

DPAC Executive Board & Action Group Activities Report

August 8, 2010

July 15 — Supply Management / Milk Pricing Action Groups pre-Chicago teleconference:

- Teleconference participation: Rob Barley, Duane Hertzler, Jim Kennedy, Alan Kozak, Dale Hoffman, Jon Jenkins, Cliff Hawbaker, Dave Forgey, Jack Fritz, Dan Brandt, Denny Wolff, and Sherry Bunting.
- Denny Wolff said the presentation in Chicago is likely to be similar to the recent Northeast Dairy Leadership Team (NEDLT) meeting, but with more solid numbers and details of the study conclusions of economists Dr. Mark Stephenson (Univ Wisconsin) and Dr. Chuck Nicholson (Univ. California).
 - Their job is to show economic projections of no intervention, and then to the best of their ability use the model to show projections with the various supply management proposals to see if it will have impact.
- Rob Vandenheuval, of the Milk Producers Council in California, extended the invitation to DPAC to participate in the discussion in Chicago.
- Alan Kozak wanted guidance on questions DPAC can ask to help make an informed decision on supply management.
- **CONSENSUS: If Chicago produces a “slam-dunk winner, and everyone is lining up behind it, then we bring it back and do our own evaluation to see if DPAC board supports it.”**
- Keep in mind DPAC’s commitment to bringing dairymen together, not do something now that will push dairymen apart.
- **There is no consensus yet on supply management**, consensus on the call is that DPAC still does not want to move forward to endorse a plan without broad consensus. Doing so would jeopardize the action DPAC is taking in other areas where there is consensus.
- Dave Forgey noted that we as dairy producers need to know where a supply management plan will take us out into the future.
 - **Concept: If DPAC focuses on marketing first, then supply control—as a government mandated program—may not be necessary.**
- **Jon Jenkins, chair of supply management action group, agreed: “We cannot get behind a supply management program just for the purpose of avoiding a year like last year. We have to consider the long term and the opportunities for our young people.”**
- Forgey added that, producers need to get their fair share out of the market. The dynamics will change over time via the world market. Our goal is to be competitive and get a fair share of the dollars in the middle. **Bottom line: 8% of our milk supply should not control 50% of our milk price – that’s a pricing issue, not a supply management issue.”**
- Denny Wolff noted that the two action groups have “set the table” for he and a few board members to participate in discussion in Chicago.
- Wolff said the presentation will hopefully give better information so organizations like DPAC can consider what to endorse and move forward with. DPAC will listen / give input.
- Wolff also noted that DPAC needs to concentrate on the “next big thing.” He said it’s important to generate discussion on competitive pay price and fewer milk classes.
- Cliff added that we need to talk about competitive pay price and find a good definition for that. We also need to talk about two-class or even a one-class system to get industry

discussion of real change for milk classes (for example, if we talk about one class, we may end up with two-class; but if we talk about two-class, we will likely end up with three-class or a modified four-class).

- **Volunteers for Chicago supply management “summit”:** Duane Hertzler, Alan Kozak and Dave Forgey along with Denny Wolff and Sherry Bunting. Denny will fly out and he is the main representative... Others will arrange trip for least cost scenario. Sherry has \$200 from Farmshine toward cost of trip because of story potential. Forgey offered to stay at his house in Indiana on the way out to Chicago.
- **The executive board was on the call and okayed the expense for Denny and the board members.** They decided it is important for all to stay at the Westin O’Hare once the meeting starts... to be at the hub of activity to connect with dairymen from coast to coast. Guys will bunk together to save costs. In addition to \$200 from Farmshine, Sherry also received \$100 from an anonymous client to help with turnpike tolls and gas.

July 16 — FREDERICK, MARYLAND — DPAC met with Maryland Dairy Industry Association board in Frederick, Md.

- Bernie Morrissey, Sherry Bunting and DPAC chairman Cliff Hawbaker met with the board of directors of the Maryland Dairy Industry Association in Frederick. They gave an update of DPAC’s activities and discussed DPAC’s dairy policy framework. **MDIA board voted to send \$1000 as a “starting” donation to DPAC.** A board member is interested in being an ad hoc member to DPAC. July 16 discussion with MDIA board included:
 - Simplifying the number of milk classes (2-class, 3-class, what about one class?)
 - Producing for a market and how this relates to managing supply.
 - Increasing protein and calcium content of retail fluid milk. MDIA board had strong opinions about wanting higher quality milk standards (solids & SCC).
 - Move to reduce SCC limits will turn out to be a good thing, but concern was expressed that current move will be temporary and then “relaxed” per the whims of the processing sector.
 - Quality and price should move higher, together.
 - Elimination of price support purchases and make allowance – make products the market wants and have manufacturers compete for milk to make products instead of current formula-pricing based on four marginal commodities.
 - Truth and transparency – role of DPAC in continuing to ask the right questions.
 - A point of information from the group: National Milk Producers Federation (NMPF) has to represent the interests of the cooperatives, which are not necessarily the interests of the farmer owners.
 - Comments from MDIA on supply management:
 - MDIA board members said any buyout program, like the CWT, should have a stipulation that a producer can’t get back into dairy right away after receiving funds to liquidate.
 - One board member talked about the base program in the 80s. “We knew what our milk production was and how many cows and if we bought someone’s cows, we bought the base also.

