

DPAC Executive Board & Action Group Activities Report

May 11, 2010

May 11 — Executive Board meeting with DPAC's PA State Issues Action Group

- STATE: The Pennsylvania Milk Marketing Board (PMMB) further delayed (April and May) its ruling on the Feb. 16 hearing of the proposed change to capture and return to farmers an estimated \$5 million (per year) in “stranded” premiums. DPAC's PA State Issues Action Group is working with the DPAC Executive Board to develop a strategy for “Plan B.”
 - DPAC's PA State Issues Action Group is reaching out to consumers and will teleconference Monday, May 17 with Lance Haver, director of consumer affairs for the City of Philadelphia to discuss working together on this issue. Mr. Haver had attended the Feb. 16 PMMB hearing, and in March he wrote an op-ed piece for the Philadelphia Daily News and the Harrisburg Patriot News entitled: “*Pa. dairy farmers getting raw deal on price.*”
 - PMMB's next sunshine meeting is June 2, 2010. In a phone call May 7, the Milk Marketing Board's chief counsel Doug Eberly said the Board would issue an Order on June 2. We'll see.
 - Pennsylvania consumers currently pay around 25 cents per gallon (\$3/cwt) in over-order premiums that are intended by law for the dairy farmers, but a large portion of which are being swallowed within the system between the consumer and the farm gate. This premium is over-and-above the cost recovery and guaranteed profit margin included in the price build-up for bottlers and retailers.
- FEDERAL: The DPAC Executive Board and members of the Milk Pricing Action Group also continue to research the idea of developing a “market modeling subcommittee” to explore marketing dynamics. The DPAC Board tabled formation of this subcommittee at the April meeting, tasking the Executive Board to do more research on the idea for possible consideration at a future date.

May 5 — Meeting with PA Senate Majority Leader Dominic Pileggi and Senate Ag Committee Chair Mike Brubaker in Harrisburg, Pa.

(Present: Denny Wolff, Cliff Hawbaker, Rob Barley, Zach Meck, Bernie Morrissey)

Purpose:

- Work on legislative changes to the Pennsylvania Milk Marketing Law to capture and distribute state Class I over-order premiums that are paid by consumers, intended for farmers, but are “stranded” in the system.

Outcome:

- Sen. Pileggi and Sen. Brubaker indicated a willingness to move this forward.
- DPAC previously approved the following changes to PA Milk Marketing Law at Feb. 2010 board meeting:
 - 1) Retail level sales of milk – PMMB previously had authority to regulate and track milk sales at the retail level, which may help in capturing the sales of milk that is produced and processed in the state, goes out of state to a distribution center and comes back in for resale.
 - Former law language.
 - 2) The definition of where the title of the milk changes hands. Language here could similarly help capture over order premiums on PA milk that leaves the state for processing and comes back in for retail.
 - Minor word changes.

- 3) Pooling (100% pooling of the state over order premium) back to the farmers. Language could include who is responsible for collecting and distributing the premiums.
 - New language.

May 3 — The daily electronic reporting letter, co-authored on April 21 by Sen. Arlen Specter (D-PA) and Rep. Tim Holden (D-PA), was sent to leadership of both the House and Senate Ag Appropriations Subcommittees.

- The letter included signatures from five U.S. Senators and 19 members of Congress from 11 states (Pennsylvania, New York, Ohio, Vermont, Connecticut, Maine, New Hampshire, Maryland, Iowa, Wisconsin, and Colorado).
- As word traveled about the “dairy pricing letter,” farmers from multiple states in the East, Midwest, and West contacted their legislators seeking support for this funding. Even after the letter was sent to the Chair and Ranking Member of both the House and Senate Ag Appropriations Subcommittees, additional members of Congress are reportedly signing on with their own letters of support.
- The letter specifically supports funding to implement section 1510 of the 2007-08 Farm Bill, which specifically authorizes the more frequent (daily) electronic reporting of dairy.
- In addition to co-authors Specter and Holden, additional signers as of May 3, 2010 were: Sen. Robert Casey Jr. (D-PA), Sen. Kirsten Gillibrand (D-NY), Sen. Patrick Leahy (D-VT), Sen. Sherrod Brown (D-OH), Rep. Kathy Dahlkemper (D-PA-3), Rep. Chris Carney (D-PA-10), Rep. Joe Sestak (D-PA-7), Rep. Todd Platts (R-PA-19), Rep. Joe Pitts (R-PA-16), Rep. Zack Space (D-OH-16), Rep. Joe Courtney (D-CT-2), Rep. Betsey Markey (D-CO-4), Rep. Mike Michaud (D-ME-2), Rep. Leonard Boswell (D-IA-3), Louise Slaughter (D-NY-28), Rep. Paul Hodes (D-NH-2), Rep. Peter Welch (D-VT), Rep. Chellie Pingree (D-ME-1), Rep. Carol Shea-Porter (D-NH-1), Rep. Roscoe Bartlett (R-MD-6), Rep. Tom Petri (R-WI-6), Rep. Glenn Thompson (R-PA-5).
- A copy of the letter with signatures is posted at DPAC website:
http://www.dpac.net/publication_files/congressional-dairy-letter-to-ag-approps.pdf

