

Cornerstone for Change: **Market Transparency and Price Discovery**

Dennis Wolff, Versant Strategies
(Government Relations Consultant)

DPAC Dairy
Policy
Action
Coalition

*A grassroots coalition
of dairy producers
actively participating,
with a unified voice,
in policies and issues
affecting milk pricing.*



June 2010 Presentations — Dairy Industry Advisory Committee and DOJ / USDA Workshop

What is DPAC?

DPAC Dairy
Policy
Action
Coalition

- *The Dairy Policy Action Coalition (DPAC) is a coalition of grassroots dairy producers actively participating, with a unified voice, in policies and issues affecting milk pricing*
- Formed in Nov. 2009 as national non profit funded by donations
- Charter Board – 20 dairy producers from PA, OH, NY
- Adhoc Board Members serving on committees from IN, NY, TN, KY
- Corresponding with nearly 2000 dairy producers and producer organizations in 23 states.
- Funded by donations from individual producers and associations and donations from agribusinesses that serve dairy producers.

June 2010 Presentations — Dairy Industry Advisory Committee & DOJ / USDA workshop



What is DPAC? - continued

- In addition to correspondence with around 2000 dairy producers from 23 states, DPAC has received personal donations from more than 200 dairy producers in 11 states, and company donations from 45 agribusinesses in 4 states. DPAC has also received financial and or “verbal” support from the following formal dairy producer associations and informal dairy producer councils and groups:
 - Pennsylvania Dairymen’s Association
 - Maryland Dairy Industry Association
 - Georgia Milk Producers Assn.
 - Tennessee Dairy Producers Assn.
 - Kentucky Dairy Development Council
 - U.S. Dairy Farmers and Friends based in New York
 - Lowville New York Dairy Producers
 - Holmes/Wayne County Ohio Dairy Council
 - Bradford County Pennsylvania Holstein Club
 - Jefferson County Pennsylvania Holstein Club
 - Middletown PA Grange
 - Lebanon/Berks County PA Dairy Farmers Voice
 - Lancaster County PA Dairy Advisory Group
 - Butler County PA Dairy Solutions Forum
 - Indiana Professional Dairy Producers
 - DPAC has been invited to meet in June with producer groups in Wisconsin.
 - DPAC has been invited in July to meet with North Carolina Dairy Producers Assn.

Updates and information available at www.dpac.net



Overview – Federal Dairy Policy

- Background
 - Staggering losses incurred by dairy farmers in the past 18 months
 - Countless round table meetings on changing federal dairy policy
 - **Price discovery & market transparency easily rise to the top**
 - #1 issue dairy producers want to see addressed
 - Universal agreement: Reduce influence of thinly-traded CME
 - Current reporting does not reflect broad supply / demand factors
 - Cornerstone of a functioning market for all participants
 - Accuracy & Timeliness
 - Knowledge is power
 - Broad supply/demand factors
 - Cornerstone of U.S. dairy industry competitiveness at home and abroad
 - Cornerstone for producer “trust”
 - Cornerstone for use of risk management tools (*LGM, forward contracts, etc.*)
 - Cornerstone for producers having the information they need to make decisions
 - **2007 Farm Bill already provides authority for first steps**
 - Changes in policy for 2012 Farm Bill are also needed

2007 Farm Bill – use available tools

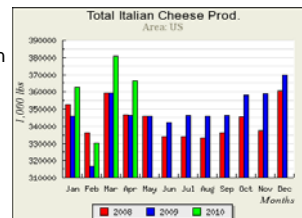


- **Fund Section 1510 of Dairy Title – Mandatory Reporting**
 - Establish electronic reporting system
 - Increase frequency of reporting (**daily** vs. weekly)
 - Take steps to increase accuracy of price and inventory reporting
 - Increase frequency of audits (**quarterly** vs. annual)
- **Key elements of Section 1509 (Congress wanted evaluation)**
 - Ensure competitiveness and transparency in dairy pricing
 - Ensure competitiveness of dairy products in domestic & world markets
 - Simplify Federal milk marketing order system
- **Section 1507 stalled (Import assessment for promotion)**
 - Importers would pay 7.5 cents / cwt equivalent – half what U.S. producers pay
 - USDA has rule but it is hung up in dispute with US Trade Rep. and Border Patrol
 - Importers / IDFA say “new reporting requirements” not fair
 - But the reporting requirements are needed to calculate the milk equivalent for the assessment.

2012 Farm Bill



- **Expand electronic reporting to include more dairy products**
 - *Daily negotiated trades should reflect broad supply / demand factors*
 - EXAMPLE - 2009 USDA summary shows:
 - **Italian Cheese 41.4% of total** cheese production
2010 huge increases in Italian cheese
 - **American Style (cheddar/colby) 41.6% of total** cheese production
 - Balance is 17% “other cheese”
 - But weekly NASS surveys only cheddar
- *Current reporting is inadequate:*
 - NASS requires only reporting of prices for ‘spot market’ sales of four commodities: butter, cheddar, nonfat dry milk and whey.
 - “...this represents less than 20% of butter production and less than 40% of cheese production... and prices are pegged to the CME (less than 1% traded), which may not consistently reflect broad supply and demand conditions.”
-- Dairy Policy Analysis Alliance (Univ of Wisc & FAPRI), Dairy Policy #8c, page 2
- *Expanded reporting paves the way to improve federal pricing policy*





2012 Farm Bill - continued

- **Remove Dairy Price Support Program**

- *Provide grants and low interest recourse loan programs*
 - Encourage innovation
 - Make products the marketplace wants

- **Simplify 4 milk classes to 2**

- *Fluid & Manufacturing.*
 - Alignment issues – new beverages and new products
- *Goal #1: Increase competitiveness*
 - Move milk to highest value use
 - Encourage competitive market-based manufacturing decisions
- *Goal #2: Improve market transparency*
 - Simplify and strengthen utilization reporting – source / use



Summary

- **Current U.S. dairy policy:**

- Is too complex
- Lacks good price discovery
- Lacks transparency
- Discourages product innovation for the market
- Encourages "gaming" of the system

- **Policy makers need to fund Section 1510 of 2007 Farm Bill (daily electronic reporting)**

- **Use "review tools" in section 1509 to examine how Orders function**

- **Use 2012 Farm Bill to:**

- expand price discovery
- improve transparency
- simplify complexity of federal dairy policy

For more Information



▪ **The Dairy Policy Action Coalition (DPAC)**

- 890 N. Reading Rd., Ephrata, PA 17522
- www.dpac.net – 800.422.8335 (Morrissey Insurance provides its toll free #)
Chairman: **Cliff Hawbaker**, Franklin County, Pa. dairy producer
Vice Chair: **Rob Barley**, Lancaster County, Pa. dairy producer
Vice Chair: **Daniel Brandt**, Lebanon County, Pa. dairy producer
Correspondence Secretary: **Sherry Bunting** agrite@ptd.net
Recording Treasurer: **Bernie Morrissey** 800.422.8335.

▪ **Dennis C Wolff, DPAC government relations consultant**

- Dennis is a former PA Secretary of Agriculture
 - Today he is a partner in Versant Strategies, Harrisburg, PA
 - Phone: 717-635-2320
 - Email: dwolff@versantstrategies.net