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CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

1835 NEWPORT BOULEVARD, SUITE D-263
COSTA MESA, CALIFORNIA 92627
TELEPHONE (949) 650-9580
FAX (949) 650-9585

WINSTON D. VILLOCINO, CPA
TONY H. CHIANG, CPA
ERIKA P. REYNOSO, CPA
MICHAEL J. CONVERSE, CPA
JOEL R. EIGENBROOD, CPA
CHRISTOPHER S. GARNIER, CPA
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GLENN M. HOAGLAND, CPA
DANIELLE D. EMEL, CPA
CARLA R. NUNES, CPA

Sent Via E-Mail

June 21, 2010

Jerry Kosak, President
National Milk Producers Federation (NMPF)
2101 Wilson Blvd., #400
Arlington, VA 22201

Re: "Foundation for the Future" Program

Dear Jerry:

"Foundation for Who's Future" is my opening comment to National Milk Producers Federation's "Foundation for the Future" proposal for reforming dairy policy. If you truly represent dairy farmers, as your organization's name suggests, you should withdraw or modify your proposal, as it is wrong on so many levels. Your Chairman was quoted (June 9, 2010 news release) "Foundation for the Future is a carefully and meticulously prepared set of programs that not only will help our industry prevent a repeat of what happened in 2009, but also provide for a most prosperous future for dairy producers and their co-operatives." I believe this proposal provides a prosperous future for processors (co-op and private), but not for producers.

The "Foundation for the Future" proposal does not address what most industry leaders agree to be the primary reasons for low producer pay prices:

1. The current poor price discovery
If the current CME price discovery is allowed to continue in its current form, producers will continue to receive at, or near, cost of production milk prices into the foreseeable future. Cheese processors are seemingly allowed to manipulate cheese purchases and sales through the CME to keep producers class - 3 prices in the low \$14.00 per c.w.t., or \$2.00 + per c.w.t below true cost of production. What is NMPF's concept for correcting these obvious market manipulations?
2. Does not address milk imports
As an industry leader, you are aware of the cheap milk imports (MPCs, Caseinates,

and ingredients) that are not characterized as “MILK” for import tariff assessments. Although at reportedly lower levels now, these imports have reportedly added to our domestic milk production in 2009 and 2010 by five to fifteen percent! U.S. producers are then criticized for producing too much milk as the reason for low producer pay prices. The cheap imports of milk protein concentrates (MPC) that increases cheese vat yields by over 15 percent, and increases cheese quantities in the marketplace spins back at U.S. dairymen as “too much milk production.” What is NMPF’s plan to help U.S. dairymen’s pay prices by curbing this apparent and deceptive import loophole enjoyed mainly by non-cooperative milk processors?

3. Deceptive labeling

Why would NMPF oppose the COOL Act (Country of Origin Labeling), for its’ U.S. dairy producers? Is your plan to allow more of these cheap imports to come in to this country? If so, I understand why you oppose the COOL Act. The U.S. consumer should know what is in his cheese, whether its all produced by U.S. dairies or from street corner milk collectors in India.

4. Cost of Production

Most milk producers in the U.S. have received less than their cost of production in milk pay prices for the last 18 months. Dairymen lost an estimated \$10 billion from their operations in 2009, and continue to lose money this year but to a lesser extent. Nearly everyone on the milk supply side, made record or near record profits in 2009. The dairy farmers you represent in Washington, D.C. netted the worst losses since the “Great Depression.” The “Dairy Producer Margin Protection Program” does not address any minimum pay price, or cost of production floor pricing. The “Margin Protection Program” (insurance) will only manage a “milk/feed price ratio” in periods of very low milk pay prices. There is no assurance that pay prices would ever be any better than they are today, or equal to any total cost of production. How is NMPF planning to help its’ dairy farmer membership get their fair share of the existing retail dollars?

5. Exports

If processors want increased supplies of milk to service “tremendous export opportunities”, the processors must have some “skin in the game”, or equalize the price risk. As processors receive a ‘guaranteed profit’ through the ‘make allowance’ rules, they certainly want to make more milk products. Since the competition in the world markets are either subsidized or have advantageous production costs, the U.S. dairy producer must compete in this uneven cost/price playing field by selling his products for less. Everyone on the supply side stands to profit on increased export sales except the U.S. dairyman. What will NMPF do to insure their dairy producer membership get help from processors to share this price risk?

I have reviewed the analysis of the NMPF's "Foundation for the Future" program conducted by Food and Agricultural Policy Research Institute at the University of Missouri. The analysis is very limited in scope, produces very theoretical example outcomes and does not provide any opinion of achievable success for improvement of milk prices. This analysis should only be used for explaining one of many milk pricing scenarios.

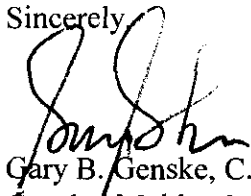
A very troubling statement in the analysis reveals that as milk supplies increase over demand "The level of government support (for this "insurance") decreases and the amount of funding required from producers increases." When this country is long on milk and with no federal support price in place, producers will be trying to "buy up" their milk prices from, possibly, below \$9.00/c.w.t. milk price. What will be their cost "buy up" to a cost of production milk price? Are there enough traders on the exchange to service these "insurance" needs?

The NMPF's proposal would divert hundreds of millions of dollars spent on the MILC and the current Dairy Support Programs into a new fund, possibly at National Milk Producers Federation. There exists the likelihood of millions of dollars of this program being paid to the promoters of this proposal in salaries and commissions to administer this plan.

I cannot say that I am a fan of any government subsidy program. But the elimination of the MILC program and elimination of the Dairy Support Program in exchange for the NMPF's "Foundation for the Future" plan is not, in my opinion, a reliable substitution for the programs already in place or for alternative dairy proposals already introduced to the U.S. Senate and House of Representatives. This proposal does not correct the CME price discovery manipulations, deceptive milk imports, product labeling, adequate minimum pricing, price risk sharing from processors, profitable exporting or simply, producers receiving their fair share of the existing retail dollar.

Jerry, you can do better.

Sincerely,



Gary B. Genske, C.P.A.
Genske, Mulder & Co., LLP
Certified Public Accountants