make a positive difference on the national level. There are other factors of course that will affect this example, but for this purpose we have elected to keep the explanation relatively simple. Herd Population quota is only one part of a multi-part plan to reduce overall production and increase overall consumption of dairy products. For further reduction in Dairy products one must look to part 2 of the proposal.

Part 2: An in depth explanation of Dairy Pricing Association's programs of Humanitarian cheese and dairy products purchases can be viewed here:

<http://www.dairypricing.org/>

Members of UDSG feel that the only sure way to ensure 100% involvement in the plan would be to allow Dairy Farmers to divert a minimum of 2 cents from every cwt produced nationally from check off funding to handle the promotional purchases of cheese and dairy products for humanitarian needs. These products

would then be distributed into the food shelf system with distribution expenses being the expense of the Charity.

UDSG Proposal

Part 1

Herd population Quota:

1) Herds would establish quota based on feedlot permit numbers

To establish the starting quota the current farm must use current NRCS animal units for their permitted operation.

2) AS herds retire, whether they be large CAFO's or small farms the Quota would be reintroduced to a herd population quota "pool" with priority given to small first time farmers. Any additional leftover quota would be distributed to larger herds on a tier system priority. For example: If there are no smaller, first-time herds applications to utilize the quota, the next arbitrary tier up would become eligible for expansion. And so on and so on.

Membership on UDSG has suggested setting upper limit Tiers as follows:

Tier 1) 300 Animal Units

Tier 2) 900 Animal Units

Tier 3) 2700 Animal Units

Tier 4) 8100 Animal Units

Tier 5) 24,300 Animal Units

Tier 6) From 24,300 Animal Units on up

Also, the Tiers for animal units would be set according to the total animal units owned by any one particular business entity nationwide.

For example: If one farm owns 10,000 animal units in MN and another 5,000 animal units in WI, then the total animal units would be determined as 15,000 animal units nationally. The farm business entity would then according to this example qualify as a Tier 5 Dairy business. Replacement Dairy heifers would be included in this Tier system, however, Beef and Dairy steers, Hogs and other forms of livestock would be exempt from this figure as those numbers do not directly impact the amount of Raw Milk produced in the US in any given 24 month time period.

3) During the life of the business if a herd wishes to expand it could still do so as quota becomes available through the tier system.

Part 2

Price support:

- 1) Price support would be accomplished through Dairy Pricing Association's program of cheese purchases to supply humanitarian needs. Price would be set according to their preset criteria.
- 2) 2 cent requirement for price stabilization
- 3) 10 cent requirement for voting privileges
- 4) DPA would purchase cheese up to 100% of domestic humanitarian needs over and above domestic sales as is this current structure.
- 5) In the event that domestic disappearance is obtained and there is still a need to move product off the market, DPA would work with organizations such as DEC to secure export assistance and sales. If no export sales are available then imports would need to be slowed to balance supply/demand.

Additionally:

Creameries commitment to dairy farmers:

- 1) Creameries would be required to pay full fed order rates per cwt according to FMMO posted prices
- 2) Creameries would pay fed order rates for premiums such as butterfat, protein, scc.
- 3) Creameries would pay at least 50% for hauling.

To Fund the program we as members of United Dairywomen and Service Groups have elected to choose the following option for funding of the proposal using our own check off funds. During times of oversupply, a minimum of 2 cents would be diverted from check off dollars for every cwt of milk produced nationally. These funds would only be diverted a max of 2 months prior to anticipated oversupply and continue until oversupply balances back to 100% of domestic sales. These funds would then be sent to Dairy Pricing Association for use as outlined in this proposal under Part 2 price support. Funds for enforcement of this proposal would still come from an **arbitrary** fee when applicants apply for expansion.

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What is the purpose of this proposal:

- 1) This proposal was intended to work alongside the workings of the Federal Government programs and not in any way intended to disrupt supply, or interfere with programs already established (MPP). Simply put, we as Dairy farmers would like to choose to divert some of our check off dollars to purchase our own surplus of processed dairy products as the need arises, distribute those products through the Charity networks and

have those funds returned to promotional agencies when the amount of domestic sales matches domestic production. We would like to have this program in place from the present day forward.

2) This proposal was designed with the young farmer in mind and smaller farms who for whatever reason are not able to obtain “mega” dairy status for reasons ranging from lack of available land suitable for dairying, to physically not being able to expand, yet are being pushed out of the profession that they truly embrace.

3) What this proposal does not do is limit the total numbers of animal units owned over the life of the business. Expansion is still a possibility for those wishing to become a larger operation, but will be regulated according to the tier system outlined in part 1 of this proposal.

4) By utilizing the Food Shelf systems in place we feel that this is an excellent way to promote our own dairy products to some 50 million food shelf dependent Americans who may become our customers in the future as they become financially able to do so. (Taste testing comes to mind for us here as a way to promote and rid the country of excess Dairy products simultaneously)

In Summary:

The main points to remember about this proposal as you read through it, is the positive effect on price, community, and industry. At a time when the dairy industry is under constant strain this proposal sheds a ray of hope to everyone involved and adds positive PR at a time when it is sorely needed and does not seek to “punish” farmers for producing. It merely slows the rate of expansions and to some degree production to a more even keel with consumer demand and uses other venues to channel excess product to those who would otherwise not have access to US Dairy products. We feel that at a time when Government is stressed with other matters, this is a way for farmers to make a positive difference in their own way while no longer being a burden on taxpayers for assistance in times of crisis. We would hope in return that the US Gov. would consider this in other actions affecting Dairy farmers such as misleading propaganda/information deemed false by proven scientific methods.

Feeding the citizens of the United States is our time honored responsibility. We ask that Government officials, Processors and Retailers allow us to live up to that responsibility without hindrance and allow us to do our job with the best tools and resources available.

Thank you for your time and consideration of this proposal and we look forward to working with those persons charged with the task of improving the Dairy Industry.

Sincerely

United Dairymen and Service Groups