April 30 — DPAC meets with Kentucky Dairy Development Council (KDDC) at the University of Kentucky Extension office in Bardstown, KY.

- Sherry Bunting and Bernie Morrissey traveled to Bardstown, KY to meet with KDDC, which represents over 1000 dairy farm families and multiple allied industry supporters.
- In lieu of sharing expenses or honorarium for presentation, KDDC has indicated it will make a “friend of DPAC” donation.
- A few members of the Indiana Professional Dairy Producers Association (Dave and Helen Forgey and Ken McGuffey) also attended the meeting.
- KDDC said they sent a letter to Sen. Mitch McConnell (R-KY) to support the funding for section 1510 of the current Farm Bill (daily electronic reporting with quarterly auditing). McConnell is a member of the Senate Ag Appropriations Subcommittee and very important to this bi-partisan effort to enhance the transparency of the dairy product marketplace.
 - One KDDC board member reported he had also visited with a top member of Sen. McConnell’s staff to share support for daily electronic reporting and quarterly auditing.
 - Another KDDC board member suggested compiling a list of points in time where daily reporting and/or quarterly auditing would have reduced or avoided mis-reporting that cost dairy farmers and the federal government (working on the specifics of this).

- Kentucky producers had good questions and shared concerns about the erosion of their Class I fluid market via transportation credits and diversions that reduce their C-1 utilization.
- One KDDC board member noted that the milk price in their region should not even be based on manufactured products (Class III/IV mover) because they have a true Class I utilization of 85%. In actuality, producers outside of the Appalachian and/or Southeast Orders can qualify for pooling on these Orders with just one day's production per month. Thus, other class uses for this milk then reduces the Class I utilization percentage for producers within the Order to more like 60%.
- We had some discussion of decoupling or partial decoupling of the Class I fluid price from the Class III or IV manufacturing price. Bunting noted that DPAC has looked at this concept, and that it was a question in the coalition's dairy producer survey. She handed out DPAC's policy framework (one-pager), which contains the four summary points from the DPAC Board's milk pricing workshop in March. Items #3 and #4 deal with this area of stabilizing Class I through a re-evaluation of location differentials and transportation credits as well as the idea of moving from four milk classes to two milk classes. The role of better price discovery of more manufactured products along with a competitive pay price (without arbitrary make allowances) was discussed as a way to diminish some of the effect of manufacturing class price on fluid class price.
 - On Class I price discovery, some KDDC board members expressed concern about using the retail price since supermarkets, especially in the south, have been using milk as a low-priced loss-leader.
- Bunting stressed the importance of bringing this coalition together on issues where there is widespread agreement and tackling the price discovery and transparency issues as a foundation necessary for meaningful change in the current system of milk pricing. For example, if improved market transparency captures the value of more products on the manufacturing side, it becomes easier for producers in other regions of the country with higher manufacturing class utilization to support the ability of producers in high fluid use regions to retain more of their Class I premiums.
- As one KDDC board member noted, even though they have a high Class I market there, any effort that helps with transparency of the price and value of manufactured products ultimately helps their milk price also.
- A question was asked about whether one national price (and one national Order) is a possible solution with location differentials added. Bunting noted that consolidation in the dairy industry increased more rapidly since the consolidation to fewer Federal Orders and that having one national Order would disadvantage the southeast and northeast. A discussion followed concerning the shared risk of pooling and the guarantees afforded processors and co-ops in the form of make allowances and price supports, leaving producers to take on the risk of decisions in the manufacturing sector. She stressed that dairy producers need to come together with one unified voice, but that doesn't necessarily mean that all milk needs to be priced under one Federal Order at one uniform price. Regional differences can still be discussed by a coalition that is unified on the main issues that tie dairymen together.
 - A suggestion was made to look at Section 1509 of the current Farm Bill, which provides general language for restructuring the Federal Orders.
- The point was made that southern costs of production are higher than elsewhere due to heat and humidity taking its toll and other factors.

