

—REVISED JUNE 30, 2011—

Draft Outline for DPAC Cornerstones for Change Legislation:

PURPOSE: *Promote policies that equip U.S. dairy producers for the global realities of the 21st Century & position them for the opportunity to be profitable.*

MISSION:

- To recognize the global realities of the 21st Century and pursue policies that position U.S. dairy producers for the opportunity to be profitable as leaders in providing wholesome, nutrient dense dairy products for consumers locally and worldwide;
- To recognize the erosion of the dairy producer's share of the consumer's dairy dollar and pursue policies that equitably share price risk across all sectors of the industry;
- To recognize the public value of dairy farms in rural communities throughout various milk sheds and pursue policies that decentralize the consolidation of market power;
- To recognize the need to reduce government expenditures and move toward policies that replace traditional safety nets with voluntary tools for protecting dairy farm revenue;
- To focus on improving dairy policy rather than adding new layers of government mandated supply control;
- To simplify and improve transparency in the milk pricing system;
- To improve the U.S. position as a consistent supplier and innovator in world markets through the elimination of the Dairy Product Price Support Program (DPPSP);
- To work with other groups such as Secretary of Agriculture's Dairy Industry Advisory Committee to evaluate modifications to the Milk Income Loss Contract (MILC) to improve cost to the federal budget and effectiveness for dairy producers;
- To realize savings to the federal government and to direct a portion of the dollars saved through the elimination of DPPSP to share the cost of voluntary dairy margin protection through the existing LGM-Dairy tool.
- To include a producer-funded Dairy Market Management tool in which a mandatory 10-cent/cwt producer assessment would fund a Market Cow Bonus paid directly to producers for their voluntary on-farm decisions to cull additional cows from their herds during a time of declining milk prices. (See Market Cow Bonus Program Parameters doc.)
- To pursue the issue of "democracy" for dairy producers in Federal Order referendums through a separate bill, such as working with Sen. Kirsten Gillibrand (D-NY), who has offered a bill on the issue of "bloc voting" by cooperatives.

SPECIFICALLY: *To amend the Farm Security & Rural Investment Act of 2007(2008), Dairy Production Stabilization Act of 1983, and Agricultural Marketing Agreement Act of 1937 as noted, to increase transparency of marketing and information for dairy farmers, improve reporting timeliness and accuracy, improve price discovery processes in milk marketing, increase the global competitiveness of the U.S. dairy industry, enhance voluntary tools for protecting producer revenue and equity, and for other purposes.*

I. Improve Mandatory Reporting of Dairy Commodities

- a. **Actions:** Update language found in Section 10 of the “Discussion Draft” bill from 110th Congress (2007) amending definitions and appropriate sections within the Agricultural Marketing Agreement Act of 1937 to:
- i. Require reporting of more dairy products and describe the Daily, Weekly, and Monthly Reporting of sales price, quantity sold, location of sales transactions and product characteristics.
 - ii. To expand the definition of reporting plants by volume.
 - iii. To require quarterly auditing of this price reporting. (Language found in Section 1510 of the 2007 Farm Bill).
 - iv. To move mandatory price reporting responsibilities to USDA AMS instead of NASS.
 - v. To make cold storage inventory reporting mandatory and give USDA the authority to audit warehouses for accuracy. (There is a 10-year old statute authorizing this already. Also Sen. Gillibrand from NY has this as item #4 in her plan and/or bill so we could use that language.)
 - vi. To fund the necessary auditing costs with federal dollars that are saved under items III and IV below. Or... If necessary... use a fraction of a penny (\$0.002) per cwt assessment on producers to pay for auditing of both price reports and inventory reports.
- b. **Purpose:** Improve market transparency and the accuracy and timeliness of price information and inventory reports as this pertains to the erosion of the farmer’s share of the consumer’s dairy dollar, and to assist in competitive pricing of milk for manufacturing uses by knowing the daily value of a market basket of dairy products and the true nature of stored inventories.

II. Repeal Dairy Product Price Support Program (DPPSP) / Expand subsidy for LGM-Dairy tool

- a. **Action:** Update language found in Section 1 of the “Discussion Draft” bill from the 110th Congress (2007) to repeal the section of the Farm Bill titled: Dairy Product Price Support Program (DPPSP). Find out the cost of DPPSP to the Federal government per Congressional Budget Office (CBO) scoring.
- b. **Purpose:** At \$9.90/cwt milk price equiv., the DPPSP does not support milk producers at anywhere close to a profitable level. The DPPSP is a major obstacle to the U.S. as a consistent supplier in the world market and stifles innovation and market development that would benefit U.S. dairy producers. The DPPSP dollars would be used to assist dairy farmers by subsidizing the cost of a voluntary individual farm margin protection tool for producers (i.e. LGM-Dairy).

