

EXHIBIT G

ARKANSAS DAIRY

HISTORY AND FUTURE



Milk is unique among farm commodities. It is highly perishable, produced, and "harvested" on a daily basis, and moved from farm to market every other day, if not every day. The volume of milk produced varies seasonally and daily for biological reasons. This variation is not coordinated with changes in demand, which also vary from day to day and from season to season. The task of balancing, or coordinating, the amount of milk supplied with the volume of milk demanded is thus problematical.

Storage to balance supplies with demand is feasible only after processing, except in the very short term. As technology developed, conversion of milk from raw product to various intermediate and final products with longer shelf-lives became possible, but required increasingly capital-intensive facilities and technologies that are subject to significant economies of scale. These fundamental characteristics of milk production, in concert with adverse marketing conditions and the economies available from jointly owned milk handling facilities and manufacturing plants, led dairy farmers to pioneer the application of cooperative principles to marketing U.S. farm products.



Traditionally, [milk](#) has been a staple in the diet of Arkansans, especially the young. Throughout history, dairy [farming](#) has been vital to the development of rural communities in Arkansas. Originally, dairy farms were located near population centers where milk was sold. However, since the late 1970s, most of the dairy farms have been located in the northwestern part of the state where rolling terrain was not well-suited for row crops.

In Arkansas during the 1800s, milk was produced primarily by home milk cows, and the milk was either used on the farm or was bartered or sold to neighbors. With the movement of the population from the farms to the cities after the Civil War, it became necessary to produce larger quantities of milk that could be sold to customers who did not have a milk cow.

In 1862, Eleithet Coleman became the first person to deliver milk in [Little Rock \(Pulaski County\)](#). His company, Evergreen Dairy, was later merged with other companies to become [Coleman Dairy](#), presently the oldest existing dairy west of the [Mississippi River](#). His son, Fred, was milking fifty cows and producing seventy-five gallons of milk per day for delivery in cans to people in the Little Rock area, primarily by ladling the milk at curbside. Similar businesses emerged throughout the state as more and more residents moved to the cities and purchased milk rather than having their own milk cow. For example, J. M. Moore delivered milk to customers in Little Rock from his dairy on Arch Street Pike. In 1915, Walter Carpenter Coleman and Gladys Coleman introduced bottles to the Little Rock area. The bottles allowed milk to be distributed to a wider area, and the number of dairy cows began to decline.

In 1924, there were 350,000 dairy cows in Arkansas, while there were 1.8 million people. These cows were primarily in rural areas, with one to two cows per farm, and were Jersey and crossbred cows. Excess milk not used on the farm was often sold as cream. There were twenty-five creameries and forty-four ice cream plants distributed throughout the state, with farmers either delivering directly to these plants or having the milk picked up in cans by “route” people. In 1932, Ray Yarnell bought Dairyland, and he, his wife, and son Albert turned it into [Yarnell's Ice Cream Company](#), which maintained operations in [Searcy \(White County\)](#) until 2011.



In the 1920s and 1930s, dairy production was emphasized by county agents with the [University of Arkansas \(UA\)](#) in [Fayetteville \(Washington County\)](#) as a means of economic development in rural communities, especially in the [Ozark Mountains](#) and near urban areas. Dairy cows on farms increased from 349,000 in 1930 to 482,000 in 1943, with milk per cow of 2,880 pounds a year. At that point, milk per cow began a steady increase as dairy cows' numbers declined. As of 2009, milk cows exceed 13,000 pounds per year, with Holsteins composing almost ninety percent of the cows in the state. The increase in production per cow was due to improved genetics, management, and nutrition.

A major change affecting the dairy industry occurred in 1940 when Coleman Dairy installed modern pasteurization equipment, which allowed for storage of milk for an extended period of time. Consumers soon began to expect the increased safety of pasteurized milk, and many of the smaller processing facilities went out of business. The increased shelf-life for milk was necessary as a greater percentage of the state was urban and milk-processing plants were becoming larger. The consolidation of processing units was more rapid than the consolidation of dairy farms during this period of time. Advertisements promoting safety and the use of pasteurization to kill the disease organisms that caused [tuberculosis](#) and brucellosis further resulted in decreased use of milk on the farm, thus accelerating the decreased use of milk from home milk cows; this was paired with the increased development of commercial larger dairies to produce milk for the consolidated processors.

Dairy farm production of milk was approximately equal to the needs of milk processors in the 1960s, 1970s, and 1980s. Central Arkansas Milk Producers, a milk-marketing cooperative, played a prominent role in the 1960s and 1970s in the consolidation of milk-marketing cooperatives, as its leaders and managers were integral to the formation of Associated Milk Producers Inc., at one time the largest national milk-marketing cooperative. The managers, which included some Arkansans, at the time received national notoriety for illegal payments to politicians as they tried to influence the price of milk at the national level.



In the mid-1980s, a milk diversion program and whole herd buyout from the federal government resulted in a decrease in milk production and the number of dairy farms. In 1991, Arkansas Dairy Cooperative Association was formed to aid in marketing milk from the state.

However, in the mid-to-late 1990s, milk production in the state continued to decline as dairy farmers faced environmental challenges. Federal deregulation of the milk industry in 2000 decreased the relative price of milk in Arkansas and the southeastern states compared to major milk-producing areas in the Midwest. The decreased price of milk led to further declines in milk production and the number of dairy farms. By 2009, the number of dairy farms had declined to 140 from 852 in 1989; producers were producing less than twenty percent of the milk needed by processors and less than fifteen percent of the milk and milk products consumed in the state.

