

# DPAC hears range of proposals at board workshop

Part Two in a two-part series about the Dairy Policy Action Coalition (DPAC) milk pricing workshop and board meeting March 11 in Lancaster, Pa.

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Special for Farmshine

LANCASTER, Pa.—Defining “our markets”, managing growth, understanding “our role” in the world market, being realistic in prioritizing achievable goals ... These were some of what the Dairy Policy Action Coalition (DPAC) wrestled through at its March board meeting and milk pricing workshop.

Perhaps guest speaker Kurt Williams, general manager of Lanco-Pennland Quality Milk Producers, put it best when he used a basketball analogy: “Small teams can win against big teams by playing the whole court: Press, be everywhere, play everything.”

The analogy fit as the DPAC board has formed, and continues to form, action groups to focus on different angles of the milk pricing problem. While four key dairy policy objectives emerged from the workshop on March 11, the board continues to work in different areas while aggressively pursuing the top-ticket items dairymen agree on.

The four key policy areas the board agreed on are anchored to the cornerstone: Reducing the influence of the thinly-traded Chicago Mercantile Exchange (CME) spot market for butter, powder—and especially cheese—on the farm milk price. The key to this is funding and implementing USDA’s electronic reporting of daily-negotiated trades for market transparency and price discovery. The authorization for this was already passed in the 2007 Farm Bill but has not yet been funded or implemented.

Once implemented, DPAC seeks expansion of this USDA electronic reporting authority in the next Farm Bill to move beyond storable commodities to include daily-negotiated transactions on other manufactured products—like yogurt and mozzarella cheese—and to reconcile product inventory, production, sources and uses, for a better grasp of milk movement.

Another area of policy, which also had widespread agreement in the DPAC producer survey, is the elimination of dairy product support price purchases, which would force manufacturers to share market risk with dairy producers. The current government support purchases (combined with “make allowances” embedded in the pricing formulas) encourage plant expansions that are not always based on what the market wants and consequently send the wrong signals.

The other areas DPAC is working on are redefining and stabilizing the Class I “mover” and evaluating the benefits of moving to a two-class milk pricing system.

These are just the highlights of the framework for action, for which DPAC action groups have already followed up with two conference calls and an email discussion.

Last week, Farmshine reported some of the information gleaned from the market panel during DPAC’s board meeting and workshop. The second panel discussion focused on supply and demand. The board brought five speakers together in person and by teleconference to learn more about four pricing and/or supply management plans, as the DPAC supply management action group is sifting through plans and ideas to make a recommendation to the board in the coming weeks.

During the supply-and-demand panel discussion, the DPAC board and adhoc members from various regions of the United States, heard first from Amanda St. Pierre, a Vermont dairy woman and co-founder of Dairy Farmers Working Together (DFWT) and Doug Maddox, a California dairyman and former president of Holstein USA. They discussed the Dairy Price Stabilization program, which is supported by DFWT and Holstein USA.

“Our concept is to do one thing,” said Maddox. “Another downturn is coming, and it will be a killer on the back of 2009. Congress has told us they will not reopen the current Farm Bill. This supply management program can be done without opening the Farm Bill.”

He explained how the plan originated with the Milk Producers Council in California in



## DPAC Update

‘Controlling your own destiny’

Dairy producer Steve Mandl explains his pricing idea to the DPAC board during the coalition’s board meeting and milk pricing workshop on March 11 in Lancaster. Producers from Kentucky and Tennessee traveled to Lancaster, Pa. for the meeting—along with board members from Ohio and across the state of Pennsylvania. Producers from other areas in the East, Midwest and Western U.S. also joined the discussion by teleconference. The board’s workshop meeting featured two panel discussions and eight panelists.

2006, when it was known as the Growth Management Plan. It is a base-excess plan that works off projections of domestic and international market supply and demand.

“Global demand is expected to increase, but I for one don’t want to produce for it until I know it’s there,” said Maddox. “This plan provides an incentive—either to not produce or to produce—depending on market conditions of supply and demand.”

“One thing this plan does is it allows us to exist for these other conversations that need to happen on milk pricing,” said St. Pierre. “It allows us to stay in business and take back our industry. It allows us to exist another day to have this debate about our industry’s future.”

According to Maddox, Holstein USA’s Dairy Price Stabilization Program is a “first step. It’s one more tool in the toolbox to prevent the drastic drop in prices that we saw in 2009.” He stressed this proposal does not set a minimum price, nor does it fix the Federal Milk Marketing Order system, and it does not change the milk standards (solids content, somatic cell count). What it does do is put a “market access fee” on milk that is produced over a farm’s base and the allowable growth rate.”