III. Evaluate the MILC (Milk Income Loss Contract) Program for modification

- a. **Action:** Continue receiving nationwide feedback from dairy farmers on MILC, and discuss with the USDA Dairy Industry Advisory Committee (DIAC) their recommendation to modify the MILC program, and find out how that would affect the cost of the program to the Federal government. The MILC language found in Section 2 of the “Discussion Draft” bill from 110th Congress (2007) could then be used and, of course, modified for the appropriate wording that reflects the future discussion and consensus of the bill writing working group in regard to MILC.
- b. **Purpose:** MILC affects the milk price and also tends to prolong a downturn. In 2009, total MILC payments were less than in 2006 because of higher percentage of milk production exceeding the MILC production cap in 2009 compared with 2006. While we acknowledge those payments in 2009 helped farmers, we also acknowledge that the program has shortcomings. The working group wants to present an alternative bill to Congress that would cost the Federal government less money than current programs so MILC is part of the discussion.

IV. Develop a simpler and more transparent milk pricing system by establishing two classes of milk: Fluid and Manufacturing.

- a. **Purpose: To competitively move milk to its highest value use, eliminate “make allowances” that are arbitrarily set by the government.**
- b. **Action:** Work with other organizations, policy makers and legislators to set parameters for a simpler and more transparent milk pricing system based on two milk classes, with attention to competitive pricing and component values (protein, fat, milk solids) as well as the negative impact of certain Federal Order pooling provisions, including transportation credits and how milk is qualified on an Order.
- c. **Comments:** Evidence supports having one manufacturing class for butter, nonfat dry milk and cheese so that milk and its components are more likely to move more quickly between uses to the highest value. This could enhance dairy producer revenue and reduce volatility in dairy product prices and producer milk prices, which are key objectives of Federal Milk Marketing Orders as stated in the 1937 Marketing Agreement Act.

V. Authorize a producer-funded dairy market adjustment tool in the form of a Market Cow Bonus Program to incentivize additional culling when prices fall.

- a. **Action:** Amend the Dairy Production Stabilization Act of 1983 to:
 - i. Include a mandatory 10 cents per cwt. assessment on all producer milk, to be placed in a “Market Cow Bonus” fund, with no cap on the fund.
 - ii. All producer assessments will be payable directly to producers as a bonus (\$500 per head) on all milking cows sold and harvested for beef above a threshold of one cow per 100,000 lbs of milk shipped monthly as determined by a farm’s shipments in the month preceding the “trigger” being met. Farms shipping less than 100,000 lbs of milk per month would be eligible to receive \$500 per cull cow, starting with the first cow sold and harvested for beef.

- iii. The program would implement when the Class I “mover” (or manufacturing milk price) falls for the second consecutive month and remain in force for 30 days or continue until the “mover” or manufacturing price advances.
- iv. The program would implement when the Class I “mover” (or manufacturing milk price) falls by more than \$2 (?) in one month and remain in force for 30 days, or continue until the “mover” or manufacturing price advances.

VI. Evaluate having a Dairy Processing Equipment Loan Guarantee Fund (pending CBO scoring and effect on federal budget deficit).

- a. **Action:** Evaluate using and updating language found in Section 8 of the “Discussion Draft” bill from 110th Congress (2007) to amend Section 310B(a) of the Consolidated Farm and Rural Development Act to provide processors of dairy products with incentives for investing in new equipment and technologies by using not more than \$_____ million each fiscal year (*from Treasury and/or from promotion checkoff funds already paid by producers???*) to make loans to dairy processors and cooperatives to cover not more than 50% of the cost of acquisition and adoption of new equipment, equipment upgrades and new technologies, etc.
- b. **Purpose:** To improve U.S. dairy industry’s competitiveness in providing dairy products domestic and foreign buyers want.

VII. ** PURSUE AS SEPARATE EFFORT: Democracy for Dairy Producers

- a. **Purpose:** Information transparency and producer participation.
- b. **Action:** Evaluate language provided in bill offered by Sen. Kirsten Gillibrand (D-NY), which would require dairy cooperatives that engage in bloc voting to provide their member farmers with written notices when votes occur that provide the following information:
 - i. Procedures by which a producer may cast an individual ballot;
 - ii. Contact information for the FMMO information clearinghouse;
 - iii. Point of contact within the cooperative to provide members with information about upcoming bloc voting, including how the co-op intends to vote.
 - iv. Each milk marketing order would establish an information clearinghouse to provide information regarding any proposed milk marketing order reforms. This information would be published on a website and distributed to producers through a fax list, email distribution list, or U.S. mail list, at the discretion of individual producers.
 - v. Clearinghouses would be required to provide: Information on procedures by which a producer may cast an individual ballot; Due dates for each specific referendum; The text of each referendum question under consideration; A description in plain language of the question and relevant background information.

- VIII. *****POSSIBLE, STILL EVALUATING: Use a portion of producer promotion assessment for developing markets abroad.** (Discussed, but more information needed to assess how to do this and whether or not to include it)
- a. **Action:** Consider adding language that would amend the Dairy Stabilization Act of 1983(?) to designate ___% of funds collected through dairy promotion assessments on dairy producers and ___% of funds collected through dairy promotion assessments on dairy processors to create a fund for global market development. (More info needed)
 - b. **Purpose:** To position the U.S. dairy industry to provide dairy products and dairy protein to meet the latent demand identified by the Bain Report and position U.S. dairy processors and producers for the opportunity to develop and serve these markets.
- IX. *******NOT SURE – LEGISLATIVE OR ADMIN HEARING: Items deemed part of the Federal Order hearing process but may find ways to incorporate in legislation if possible** (Consensus that these items need to be addressed; but need information about whether they can be included in legislation or if certain legislative changes are made; would these items then be handled more favorably in follow up through Federal Order hearing process)
- a. Transportation Credits
 - b. “Touch Base” requirements for pooling on another Order
 - c. Diverted Milk
 - d. Other

Two following pages include the History & Activity behind this Bill Outline

History & Activity in Writing this Bill Outline

Since December of 2009, DPAC has focused on market transparency and price discovery.