- In response to an observation that other areas of the country were harder hit by 2009 losses... Bunting illustrated that—in reality—the consolidation that has already taken place has disadvantaged the southeast to the point where **the Appalachian States, Southeast States and Florida saw a larger per hundredweight decline in their “Mailbox” milk price during 2009 than any other region of the country**, according to the 2009 final average “Mailbox” milk prices that were announced by USDA on April 23, 2010.
 - While the southern Orders had the highest prices in 2009 (as they have historically due to higher Class I utilization), they had the largest losses compared to 2008 prices (via dilution of Class I utilization).
- Where all Federal Orders saw the 2009 average Mailbox price decline \$5.58/cwt., and California saw theirs decline by \$5.15/cwt —the Appalachian States lost \$6.14/cwt; Southeast States lost \$6.38/cwt.; and Florida lost \$6.60/cwt. View USDA chart at http://www.dpac.net/publication_files/2009-mailbox-milk-price-average.pdf
- KDDC board members spoke of their interest in supply management and that they support the work of Dairy Farmers Working Together, although they also expressed concerns about what it might look like for their milk-deficit region. KDDC has a program in place, which seeks to encourage existing Kentucky dairy farms to increase their production and to attract new producers to the region. They are involved in a concerted effort to strengthen their state’s position and to stabilize production in order to avoid loss of dairy infrastructure and further deterioration of their Class I utilization from outside milk pooling, transportation credits and diversions. They want a voice at the table on supply management.
- Bunting and Morrissey explained that DPAC has a Supply Management Action Group staying in touch with this issue, but that DPAC has it “parked to the side” so that it does not distract from the coalition’s focus on milk pricing and market transparency.

April 29 —DPAC meets with the Tennessee Dairy Producers Association (TDPA) at the Putnam County University of Tennessee Extension office in Cookeville, TN.

- Sherry Bunting and Bernie Morrissey traveled to Cookeville, Tennessee to meet with TDPA. The discussion was very productive. TDPA is a one-year-old producer organization, representing the state’s 480 dairy farms, with a board of directors that is 100% dairy farmers.
- They had good questions and wanted to know how daily electronic reporting would help dairy producers. Bunting explained that getting the current authority funded is a first step and that DPAC supports efforts to add more products to the price reporting once it is in place. She also explained that the quarterly auditing injects more accountability into product price discovery, and that DPAC supports mandatory inventory reporting with auditing.
- TDPA members also shared concerns about the loss of Class I utilization, and discussion followed about the dairy product price support system and “make allowances” creating a “pull-through” for rapid expansion in areas far from population centers that then compete to qualify loads for the highly prized Class I market in the southeast.
- The emphasis of the discussion was on how DPAC’s efforts to improve market transparency and price discovery serve as the foundation for meaningful change in federal dairy policy in the next Farm Bill. Everyone agreed it is very important to know the value of the many products made with milk and to have a handle on reconciled sales volumes and inventories.
- TDPA later voted unanimously to give DPAC their full support and would be sending a letter of support and donation in the future.
- TDPA also said they would contact their Congressman Lincoln Davis, who sits on the Ag Appropriations Committee to voice their support for funding section 1510 of the current Farm Bill – daily electronic reporting and quarterly auditing.
- A TDPA board member, who is also affiliated with Southeast Milk and the Georgia Milk Producers, said he would spread the word about DPAC to these other groups as well.

April 22 — DPAC received a letter from Thomas Marks, CPA, Deputy Auditor General for Audits at the Pennsylvania State Auditor General’s office in response to DPAC’s Jan. 5 letter to the General regarding “stranded” over-order premiums that are paid by consumers and intended, by law, for the dairy farmers.

- In his letter, Mr. Marks states that, “The General is mindful about falling milk prices and the current economic climate have an adverse impact on Pennsylvania’s dairy farmers. Consequently, in order to alleviate the severity of the aforementioned conditions, agencies should be able to ensure, in accordance with applicable laws and regulations, that Pennsylvania’s dairy producers receive a sufficient premium. Accordingly, Pennsylvania dairy farmers, consumers, as well as taxpayers in general, should be entitled to a proper explanation when suspected discrepancies exist in the disbursement of these premiums.”
- Marks further stated in the letter that, “... it is my understanding that the Pennsylvania Milk Marketing Board held a public hearing on this matter on Feb. 16, 2010. The Milk Marketing Board is expected to render a ruling on this matter on or about May 5, 2010.”
 - (PMMB had its May 5 sunshine meeting but delayed ruling on the proposal heard Feb. 16, which seeks to capture and return to state dairy producers an estimated \$5 million in ‘stranded’ over-order premiums.
- The Auditor General’s office also noted that, “...we will most certainly take under advisement your comments as we consider any potential special performance audit of the Pennsylvania Milk Marketing Board. The performance of such an audit would include an assessment of all information provided by the audited agency, as well as the degree to which it pertains to your comments, where applicable.”
- The Apr. 22 letter of reply from the PA State Auditor General’s office is posted at the DPAC website at: http://www.dpac.net/publication_files/letter-from-office-of-pa-auditor-general.pdf
- To read the Jan. 5 letter DPAC sent to PA State Attorney General Tom Corbett and PA State Auditor General Jack Wagner, a copy is posted at the DPAC website at http://www.dpac.net/publication_files/letter-to-generals.pdf