DPAC board members wanted to know how the base system in this proposal works. “If a farm expands their production in one year, and pays the market access fee, does that become the farm’s new base for the next year?” asked Bradford County, Pa. dairyman Jon Jenkins, who chairs DPAC’s supply management action group.

Maddox clarified that each dairy farm’s base is a rolling base. “If you are over base for one year and pay the market access fee that year, then you do establish a new base at the higher level for the next year,” he said, adding that if the board that would oversee the proposed base-excess program saw the bases moving up out of sync with supply and demand and hurting the intention of the program, they could adjust the market access fee “high enough that operations can’t afford to do that.”

“The allowable growth rate may be zero, and in a year like 2009, it may be a negative number where everyone must cut production by a certain percent to avoid paying a market access fee on the extra milk,” Maddox reported. In that case, everyone’s base would be reduced by the same percentage to provide the economic incentive for producers to bring supply back in line with demand by making the “extra” milk more expensive to produce because of the market access fee farmers would pay to sell it.

Asked who would implement the plan, Maddox said it would be an elected board made up of 75% dairy farmers—following the same concept as DFA’s growth management initia-

tive, which calls for a 30-member board with 24 of them dairy producers. The Dairy Price Stabilization Program would also be subject to a dairy producer referendum in three years to either reform the program or stop it—if it’s not working.

St. Pierre and Maddox reported that the concept of “setting a milk trigger” for base-excess implementation is something that is being kicked around. DFWT is also working with Cornell to have them model plans—put forth by DFA, AgriMark and others—for comparison to the Dairy Price Stabilization Program.

The DPAC board also heard from western Pennsylvania dairy farmer Steve Mandl, who authored a plan that would price milk using the Dairy Price Index (DPI), which is part of the Consumer Price Index (CPI).

“It would work much like indexes are used for bond portfolios on financial markets,” said Mandl, who worked in the financial markets before getting into dairy farming two years ago.

The dairy and related products section is one percent of the CPI, and it represents 2500 different dairy products sold at the retail level, Mandl reported. The Bureau of Labor Statistics reports the information monthly.

Mandl’s plan would use the DPI to adjust milk prices higher or lower by virtue of retail sales. In the first month of operation, the base milk price would be set at the USDA-calculated cost of production plus a 10% margin. After that, the DPI percent-change would be the milk price “mover.”

“This is an incredibly simple and transparent program. Anyone can calculate it,” he said. “It’s market-oriented because supply and demand would be balanced and driven at the consumer level. Processors and retailers would retain full control to raise or lower the price throughout the supply chain right to the consumer.”

Mandl maintains that products would clear the market in times of over supply because there would be an incentive to price them better to consumers. And in times when demand exceeds supply, farmers would benefit by having more retail value passed back through the system.

“The fate of the farmer would more closely align with the processor and retailer,” he said. “At a minimum, using the DPI as a milk price mover could be one portion of how to price milk because it’s hard to manipulate a system like this,” which factors-in the retail side.

The DPAC board wondered how the milk supply would be managed if the milk price starts at a cost of production of \$24? “This is not a cost of production guarantee,” said Mandl. “It starts there, but the DPI would move it according to supply and demand.”

He admitted his supply management points are still being tweaked, but a concept would be to allocate “dairy shares” to farms, which would give them the right to sell certain quantities of milk at a calculated price. He also talked about having an insurance fund, like the FDIC insurance banks have. This could be used to buy producers’ milk if a processor shuts down. He also pointed out that the calculated price would be moved by the DPI, but processors would not be required to take on more milk if producers wanted to expand. This would mean processors and producers would need to negotiate and become efficient at working together to manage supplies.

The hinge-point of Mandl’s DPI plan are the years of “asymmetric” pricing, where wholesale milk prices fall and the retail market basket (DPI) stays relatively constant by comparison. The farm milk price fell 45% during the six months from March through August 2009. But the DPI was down only 12%.

Also from western Pennsylvania, dairy nutritionist Harry Stugart presented information on his “ration-all milk pricing plan.” He developed it 10 years ago because of the irrational pricing that occurs in the dairy markets based on very small changes in supply and demand.

“The success of any plan is to keep supply and demand in near perfect balance,” said Stugart. “It there is only one percent too much milk, over six months that becomes six percent too much storable product sitting somewhere.”

