



DPAC goes to DC: Gets keys to ignition for electronic reporting, Develops strategy to go forward

By Sherry Bunting, Reprinted from Farmshine, April 16, 2010

WASHINGTON, D.C.— Whether the dairy industry is talking about risk management, supply management, revenue insurance, pricing formula changes—or any other idea—there is one common denominator: The need for a functioning price discovery system.

Market transparency is the underlying foundation for any path the industry takes, and on Thursday, April 8, the Dairy Policy Action Coalition (DPAC) saw the first bricks laid.

It was a full workday here at the Capitol for four DPAC board members and government relations consultant Dennis Wolff as they worked with congressional ag staffers on report language to fund daily electronic reporting in the House and Senate ag appropriations bill. DPAC also met with USDA to glean support and the price tag.

For a startup cost of \$600,000 and another \$1 to \$2 million per year, daily electronic reporting with quarterly auditing—as authorized in Section 1510 of the Dairy Title in the 2007 Farm Bill—can finally become a reality.

“Nothing else can be fixed without this piece,” said Franklin County, Pa. dairy farmer and DPAC chairman Cliff Hawbaker, who traveled to D.C. with fellow dairy producers and DPAC board members Duane Hertzler, Perry County, Pa.; Alan Kozak, Holmes County, Ohio; and Dan Z. Stoltzfus, Chester County, Pa.

Wolff explained that electronic reporting is a framework for the future as well. “DPAC wants to see this expanded in the next Farm Bill to include more products in the reporting,” he said. “This is something dairy farmers all agree on.”

“We have to reduce the influence of the CME (Chicago Mercantile Exchange) where less than 1% of the product is traded,” added Stoltzfus.

The meeting was a follow-up to Wolff’s previous communications with members of Congress—led by Sen. Arlen Specter (D-PA), who sits on the Senate Ag Appropriations



Committee and Rep. Tim Holden (D-PA), vice-chair of the House Ag Committee. They are working with a growing group of members from the House and Senate—including Sen. Bob Casey (D-PA), Sen. Sherrod Brown (D-OH), Rep. Glenn Thompson (R-PA), Rep. Kathy Dahlkemper (D-PA), and Rep. Zack Space (D-OH)—to write language to fund this key to price discovery.

Adam Tarr, legislative aide for Sen. Specter and Liz Hermsen, senior policy advisor for Sen. Casey and Jake Kuhns, senior legislative assistant for Rep. Holden organized Thursday's roundtable with DPAC and staffers, including Joe Shultz, legislative aide for Sen. Brown; John Busovsky, senior legislative assistant for Rep. Thompson; Caitlin Lucchino, legislative assistant for Rep. Space and Ben Storm, legislative correspondent for Rep. Dahlkemper at Sen. Casey's office in the Russell Senate building.

DPAC is already reaching out to producers across the U.S. to broaden the lines of support among members of ag appropriations committees in the House and Senate.

For example, during a separate and previously planned trip to Washington this coming week, newly elected DPAC board member Bryan Gotham of St. Lawrence County, New York, plans to meet with congressional ag staffers for Sen. Kirsten Gillibrand (D-NY) to ask for her support of this effort to fund and implement electronic reporting. And Jack Fritz of Springfield, Tennessee, an adhoc member of the DPAC board, is anxious to get his southern and midwestern contacts involved in the groundswell of support as well.

This is critical because once the appropriations bill gets there, the electronic reporting piece will vie for dollars with a dozen other appropriations. The importance of this piece dwarfs its comparatively modest price tag, and DPAC will remind Congress and USDA that dairy farmers are resolute and united in their determination to see better price discovery of the value of their product in the marketplace.

"DPAC is really moving forward with one voice in the dairy industry, and this is one area of policy that has total agreement among dairy farmers across the country, and throughout the industry," Wolff told congressional ag staffers. "During a Dairy Forum I was part of in Ohio (on March 31), Jim Tillison from National Milk Producers Federation acknowledged their position in favor of electronic reporting, saying they helped get it into the 2007 Farm Bill. On that panel, we also had Dr. Mark Stephenson from Cornell University, Dr. Cameron Thraen from The Ohio State University, and Bob Vandenheuval from the Milk Producers Council in California. They all agreed that daily electronic reporting needs to happen, regardless of what future changes occur in federal dairy policy."

DPAC board members, who have spoken individually with area cheese processors, find that they too look forward to daily reporting of actual negotiated trades, versus exclusive reliance on the thinly traded spot surplus market on the Chicago Mercantile Exchange CME.

Still, DPAC learned Thursday that they are the first to actually request appropriations to fund this section of the current Farm Bill.

