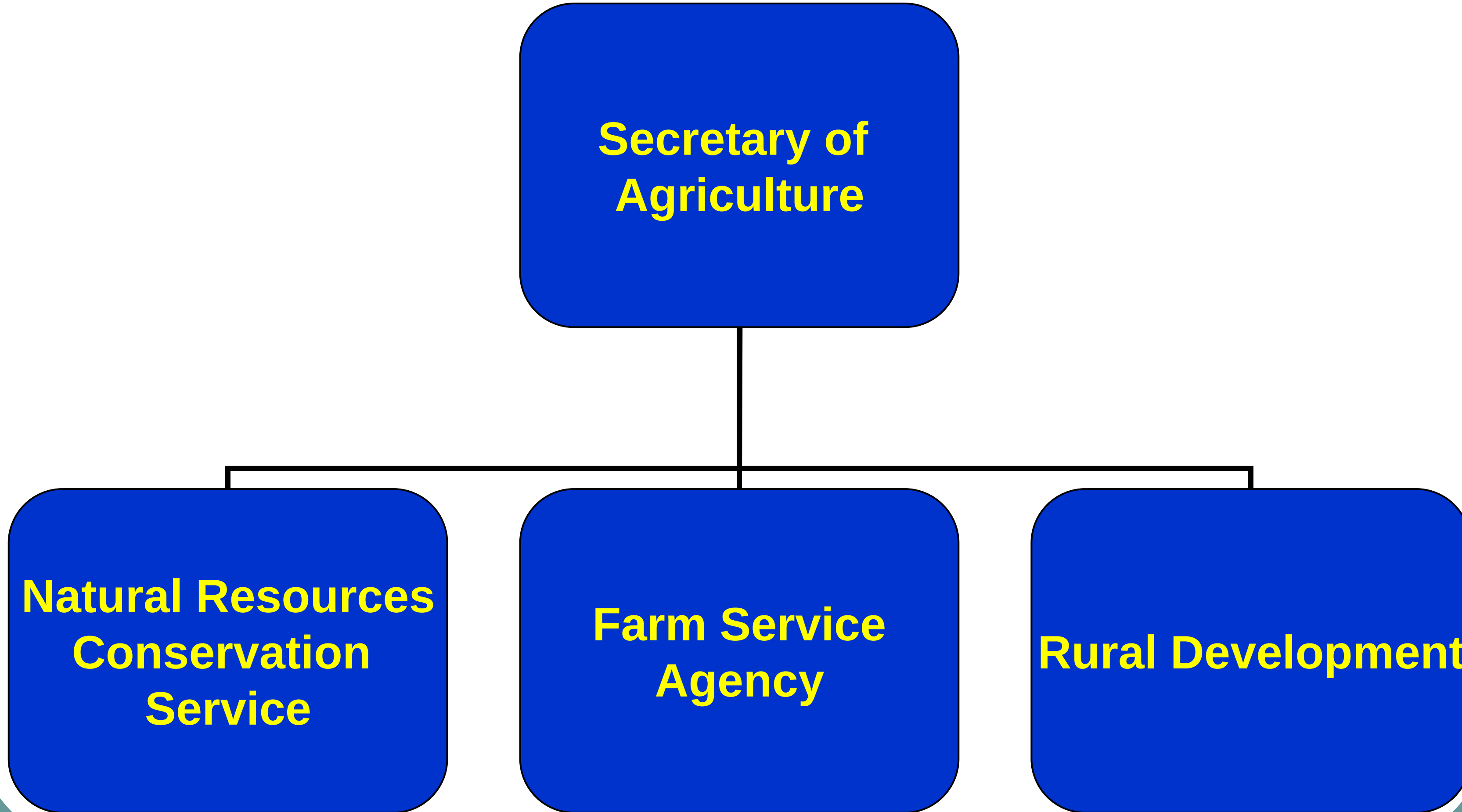
Ad Hoc Dairy Committee

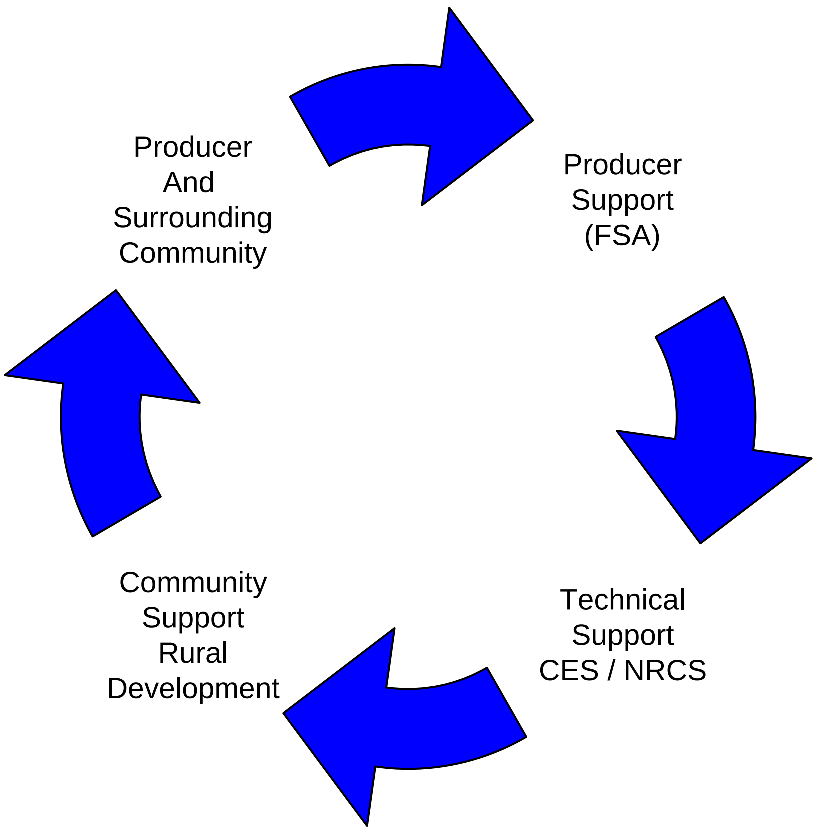
USDA Farm Service Agency

Presentation 10/16/2006

USDA Partners



USDA partner agency support



- Three partner agencies work together for support of producer and surrounding community to support agriculture in the community
- FSA's role is to provide a safety net for agricultural production. This is accomplished through price support, conservation, disaster assistance and farm loans.

Dairy Loans
Beginning to now

- FSA provides direct farm loans to those who do not qualify for conventional loans with or without a FSA guarantee (lender of opportunity) but have sufficient collateral and a feasible plan for payback of the loan;
- FSA loans are based upon a supervised credit approach. Borrowers must agree to additional loan conditions that allow for borrower training and FSA oversight. This includes everything from production and financial management to developing a household budget;
- Currently all FSA loans to Dairy operations in Alaska are direct loans.

Dairy Loans Cont.

- In the past, some credit decisions were made that may not have been what was best for the producer. More conservative lending practices at the time would have resulted in less outstanding dairy debt but also some dairy liquidations.
- Currently efforts have been made to work with dairy producers to develop business plans that are based on realistic and supportable production and financial data.

Dairy Loans Cont.

- According to FSA procedure, in the event a borrower becomes delinquent on a loan, or is determined distressed he is afforded many opportunities to alleviate the problem. Those opportunities include rescheduling, deferrals, homestead protection, write-downs, and debt settlement to name a few.
- FSA follows these procedures in accordance with the Consolidated Farm and Rural Development Act (CONACT).

Dairy Loans (Cont.)

- In 2002, Congress authorized $5 million over a 5 year period for support of dairy and dairy processing facilities in Alaska. While the monies were authorized, they were not appropriated;
- The industry (Mat-Maid and the producers) could not agree on how the money could be used to support the industry. Thus, no funds were appropriated during the two years of the authorization.

Dairy Loans (Cont).

- In late 2003, the U.S. shut down the border with Canada for transportation of livestock due to an outbreak of BSE (Mad Cow Disease). Shortly thereafter, Canada shut down their border for transportation of livestock across their border;
- This meant that dairies would be unable to obtain animals from outside sources to enhance their herds or replace livestock.

Dairy Loans (Cont).