July 19— BERKS COUNTY, PENNSYLVANIA — DPAC interviewed for PA story

- Zach Meck, Nelson Troutman, Bernie Morrissey and Zach’s brother Jeremy were interviewed for a story in the Reading Eagle (Berks County, PA hometown newspaper) regarding ‘stranded’ over order premiums in Pennsylvania. The article is posted at DPAC’s website at this link: <http://www.dpac.net/news/dairy-farmers-in-fight-over-fee/>

July 20-21— CHICAGO, ILLINOIS — DPAC participated in Supply Management “summit” in Chicago:

- Dennis Wolff and Sherry Bunting, along with board members Duane Hertzler and Alan Kozak and ad hoc member Dave Forgey, attended the meeting of 30 organizations on supply management in Chicago, Illinois.
- **It was another whirlwind trip** as we drove to Indiana on the 19th and stayed at Dave Forgey’s house, then proceeded on to Chicago on the morning of the 20th, with a quick stop to tour Fair Oaks Dairy (the visitor’s center showcases just 1 or 10 3000-cow units (30,000 cows total on 20,000 acres). Impressive and thought provoking about the future of the dairy industry (concentration and vertical integration). We drove home after the second day of meetings without staying anywhere.
- Chicago meeting was at the airport’s Westin O’Hare Hotel. Below are some notes and an overview is attached or you can read the attachment at <http://www.dpac.net/news/dpac-attends-coast-to-coast-gathering-in-chicago-to-evaluate-proposals/>
 - A few concepts we can share – the rest will be discussed in person at Aug 12 DPAC board meeting.
 - **DPAC-5** were among 60 people representing 30 organizations from coast-to-coast. (*See above mentioned article for list of organizations*).
 - Of the 60 industry leaders assembled, 15 to 20 were actual dairy producers, including 3 from DPAC.
 - **Purpose:** to hear and explore preliminary findings during an interactive economic analysis of four major supply management / dairy policy plans.
 - Costa / Sanders bill (Holstein plan)
 - National Milk Producer’s Federation proposal
 - AgriMark marginal milk proposal
 - Growth Management Initiative (formerly DFA plan)
- **Field quickly narrowed to a side-by-side discussion of Costa / Sanders bill (H.R. 5288 and S. 3531) vs. National Milk’s Foundation for the Future.**
- According to the coalition of industry groups that paid for the study, the complex economic analysis model was built to independently evaluate the long-term impact of the aforementioned plans vs. a baseline of “no intervention.”
- The two-day meeting was very interactive. As participants posed questions and provided input, further analysis was conducted in “real time” and the charts and graphs began to reveal deeper dimensions of how these plans would potentially affect:
 - 1) the degree of variability in milk prices over time;
 - 2) the effect on dairy industry structure (consolidation);
 - 3) the cost to the federal government; and
 - 4) the effect on cumulative net farm operating income.
- Because of the very in-depth nature of this analysis, the coast-to-coast coalition convening in Chicago wanted more work to be done before releasing the economic analysis to a widespread audience.
- The 12 funding organizations stated: All growth management scenarios were shown to reduce price volatility for farmers, a priority industry goal as constructive changes in national dairy policy move forward.