"This is something our cooperatives should be doing, but they are not," observed Hertzler in response to an ag staffer's question. "It's difficult for us to be here. But we are speaking with one voice for all dairy farmers to tell you that our federal pricing system is not working."

The DPAC board members explained that when they ask, they are told their various milk cooperatives are in favor of the daily electronic reporting and increased auditing, but they have not taken up the task. So, it's up to the farmers, through DPAC, to get the keys to this issue and keep the foot on the gas.

Once the electronic reporting language gets to the ag appropriations committees, members will need to know that it is fully supported by USDA. Toward this end, DPAC also met with USDA on Thursday, and the coalition will follow up with U.S. Ag Secretary Tom Vilsack's Dairy Industry Advisory Committee (DIAC), asking them to help keep this priority in the forefront.

DPAC will attend the second meeting of Sec. Vilsack's DIAC in June, and is currently preparing letters, so the Committee has a record of this information before their first meeting April 13-15.

Thursday's meetings concluded at USDA, where Mike Scuse, USDA deputy under secretary for the Farm and Foreign Agricultural Services, brought to the table five officials who work with dairy programs and market reporting from USDA's Agricultural Marketing Services (AMS): Dana Coale, USDA AMS deputy administrator for dairy programs; Rayne Pegg, administrator for the Agricultural Marketing Service; John Mengel, chief economist for AMS; Milt Madison, ag economist with the USDA FSA; and Mike Lynch, livestock reporting supervisor with Livestock and Grain Market News office.

Coale reported the startup cost for daily electronic reporting would be \$600,000, based on what designers of the daily beef report have in place that can be adapted for dairy.

"This would cover the programming and personnel to get the plants online with electronic reporting," she said, explaining the software enables plants to record and automatically transmit their daily product sales and volumes.

"The data from individual plants is encrypted and totaled with data from other plants before we open it to determine weighted average product prices and sales volumes each day," explained Lynch. This is currently done in the beef industry to report the wholesale value of each retail cut fabricated from a steer carcass, as well as the value of hides and offal. The same system is used for daily livestock purchases direct by packers on a pricing "grid," so USDA can report daily market value of cattle and hogs on a live basis.

According to Lynch, daily mandatory electronic reporting in the livestock and meat industry faced a few hurdles in the beginning, but now the industry relies on the daily price lists to know what's going on in the marketplace and to establish pricing grids for buying the raw commodity (cattle and hogs) from producers.

"Even when funding lapsed temporarily in 2004-05, most plants continued to cooperate because they now use this information," said Lynch about the mandatory electronic livestock and meat reporting.

The other part of the price tag for daily electronic reporting for dairy is the annual cost of between \$1 and \$2 million for quarterly auditing (verification) of the data provided by an estimated 100 reporting plants.

"Our only issue with this was financial," confirmed Rayne Pegg, administrator for USDA AMS. She represented AMS during budget hearings on Capitol Hill in March. "When developing our budget we had a lot of priorities there to consider."

"While electronic reporting doesn't necessarily give additional information, you will get the information earlier and it will be more timely," acknowledged John Mengel, AMS chief economist.

"We expected to get to the meeting and have a lot of convincing to do to get USDA to understand why dairy farmers want this part of the Farm Bill implemented, but they were prepared," said Hawbaker. "They brought (Mike Lynch) from the Livestock and Grain Market News division to the meeting, and we could see they did their homework on what would be involved to get this going. It was great to see this come together."

"We had a super day, and I was amazed that the dollar amount to implement daily reporting was not higher," added Stoltzfus. "Now we have to follow up with USDA and Secretary Vilsack's Dairy Industry Advisory Committee so that everyone gets encouraged to support this as a high priority."

"This is the key to our bullet approach," said Wolff. "Our agenda is narrow, and this change with daily electronic reporting is critical."

Shultz from Sen. Brown's office wanted to know DPAC's position on risk management.

"Farmers need tools to pick and choose, and we're not against risk management, but dairy farmers do not know how to implement it when we have a price discovery system that is broken," said Hawbaker. "Daily mandatory reporting is what we have on the table as the first step

that is needed. The dissention and questions come up among dairy farmers because there is no foundation right now for a transparent market.”

“There is opportunity for manipulation on the CME spot market,” added Kozak. “We don’t need to prove that it is happening, just that there is the opportunity for it to happen under the present system. As a milk producer, I can pass every test for milk quality with flying colors, but if the inspector sees something in my equipment or process that could potentially cause a problem, I have to fix that. It’s the same thing here with our markets.”

The 2007 Government Accountability Office (GAO) report, in fact, outlined the ways in which the thinly traded CME spot cheese market is vulnerable to manipulation. Furthermore, reports from the industry continually surface of how large players with individual agendas can and do move the ‘market’ at the CME quite easily, and it’s all based on bids or offers. That spot market can move on a bid or an offer, not necessarily a completed trade. Then that is all the industry has to look at when buying and selling in the “real world,” so the correlation is 97- 98%.