Arkansas milk processors grew in the late 1990s and early part of the twenty-first century as the population grew. By 2006, Coleman Dairy and the two Hiland fluid milk processors had been acquired by Prairie Farms. Another major processor as of 2011 is Kraft Foods in [Bentonville \(Benton County\)](#), which processes cheese. Also, there are three on-farm processors, including a state prison farm, plus one small ice cream processor.

As more milk was imported to meet the needs of processors, the cost to consumers rose, especially as fuel prices increased to previously unseen levels in 2007–08. To ensure a minimum supply of milk for the population of the state, the Arkansas legislature in 2007 established the Arkansas Milk Stabilization Board, composed of a consumer, a retailer, a processor, and two dairy farmers. In 2009, the Arkansas legislature funded a two-year program to provide incentives to state dairy farmers with a goal to stabilize or increase milk production within the state. The program established counter-cyclical payments to dairy farmers when prices are low, along with production and quality incentives for dairy producers.

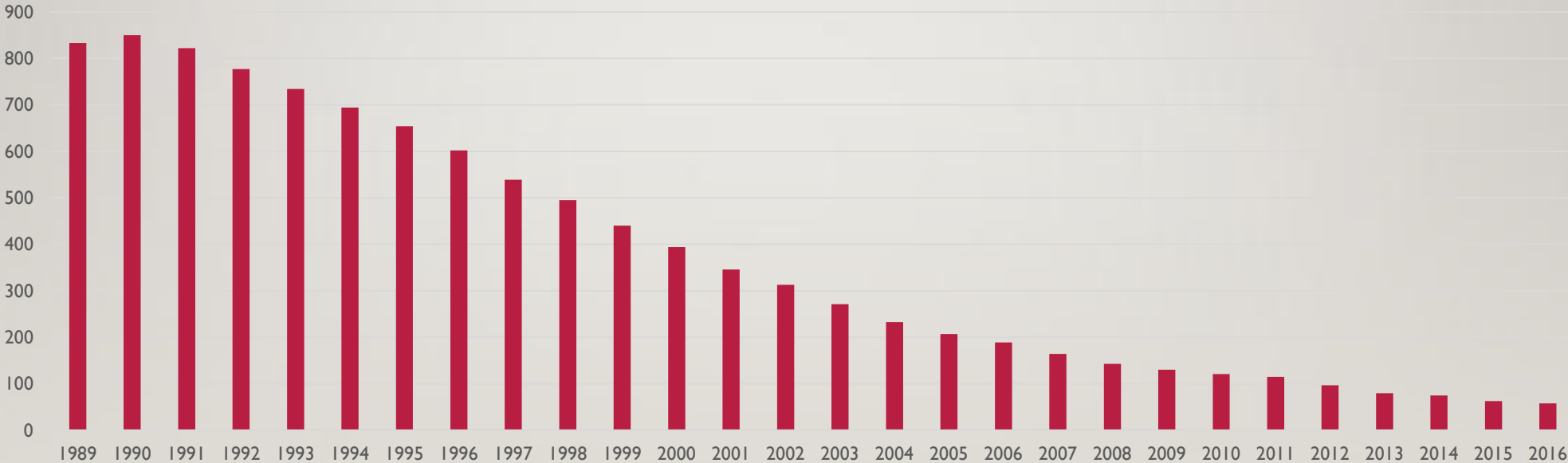


DAIRY STATS

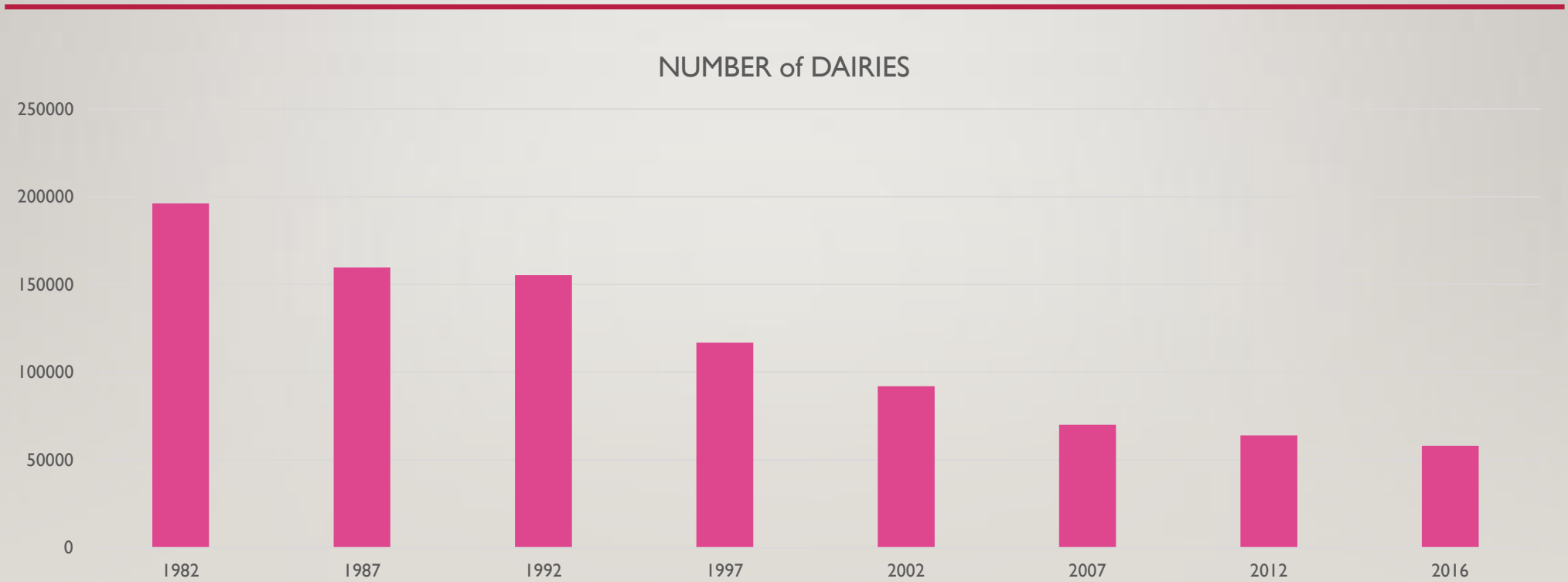


ARKANSAS DAIRY FARMS

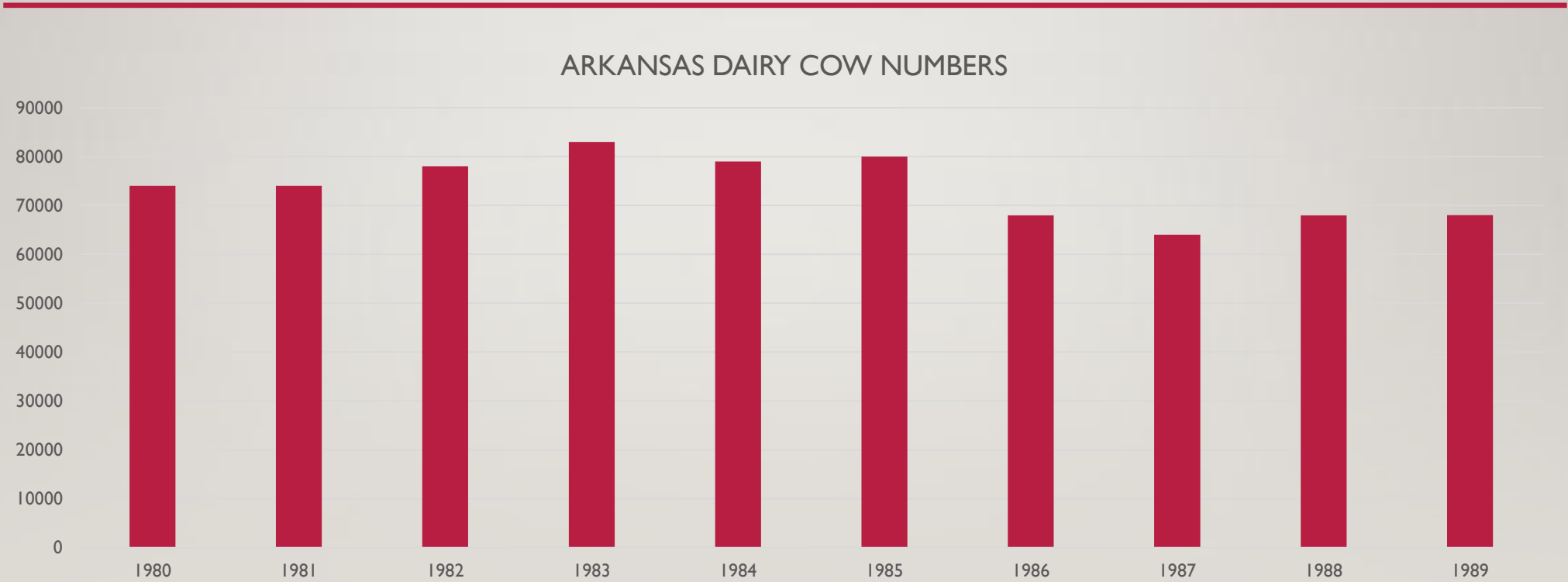
NUMBER of DAIRIES



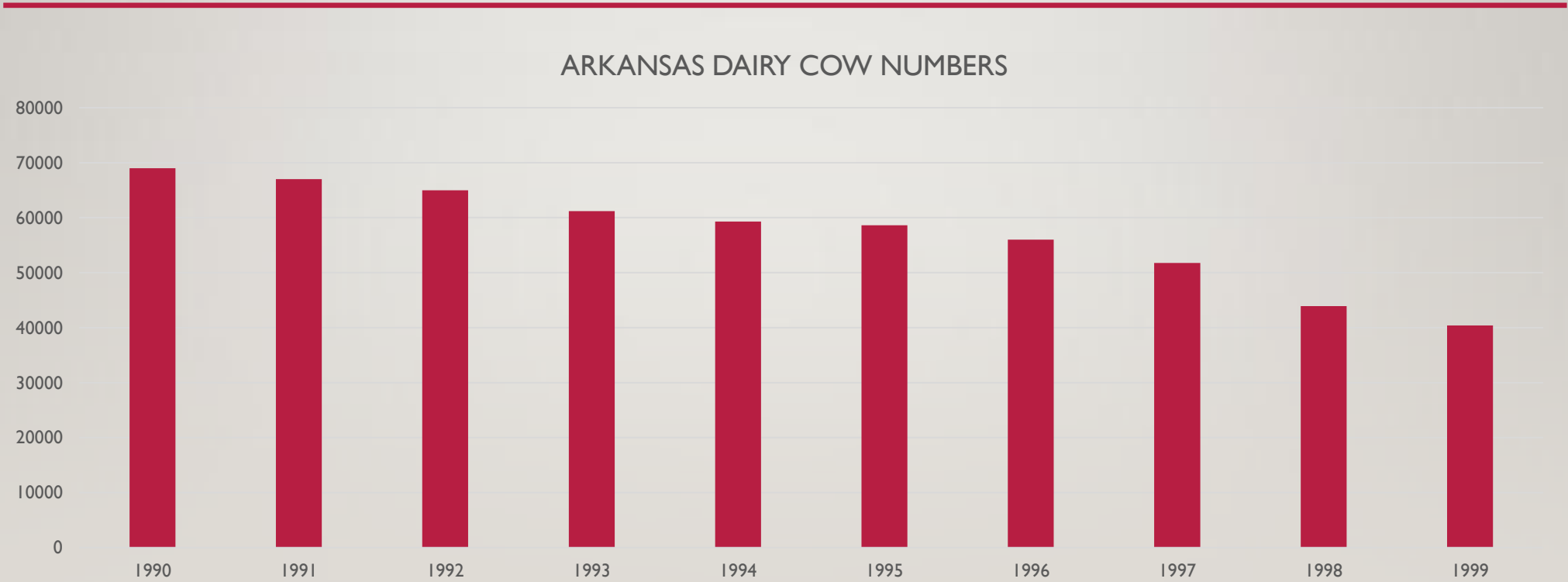
US TOTAL NUMBER OF DAIRIES



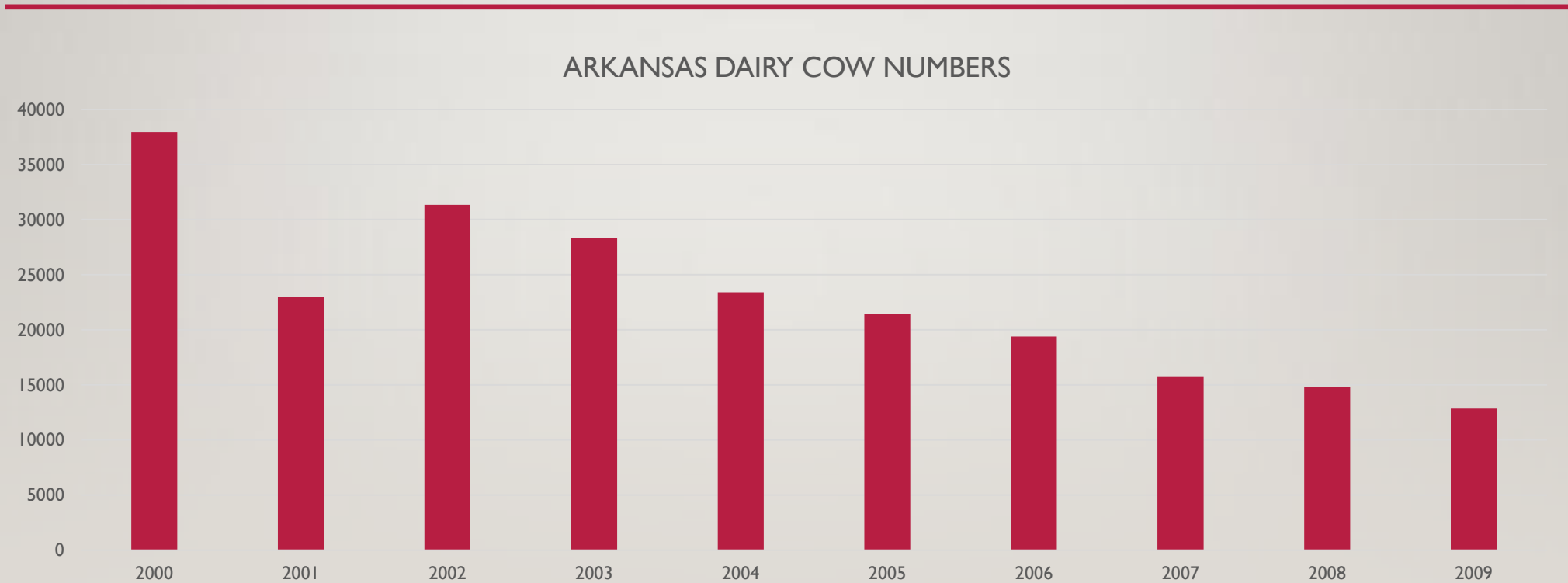
ARKANSAS COW NUMBERS 1980'S



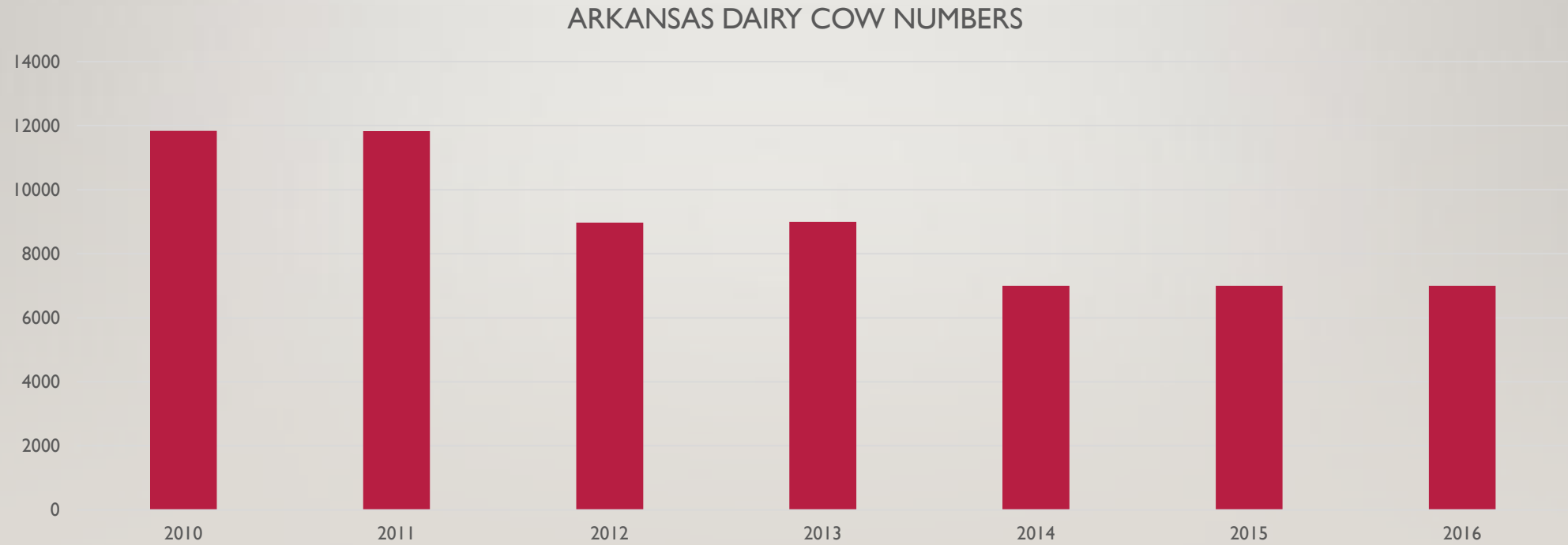
ARKANSAS COW NUMBERS 1990'S



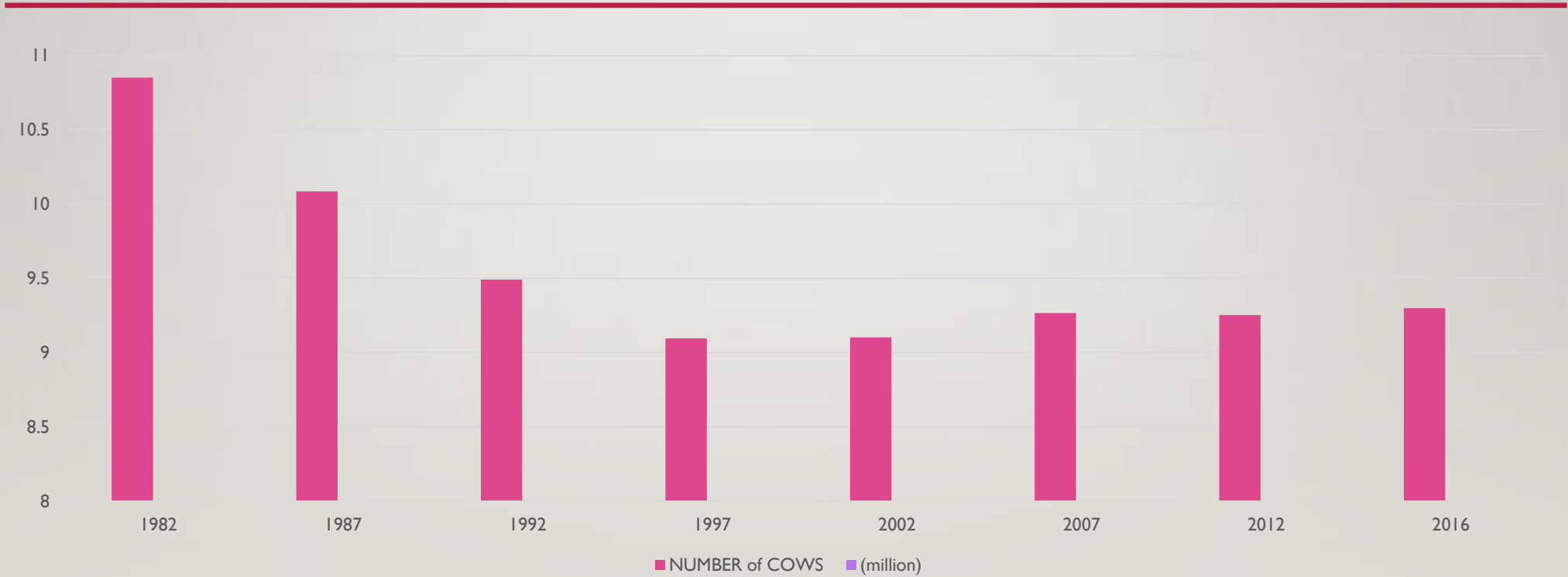
ARKANSAS COW NUMBERS 2000 - 2009



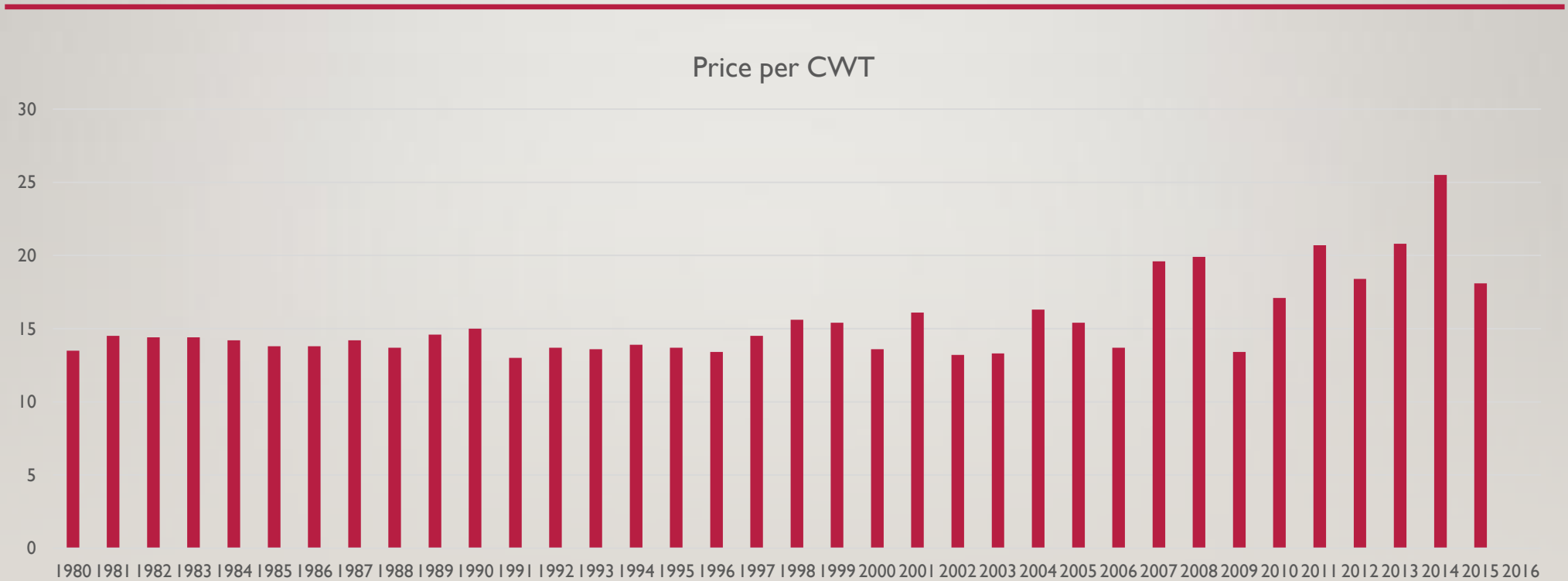