April 20 — DPAC testifies at U.S. House Ag Committee special hearing on dairy policy in Harrisburg, Pa.

- Daniel Brandt testified on behalf of DPAC at the special field hearing on dairy policy conducted by the U.S. House Ag Committee in Harrisburg. A report about the hearing was published in Farmshine and is available on the DPAC website at: <http://www.dpac.net/news/price-discovery-ranks-high-at-house-ag-committee-hearing/>
 - Brandt’s testimony is also posted at the DPAC website: http://www.dpac.net/publication_files/us-house-ag-committee-testimony.pdf

April 14-19 — DPAC corresponds with Georgia Milk Producers, Inc. and North Carolina Dairy Producers Association

- We received emails from Georgia Milk Producers (4/14) and North Carolina Dairy Producers (4/19) about their interest in learning more about DPAC via our attendance at meetings in June or July. Adhoc member Jack Fritz (Tennessee) said he would be happy to assist with that.
- Sherry sent information requested by both groups and put them on the E-newsletter list and for one-year subscription to Farmshine to stay posted.
- Georgia Milk Producers also indicated they would contact the Ranking Member of the House Ag Appropriations Committee—Rep. Jack Kingston (R-GA)—to voice their support for funding of the daily electronic reporting and quarterly auditing in section 1510 of the current Farm Bill.

April 12 — DPAC meets with Maryland Dairy Industry Association

- Bernie Morrissey met with the Maryland Dairy Industry Association to talk about the formation of DPAC and answer questions about the coalition's efforts. MDIA later sent an email indicating they want to do a little research and follow up on it at their June board meeting.

April 12 — DPAC discussion with California dairymen.

- After returning from the meetings in Washington, D.C. on April 8, Duane Hertzler received a request for a discussion with California dairymen about electronic reporting. Hertzler and Sherry Bunting had a conference call with a couple dairy producers from California, who are affiliated with the California Dairy Campaign and National Farmers Union. They expressed concerns that DPAC should be supporting something like an \$18 floor on prices versus "market transparency." They had little confidence that daily reporting would help, although they did concede that the quarterly auditing could help. We spoke at length about DPAC's push to include more products in the reporting once the current authority for electronic reporting is actually implemented. The California dairymen indicated their support for a supply management bill that resembles the Holstein plan, even though they also said they have some reservations with that as well.

UPCOMING EVENTS

Ag Secretary Tom Vilsack's Dairy Industry Advisory Committee:

- **June 3 — Denny Wolff and a couple DPAC directors will travel to Washington, D.C. to present policy points to Ag Secretary Tom Vilsack's Dairy Industry Advisory Committee (DIAC).** DPAC has one hour with the DIAC on the first day of their second two-day meeting—half an hour to present and half an hour for questions.

PA Farm Bureau Dairy Issues Forum

- **June 8 — DPAC has accepted the invitation to participate in the Pennsylvania Farm Bureau's Dairy Policy Forum,** which will focus on federal dairy policy issues. They would like a dairy producer representing DPAC to discuss current federal dairy policy points from 11:00 a.m. to 11:40 a.m., including questions. The purpose of the forum is to identify common ground for 2010 FB policy development.

Rescheduled meeting with Joe Scarnati, President Pro Tempore of the PA Senate

- **June 8 — DPAC is scheduled to meet with Sen. Joe Scarnati to discuss legislative changes to the PA Milk Marketing Law.**

USDA / Dept. of Justice workshop / hearing in Wisconsin:

- **June 25 — The DOJ / USDA workshop hearing on dairy market transparency, concentration and vertical integration** was rescheduled from June 7 to June 25 in Madison, Wisconsin. Denny Wolff has provided introductory written comments and his resume to be considered for a slot representing DPAC on the panel. We are waiting to hear if DPAC will have the opportunity to provide oral comments, but if not, written comments will still be submitted. Sherry Bunting plans to cover this landmark public event, and any DPAC board members who are interested in attending should let Denny, Sherry, or chairman Cliff Hawbaker know.
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