- Because of the aforementioned issues, FSA and State Division of Agriculture came together to identify short and long term solutions for the dairy industry as part of the role for support of agriculture;
- The USDA partner agencies, CES, producers, and Mat-Maid were invited to participate with the goal of a federal and state partnership to bolster and support the industry.

Dairy Loans (Cont).

- In order to resolve the ongoing issues with dairies and dairy production culminated in a two-fold plan with a short and long term solution.
  - Short Term – Everyone recognized that debt loads and high costs of operation were the main problem faced by the producers. Thus a short term solution was developed for debt relief and cost of production;
  - Long Term – With a short term solution in place which solidified the producer base, privatization of the dairy and meat processing facilities seemed the logical step. With the ability to completely privatize those facilities, competition and market forces would be the driving force rather than political forces.

Dairy Loans (Cont.)

- Short Term (Continued)
  - Out of the authorization for $5 million over 5 years, $1million was appropriated for FSA debt relief in dairies. NO PRODUCER ACTUALLY RECEIVED THE MONEY. Money was applied directly to their account based upon the amount of production they had (Federal Share);
  - The State of Alaska appropriated $500,000 to all dairy producers and granted a $2 per hundred weight raise. The goal here was to offset the production costs in the industry (State Share);
  - The FSA run Milk Income Loss Contract (MILC) program also augmented the federal side to assist in production costs and debt relief. Those are based upon a national set price.

Dairy Loans (Cont.)

- Long Term
  - Privatize dairy production by offering the remainder of the authorized money for dairy and dairy production facilities in Alaska;
  - Industry to provide a plan to Senator Stevens office for use of those funds with the goal of privatizing the industry (plan never materialized);
  - State of Alaska to provide a leadership role in developing a cooperative or non-profit entity to transition into full privatization of the processing facilities.

Where are we now?

- It is far too late to use the remainder of the $25 million as the authorization has expired;
- Dairy producers with FSA debts will no longer be able to develop a feasible plan for future FSA assistance without a viable market for their milk and cull cows;
- Even those who do not have FSA debts will not be able to afford to continue producing due to high operating costs, lack of infrastructure, and lack of cheap labor force.
- Land costs are too high to support agricultural production - $1500 - $2500 per acre. For agricultural economic and production use, lands should be at $150 - $300 per acre and restrictions relaxed;
- Transportation, fertilizer, labor and fuel costs are too high to support agricultural production. These costs must be offset;

Where are we now (Cont.)?

- Mat-Maid has reduced the price to any new producer and the existing price will not support the current production;
- Once the $2.00 per hundredweight raise expires, producers will not be able to afford to operate;
- Producers are task saturated and thus de-moralized by their situation;
- Livestock cannot be transported across the border making it too expensive to bring in new herds; $1500 - $2500 to buy new cow plus transportation cost.

Where are we now (Cont.)?

- Based upon the reduced Mat-Maid price, high operating costs, and high land values anyone seeking financial assistance to start a dairy operation would not be able to show repayment ability. A feasible plan could not be developed.

Solution

- State of Alaska must decide whether or not it will continue support of current producers and if that support is monetary or policy oriented (cost of ag land sales and associated restrictions);
- Politics and personal opinion need to be taken out of the decision-making process and a business approach applied;
- Reduce the costs of agricultural land and provide credits for producing;
- Change the lending approach toward a real agricultural economic value in Alaska;
- Partner with State, Federal, Local agencies, and producers rather than create conflict;
- Privatize all State assets through a transition process that solidifies the producer base;
- Work with current producers as new producers will not be willing or able to buy or obtain the necessary money to purchase the current dairies;
- Tell producers where they stand.

Solution (Cont.)

- Transportation and Cost of Production credits for Alaska producers could be supported on a federal level to offset high costs of production. This will be proposed in the 2007 Farm Bill. $15 million is currently proposed.
- Three years ago, the State proposed $11 million to build and privatize the dairy and meat processing facilities. This was supported but there was no solution for a management structure due to the disagreement within the industry. Come to an agreement and make the proposal. Should be non-profit or Coop in nature if federal funds will be used;
- Identify the land costs, capital operating costs, and a feasible business plan for use of federal funds;
- Move ARLF into the Division of Investments and take the politics and personal interests out of lending;
- Identify and stabilize feed sources both in and out of State.