“To market our product and use risk management tools... the farmers, processors, even speculators need to know what’s happening in the marketplace,” added Hawbaker. “We can’t fully participate in a market that is not transparent, where a few large players have more information than the rest of us.”

Wolff described the current price reporting system. “Tomorrow (Friday), AMS will release the NASS Survey of product prices from last week, with as much as a 14-day delay,” he told the congressional staffers, reminding them of the mis-reported milk powder in 2006-07, which cost U.S. dairy farmers tens of millions out of their milk price.

“There’s no provision to go back and make amends to the dairy farmers for that,” he said. “That’s one of the reasons for the daily reporting and quarterly auditing, to both increase the timeliness and ensure the accuracy of the prices that are reported.”

“As farmers, we are on the receiving end of whatever price discovery system is in place,” said Hawbaker. “And there are a lot of rules and regulations in between that price discovery and the way the federal orders set minimum milk prices. We are focusing first on that price discovery system, to implement that tool we already have sitting there in the current Farm Bill.”

During the meeting with USDA, Hawbaker explained that, “If we farmers don’t have a handle on the price reporting, how do we make those decisions? The dairy producer right now is not given that privilege to know what is going on in that market, daily. All we have to look at is the CME, and I think that’s why we get the divisions among us because we do not have a basis for transparency in the marketplace. There are 57,000 dairy farmers, and I don’t think you’ll find one who is against this.”

Wolff added that in every meeting he has participated in over the past few years, “Price discovery and market transparency float to the top, and that’s why DPAC is here today.” (It was also the top ranked “concern” identified by dairy producers in 23 states who responded to DPAC’s dairy producer survey.)

During the meeting with congressional ag staffers before DPAC’s later meeting with USDA, Adam Tarr from Sen. Specter’s office gave the dairymen an update on the appropriations bill. “A month ago, we talked with the Senate Ag Appropriations Committee to put this on their radar,” he said. “Section 1510 of the current Farm Bill allows for implementation of electronic reporting, subject to funding. This report would provide that funding language and the direction to increase the frequency of reporting and auditing according to the statute.”

Tarr explained that the next step is to put together a letter from the Hill to Secretary Vilsack and the ag appropriations committee with the other members of Congress represented at the table Thursday. “We’ll lay out the case, and it’s a pretty compelling one,” he said. “It’s good to be working with folks that are bringing things to us that can be accomplished.”

DPAC will continue drumming up voices of support from across the country as this begins to move forward in April and May through the appropriations process.

Between the morning meeting with congressional ag staffers and the afternoon meeting with USDA, Wolff and the DPAC board members visited with Dick Newpher, executive vice president of the American Farm Bureau Federation.

Newpher pointed out that AFBF's 2010 policy handbook includes the following reference to electronic reporting under national dairy policy: (21) "A price discovery method which utilizes more milk and expands mandatory reporting and auditing of prices and inventories, including penalties for inaccurate reporting; and (22) Improving price discovery through mandatory reporting and auditing of prices and inventories."

"There is not one farmer against this," said Newpher. "And it falls in line with national AFBF policy."

However, it was clear from the meeting with AFBF, that when it comes to appropriations, there are always sections of the Farm Bill that are not funded. AFBF paints with a broader brush, often deferring to state Farm Bureaus to push forward the specific issues that require funding.

"These are the issues where it takes someone to be like a bulldog and take hold of it and not let up," he said. "We (AFBF) can do that with estate taxes, because that affects all farmers, but this issue (funding for electronic reporting) is where state Farm Bureaus and producer groups (like DPAC) go to work with their lawmakers in Congress."

"We really have to thank Denny Wolff for what was accomplished here today," said Hertzler. "He lined up the quality people for a really good day. I was encouraged by how open they were with us. We have to work on broadening the support from other sections of the country so this bill can have an impact on price discovery."

"On Thursday we learned how important it is to have someone like Denny Wolff working for us," added Kozak. "We saw that the money we spend to have him working for us is very worthwhile."

DPAC had its regular board meeting by teleconference the next day (April 9), and Wolff reported he had followed up with Adam Tarr from Sen. Specter's office. Now that USDA has provided the price tag for daily electronic reporting, Tarr indicated the report language to fund it would be written this week.

"It's great to have this coming from both the Senate and House sides," said Wolff. "After the language gets to the committees, then there will be two months of prioritizing. We'll have to keep up the support, and not let up, all the way through the appropriations process."

Contact DPAC at 800.422.8335 or www.dpac.net to find out how to help keep the foot on the gas for price discovery.

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