DPAC has also shared its concerns about government mandated supply control, such as the proposal included in NMPF's Foundation for the Future.

On March 7-8, 2011, a DPAC / SEDC working group met in Greensboro, N.C. for a roundtable discussion aimed at starting the process to draft alternative legislation. The meeting was organized by the Southeast Dairy Coalition (SEDC) & Dairy Policy Action Coalition (DPAC), and hosted by Upper South Milk. A Draft Outline was then circulated to producers, producer organizations, experts and other individuals as broadly and quickly as possible for input.

Concepts and details were shared with producers via meetings and emails throughout the month of March, April, May and June 2011. Outreach included Discussion with various groups and co-ops in Northeast, Midwest, Southeast and some dialog with producers in Western States. Information was also provided to Milk Producers Council in California and the California-based National Dairy Producers Organization. DPAC also corresponded with leaders of national breed organizations – mainly Holstein USA and National All-Jersey – as well as other national producer organizations, including American Farm Bureau.

The DPAC / SEDC Draft Bill Working Group continued to meet through conference calls on Fri., April 8 and Fri., April 15. Two breakout subcommittees (Market Cow Bonus & Bloc Voting) met by teleconference on Mon., April 11; Wed., April 13; and Fri., April 15. Minutes of those discussions were shared 4/16 with all DPAC / SEDC board and ad hoc members.

On April 21, 2011, the DPAC board voted to include the Market Cow Bonus Program in the Draft Outline, and to meet with experts in Milwaukee to talk about a new pricing system – specifically how would a two-class system work and what would be the regional impacts?

On April 28, 2011, six producer members of the DPAC / SEDC Draft Bill Working Group met with a panel of experts (Mark Stephenson, Bob Cropp and Calvin Covington) in Milwaukee, Wis. to discuss Federal Order Price Reform and proposals on milk pricing that would reduce the number of milk classes (including historical perspective and questions on NMPF FTF FO Reform).

On May 6, 2011, Summary and notes from the 4/28 Milwaukee meeting were sent to all DPAC and SEDC board and ad hoc members along with second email of Market Cow Bonus Program parameters and Chuck Nicholson's Draft Analysis of the Market Cow Bonus Program.

On May 10, 2011 at 4:00 p.m., the DPAC / SEDC Draft Bill Working Group reconvened by teleconference to discuss any questions or clarifications on the Market Cow Bonus Program before having Dr. Chuck Nicholson complete the final analysis; and to follow up on direction on the Fed Order (FO) Pricing Reform piece of the bill after the Milwaukee discussion.

On May 18, 2011, DPAC received the final Analysis of the Market Cow Bonus Program by Dr. Chuck Nicholson and it was forwarded to the board and ad hoc members as well as other interested parties and a news release was published.

On May 19, 2011 at 1:00 p.m., the DPAC board meeting delayed action to move forward on the Draft Bill Outline because SEDC requested first having their own vote specifically on the Federal Order Price Reform portion of the Draft Outline.

On May 24, 2011, DPAC was notified that SEDC had voted to oppose a two-class pricing method until it could be shown by economic analysis and modeling that the result would improve producer pay price in the Southeast.

On June 14, 2011, the DPAC Executive Board met by teleconference to discuss getting DPAC back to its core values of a simplified and more transparent system instead of making the pricing system even more complex. Dairy farmers across the U.S. have consistently expressed that the current system is too complex and lacks transparency. A recommendation was made for DPAC action at the June Board Meeting.

On June 21, 2011, the DPAC Board and ad hoc members met by teleconference and discussed moving forward with the Draft Bill Outline, including a general statement on establishing a simpler and more transparent pricing system based on two classes of milk: Fluid and Manufacturing.

On June 29, 2011, the DPAC Board approved the following statement for the Federal Order piece of the Draft Bill Outline: *“Develop a simpler and more transparent system by establishing two milk classes: Fluid and Manufacturing.*

Discussion included the importance of component values, competitive pricing, and export markets in any future two-class system, and DPAC looks forward to raising funds for economic analysis through the model developed by Mark Stephenson of Univ. of Wisconsin and Chuck Nicholson of Univ. of California. DPAC also has referred to a paper on two-class pricing and other information written by Univ. of Wisconsin professor emeritus Bob Cropp.

DPAC and producers involved at the grassroots level have also been active in contacting their Senators and members of Congress about DPAC's Cornerstones for Change as it has evolved as well as sharing their concerns with portions of other proposals, including National Milk Producers Federation's Foundation for the Future.