- The analysis timeline assumed 24 months to implement and it began monitoring changes at 36 months (2013) through a five-year period ending 2018.
- One of the things the convening coalition asked the economists to do in their further work is to lengthen the monitoring period to go beyond 2018.
- **The preliminary findings were credible, but will not be released until the economists' work is complete in a final report expected by September 1. Here are a few kernels to think about:**
 - 1) All three programs reduced price volatility for dairy farmers, but according to preliminary analysis, did not necessarily increase cumulative net farm operating income.
 - 2) The AgriMark marginal milk program and the Costa/Sanders bill both use a milk over feed ratio as a trigger while National Milk's plan uses a milk margin per hundredweight to trigger reduced payments for milk.
 - 3) Net farm operating income is the measurement dairy producers were most concerned about, and the economists used "cumulative" net farm operating income instead of "milk price" to drive the economic model because they assume producer decisions will be based on cumulative net farm operating income.
 - a. But, they could not rule out whether decisions would be made in one time frame to influence income in a later time frame.
 - 4) The preliminary findings—before interactive changes were run through the model—basically showed producers would receive about the same average price over the projected five-year time frame, but with less variation.
 - 5) In some instances, the cumulative net farm operating income by 2018 ended up in the same place but various programs "minimized the time in which producers would feel a lot of pain."
 - 6) Dr. Stephenson did say that curbing the volatility tended to speed up consolidation, but there is no way to tell whether current smaller farms increased in size or were lost. The numbers just showed more farms in the larger categories by 2018 compared to baseline.
 - 7) A big difference between the Costa/Sanders bill and NMPF Foundation for the Future is that Costa/Sanders provides a "choice."
- During our conversations with other producers and in learning more about the major plans, we observed the following thoughts, insights and questions:
 - With Costa / Sanders – producers have a choice (get a dividend or pay a fee)
 - Market access fee amount and allowable growth rate determined by Milk to Feed Ratio and a board.
 - NMPF – hammer falls equally on everyone – triggered by margin
 - \$6 or below – producer is paid for 98% of milk shipped
 - \$5 or below – producer paid for 97% of milk shipped
 - \$4 or below – producer paid for 96% of milk shipped
 - This is where "free" margin insurance kicks in. It essentially kicks in at 2009 level of margin squeeze.
 - Costa / Sanders – a strategy move? Producers need leverage in market and politics. But would it distort world market. Processors could re-leverage with overseas product?
 - NMPF plan sends market signal, but the milk still goes into the system even though the producer is not paid for all of it.

- Concept: produce for a market and modify production via knowledge of the market producing for?
- Question: Vertical integration? Who counts those pounds of milk?
- Transferring base. Could regions lose dairy market share to other regions? And what is the effect on the remaining dairies in a region?
- What is the dairy producers primary concern: volatility or low net farm income?
- Are we looking for the right solution by concentrating on volatility as the main problem?
 - This seems related to the new rules in banking industry, so the volatility becomes a credit issue, particularly for new young farmers and large family dairies that are expanding.
- Does a more stable market accelerate consolidation – some sense of that from economists in Chicago.
- Some attendees expressed concern that if the stabilized volatility does not lead to higher cumulative net farm income, then that is a major problem.

July 27— ELIZABETHTOWN, PENNSYLVANIA — DPAC participated in Grange Forum with Dairy Industry Advisory vice-chair Erick Coolidge.

- Duane Hertzler and Sherry Bunting presented comments during the Dairy Industry Advisory Committee (DIAC) Community Forum organized by the Elizabethtown Grange and the Center for Dairy Excellence. These comments are attached or available at: http://www.dpac.net/publication_files/comments-at-diac-community-forum.pdf
- Good discussion. Erick Coolidge, vice chair of DIAC said his committee on profitability would be meeting in Washington the first week of August and dairy price reporting would be on their agenda. Around 20 to 25 people attended the forum.

July 28— ACTION ALERT on daily electronic reporting drew hundreds of calls to members of House Ag Committee

- In response to a DPAC Email Alert, dairy farmers called, faxed and emailed their members of Congress from at least six states asking for electronic reporting to be daily in H.R. 5852. Electronic reporting did pass the Committee as a weekly report, but this is a good first step.

July 30— MERCERSBURG, PENNSYLVANIA — DPAC discussion with area producers.

- Alan Kozak and Cliff Hawbaker had the opportunity to talk briefly about DPAC during a milk quality meeting of dairy producers in Mercersburg, Pa.

July 30— CONTRIBUTORS RECOGNIZED — *Farmshine* story recognizes the seven monthly ‘cream of the crop’ contributors.

- *Farmshine* ran a cover story about contributing agribusinesses viewing their futures as tied to the futures of dairy producers. Seven monthly ‘cream of crop’ contributors were highlighted: Morrissey Insurance, Sensenig’s Feed Mill, Lancaster Dairy Farm Automation, Mark Hershey Farms, Binkley & Hurst, Hooper Inc., and E-Zee Milking Equipment. Story is posted at: http://www.dpac.net/publication_files/futures-tied-073010.pdf
- Family Dairies USA (upper Midwest), Maryland Dairy Industry Assn, Upper South Milk, and Southeast Select Sires (based in Tenn.) have each donated or pledged within recent weeks. To see an updated list of all contributing businesses and organizations, go to: <http://www.dpac.net/friends-of-dpac/>

August 2— DPAC press release to Farm Media — on daily electronic reporting.