Stugart’s plan has been revised over the past 10 years, and he has traveled to Washington D.C. this spring to share it with members of Congress.

“This plan stabilizes volatility on 90% of the milk supply by using a 60-month moving average of volatile market prices, and projecting out 12 months for greater stability all the way from the producer to the consumer,” Stugart explained. “The trend price evens out the volatility, but we still hear what market is telling us.”

Stugart maintains that having stability on 90% of the milk supply allows farms to cash flow, budget, and plan. The other 10% of the milk supply would be subject to a regional bidding process within the Federal Milk Marketing areas.

“Right now, producers have only one choice: make more milk to cash flow in a down market or capitalize with more milk in an up market,” Stugart stressed. “As the value increases or decreases on that 10% of the supply, it helps producers make the right decisions.”

Stugart described the open bidding process on the over base milk (10% of the milk supply) as being a transparent way to foster competition that cannot be manipulated.

Bids would be due to the Federal Milk Marketing Area administrator by the 20th of each month. The bids would be summarized and announced by the 25th of the month for the next month's sales... "Then the dairyman can decide, based on that announced price, whether or not to ship the 'over-base' milk," he explained, adding that under the current system, a small three to five percent of the milk supply prices the rest of the milk supply.

"Instead of using the NASS survey on a few dairy products, the bid process would provide more market transparency directly between producer and processor, allowing each to react to the market signals."

He also maintains that this bidding concept for 10% of the milk would provide the market transparency needed in the Class I fluid market. Instead of changing the Class I location differentials, fluctuations in costs, like transportation, would dictate processor bid offers for milk within a region, effectively serving the purpose of a "differential."

Stugart also stressed that a plan like this would eliminate the need for government support purchases, MILC payments, and processor make allowances. "No make allowances means processors no longer have the incentive

to make products for storage or sale to the government," he said.

The supply and demand panel concluded with Arden Tewksbury, general manager of Pro-Ag based in Meshoppen, Pennsylvania. Pro-Ag authored Senate Bill 1645 (the Specter-Casey bill), also known as The Federal Milk Marketing Improvement Act of 2009.

Tewksbury reported that Pro-Ag does a lot of fundraisers, and they talk with thousands of consumers. The one thing they hear over and over is: Consumers can't understand why dairy farmers are not getting a fair price for their milk.

"The current milk pricing system uses a small portion of producer milk against the producer to destroy the price on the rest of the milk," Tewksbury asserted, explaining the proposal, which seeks to simplify the system to two milk classes—fluid and manufacturing—and price the Class II (manufacturing) milk according to the national average cost of production figured by USDA and adjusted quarterly.

"It's time to give credence to cost of production in milk pricing," he said, adding that the existing Class I location differentials would be left intact, along with the Federal Milk Marketing Orders, which would still be responsible

for determining the component value of milk.

"Our plan also discontinues the make allowances, which came out in the open with Order reform in 2000," said Tewksbury.

He also explained that the plan has an inventory management function aimed at preventing the build up of domestic milk products, which at the same time prevents foreign products from "destroying U.S. prices" paid to dairy producers.

"Our plan requires imports and exports to be in balance before the inventory management program can be implemented," said Tewksbury.

In S. 1645, the inventory management portion would be funded by all dairy farmers, because it would function as a two-tiered pricing system, where the Class II manufacturing price (based on cost of production) could be discounted up to 50% on 5% of all producer milk. "And if this is insufficient to manage the supply, the Secretary of Agriculture may reduce the price paid on milk production that exceeds each producer's prior year base," he added.

New dairy farmers, with annual production below three million pounds, would be protected from inventory management price discounts in the first year of operation.

Tewksbury also stressed that the cost to the government for this program is zero. There would be no need for dairy price support purchases or MILC payments. "It would be 100% farmer-funded," he said. "It also does away with the 'all-or-nothing' type of voting we have on changes to Federal Orders, and it would not allow cooperative bloc voting on behalf of members.

"Other ideas we heard today might do it, but our plan will do it," he said. "Our goal is we want dairy farmers to get a fair price, and consumers want to buy milk at a fair price."

Visit DPAC's website ([www.dpac.net](http://www.dpac.net)) to learn more about what the coalition is doing and to read more about the board meeting and milk pricing workshop. The "food for thought" section of the website—which is aimed at stimulating discussion—lists the plans that were presented during the two panel discussions, as well as other proposals and information that is circulating through the dairy industry.