ARKANSAS COW NUMBERS 2010 - PRESENT



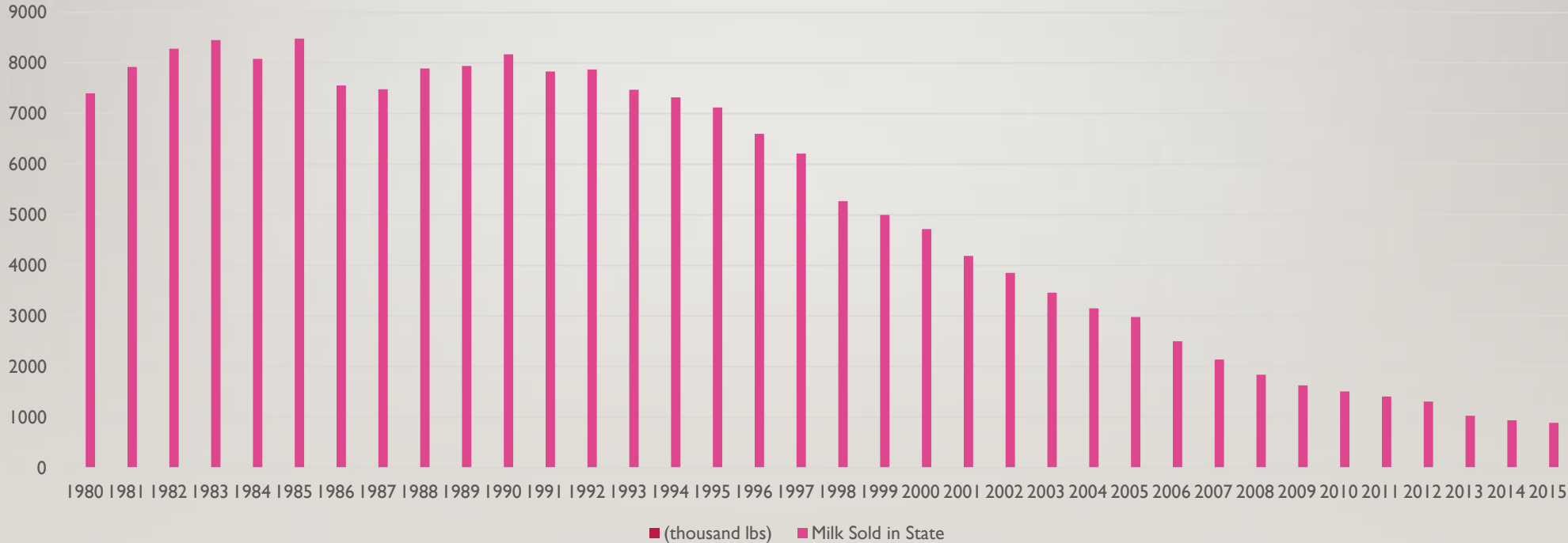
US DAIRY CATTLE NUMBERS



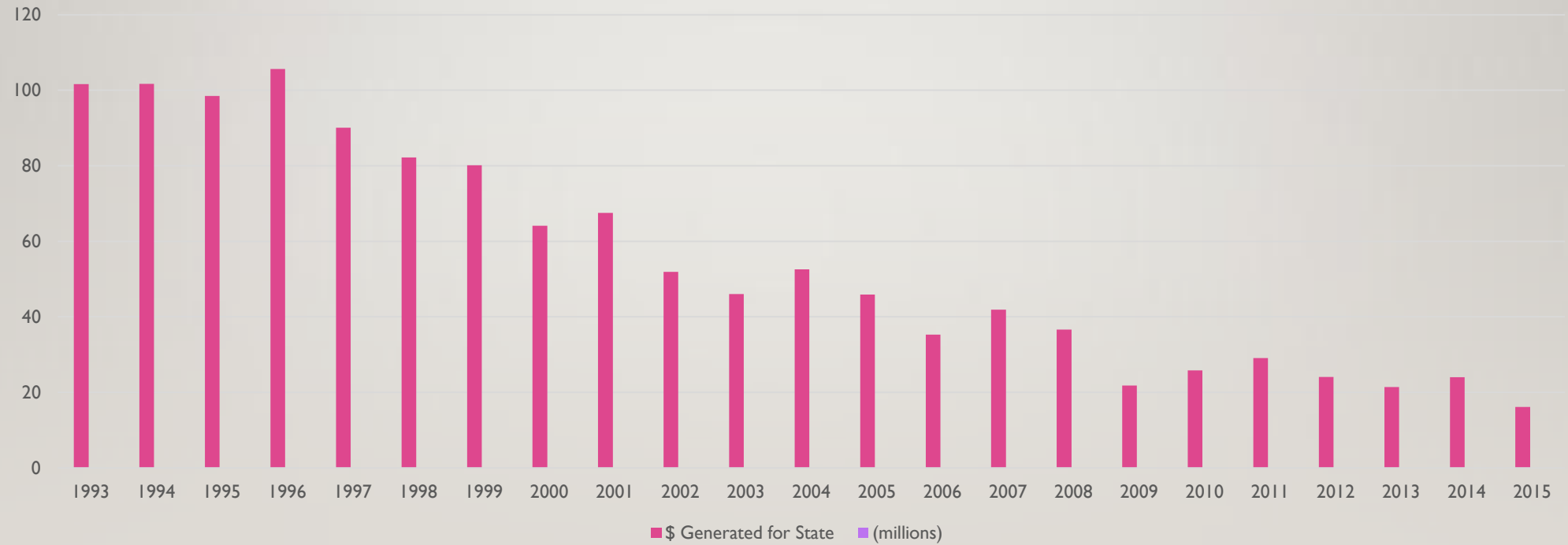
PRICE PAID TO PRODUCERS



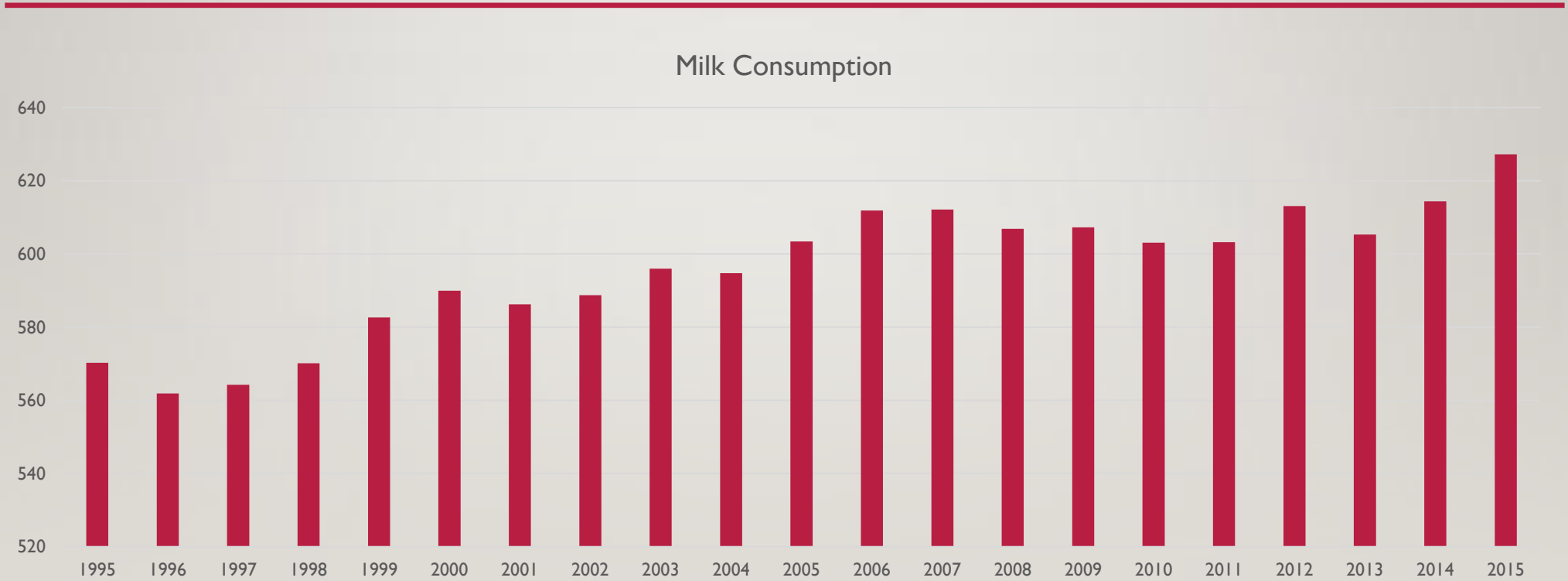
ARKANSAS MILK PRODUCTION



DOLLARS GENERATED - DAIRIES



US MILK CONSUMPTION



IN PERSPECTIVE

	<u>2016</u>	<u>1980</u>
• Consumption	- 627 lbs	543 lbs
• Total Population	- 3,000,000	2,285,000
• Arkansas Production	- 91,000,000 lbs	740,000,000 lbs
• Annual Consumption	- 1,881,000,000 lbs	1,240,755,000
• % of milk consumed produced	- 4.84%	59.64%



AREAS OF CONCERN

- FMMO – Federal Milk Marketing Orders
- COOPERATIVES
- PRODUCERS
- STATE OF ARKANSAS

FMMO – FEDERAL MILK MARKETING ORDER

- Milk marketing and pricing is complex web. The original goal of FMMOs was to institute orderly
- marketing and to assure adequate beverage milk supply. However, U.S. dairy markets have changed.
- The U.S. is now producing for a global market – not just for fluid bottling plants. Also, the predominant
- use of milk has changed. When the FMMO system was created, fluid milk consumption was the primary
- use for farm-level milk. Now, a diverse dairy case and new processing technologies are making federal
- order rules, formulas, and adjustments (make allowances) antiquated. One could argue whether or not
- the current structure is nimble enough to support the new U.S. dairy sector. Changing orders can
- literally take years, even though new processing technologies can shift in months. Orders were designed to provide an equitable pricing structure among producers. Whether that is something the industry still values is uncertain.

DAIRY COOPERATIVES

- Dairy cooperatives were among the first type of agricultural cooperatives organized in the U.S. They have their beginning in the early 1800s. Dairy cooperatives have played a very significant role in the procurement, processing and marketing of milk and dairy products and in representing farmers politically at both the state and national level. Dairy farmers have relied more heavily upon dairy cooperatives to market their milk than have farmers of any other commodity. The environment no doubt will force dairy cooperatives to consider additional mergers and consolidations and various strategic alliances with other cooperatives and investor owned firms. A more market oriented federal dairy policy, with resulting market risks, provide major opportunities for dairy cooperatives to add value to dairy farmers, and also provide value to its customers. As a result, it is very possible that dairy farmers will develop closer contractual relationships with dairy cooperatives, and dairy cooperatives will develop closer coordinating relationships with its customers in the food system. Dairy cooperatives will continue to be a major player in the procurement, pricing, processing and marketing of milk and dairy products. Their market shares are anticipated to remain constant, if not increasing.

THE ARKANSAS DAIRY FARMER

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- The Arkansas dairy industry was built with a low input and low output system that has worked for many years. They used a grass base feeding mechanism that allowed for lower input cost but unfortunately was also a lower output or production compared to the nation as a whole. I truly believe that the Arkansas dairy producer is the most efficient in the country but times have changed and now we must look at how we can adapt to meet the needs of Arkansans looking for Arkansas Produced Milk. The US production has shifted to larger herds and many are locating to a closer feed source. That means if we are grow the Arkansas Dairy Industry we must think out the box and consider moving closer to the feed source. There has been and always will be pockets within the state that can grow forage for their production. But new producers must take a look at regions of the state that at least up til now have not been used for the production of dairy and dairy products.

STATE OF ARKANSAS

- Dairy Stabilization
 - Passed in 2009 but wasn't signed into law but Governor Beebe funded the program for three years.
 - Without a permanent funding mechanism the program dried up
 - The Dairy Stabilization board still exists and continues to look for help for the dairyman
 - Tax Incentives – South Carolina

WHEN DAIRY LEAVES

- Impacts on small communities
 - Schools
 - Business
 - Parts store
 - Feed Stores
 - Loss of Large Animal vets
 - Erosion of tax base

WHY OPTIMISM

- California dairyman are looking for opportunities to leave their current
 - Environmental concerns
 - Regulatory Pressures
 - Water Shortage
 - Land Values
 - Animal Welfare issues and concerns

WHAT CAN WE DO

- This must be a joint effort between all parties:
 - FMMO – change pooling requirements
 - COOP's – Work to build the dairy industry in Milk Deficient states
 - Producers – Change the way we have been thinking
 - State of Arkansas – provide tax incentives to maintain producers we currently have to lure other producers to build here
- Some other states such as Kansas and Iowa
 - Already talking to producers to show how 'friendly' their state will be to incoming dairyman

The S.C. Milk Producers Tax Credit – How will it work?

On June 9, 2005, the S.C. Milk Producers Tax Credit program became law. This program is designed to provide assistance to South Carolina dairy producers when prices are low and is available beginning with the 2005 tax year. If for any month the Class I Uniform Production Price falls below the Production Price established by the Department of Agriculture, the producer will qualify for a payment or credit that quarter, to be issued at the end of the year. The amount of the payment will be based upon the total amount of milk that has been produced and sold during the taxable year. To qualify for the tax credit, the following must occur:

Dairy Producer Responsibilities:

1. Certify annual milk sales on a form issued by SCDA.
2. File for the Milk Producers Tax Credit on SC income tax return.

S.C. Department of Agriculture (SCDA) Responsibilities:

1. Establish the Production Price. The Production Price is based upon three factors:
 - a) average price of milk in the top five states where milk is imported to South Carolina;
 - b.) average transportation cost of importing milk from those five states; and
 - c.) cost of production in South Carolina.
1. Certify to the Department of Revenue the amount of milk produced and sold in the taxable year by each producer filing for the milk producer tax credit.



S.C. Department of Revenue (DOR) Responsibilities:

1. Receive Producer certification of annual milk production and sales.
2. Receive listing of qualifying quarters from SCDA based on the published Production Price and Uniform Class I price.
3. Issue tax credit or refund to qualified producers.

Practical example of how the program will work:

1. Producer files for the Milk Producer Tax Credit.
2. SCDA certifies to DOR that 2nd and 4th quarters fall below the production price.
3. SCDA certifies to DOR that the producer produced and sold **1.7 million pounds** of milk in one year.

Based upon his total production and sales of milk, the farmer is eligible for \$20,000, but because only 2 of the 4 quarters actually qualified due to prices below the published production price, he will receive 50%. Therefore, the producer can expect to receive a total credit or refund in the amount of \$10,000 from DOR for the qualifying 2nd & 4th quarters based on 1.7 million pounds of milk produced and sold in the taxable year.



THANK YOU