- Press release was picked up by Dairy Profit Weekly nationally and by Farmshine and Lancaster Farming in Pa. Action alerts were broadcast on various websites and blog sites like Dairy Agenda Today, for example. (If you missed it in 8/6/10 Farmshine, the news release is posted at: <http://www.dpac.net/news/congress-takes-first-steps-on-dairy-reporting/>)

August 4— ACTION ALERT — on daily electronic reporting drew thousands of calls to members of the Senate Ag Committee.

- In response to a DPAC Email Alert, dairy farmers called, faxed and emailed their Senators on the Senate Ag Committee, from at least eight states, asking for electronic reporting to be daily in S. 3635. Electronic reporting did pass the Committee as a weekly report the next morning after the International Dairy Foods Association (IDFA) mounted a lobbying effort late Tuesday night. The weekly report will be two days earlier and this is a good first step, while DPAC continues to push for more transparency and daily price reporting.

August 5— ATHENS, TENNESSEE — 22 dairy producers from 10 Southeastern States (Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, and Arkansas) convened with DPAC for grassroots “meeting of minds.” They decided to form Southeast DPAC Action Group and set next meeting for early September in Atlanta.

- In response to discussion from DPAC’s July Board meeting, Dr. Ben Shelton (North Carolina dairyman and veterinarian), Maury Cox (Executive Director of the Kentucky Dairy Development Council), Farrah Newberry (Executive Director of Georgia Milk Producers), Jack Fritz (DPAC ad hoc), Sherry Bunting (DPAC secy) and Julie Walker (AgriVoice) put together a “Fact Finding Agenda” for a “meeting of the minds” in Tennessee—similar to DPAC’s first meeting in November 2009. Some of the participating states had previously been involved in a “southeast steering committee” several years ago, which had worked on the issues of transportation credits, diversions, and ‘touch base’ requirements for out of area milk.
- An average of two producers from each of 10 Southeastern States were invited, along with policy representatives of the Tennessee and Kentucky Farm Bureau (there to observe). Attendees traveled from all corners of the Southeast up to 700 miles away. Attending producers spanned many producer organizations and market through a variety of cooperatives.
- DPAC chairman Cliff Hawbaker, vice-chair Rob Barley and secretary Sherry Bunting attended and took part in the meeting. It was another “lean-and-mean” whirlwind trip. We left 9:00 p.m. Wed night (Aug. 4) and arrived 8:00 a.m. Thurs. morning for the 9:00 to 4:00 meeting below Knoxville, Tenn. We then drove back Thursday night to arrive home very early Friday morning.
- **Here is a brief overview of what was accomplished:**
 - **The group assembled had consensus to form a Southeast DPAC Action Group and will meet in Atlanta on Sept. 9 to take the next steps to define action group leadership and a working relationship with DPAC board on national dairy policy and issues as well as a support-link for regional issues.**
 - **Southeast Producers agreed: The dairy industry needs to know “we, as producers, are meeting and getting organized.”**
 - **Attendees will submit a point-person for each state.**

- **Southeast dairy producers identified short and long-term priorities:**
 - **SHORT TERM:**
 - **Increase Federal Order Location Differentials.**
 - **Eliminate Transportation Credits for Federal Orders 5 & 7.**
 - **Influence NMPF Foundation for the Future.**
 - **LONG TERM:**
 - **Reform producer voting process for Federal Order Administrative Rule changes.**
 - **Eliminate “bloc voting” so producers have a vote.**
 - **Country of Origin Labeling and Standards of Identity for dairy products.**
 - *Questions about Standards of Identity and how classified pricing relates* – Discussion on the reports of 13.5 lb cheddar yields (MPC) and also SE producers noted that a southern yogurt plant uses all powder and no fluid milk – equivalent of making a Class II product using Class IV product – farmer loses a value center for milk via the four-class system and “balancing” mindset that devalues Class IV instead of viewing as ingredient to optimize.
- There was discussion of ideas floated for intra-market credits. Roger Jefferson reported that retired dairy industry executive Calvin Covington is working on a study of “credits.”
- Cliff and Rob talked about DPAC policy framework and generated group discussion for feedback on definition of “competitive pay price.”
 - “Competition determines market.”
 - “Competitive pay price is a price that attracts milk to a market”
 - That can mean a regional market or a product market / value center.
 - Difference between “power center” and “value center.”
 - Control over producer price is in Class I pool, collecting and moving milk toward that; but tremendous value in other products “unknown.”
 - Looking for vehicle for “fair market price or value.”
- Discussion moved to “out of box thinking” on two-class or one-class milk pricing system.
 - Southeast highly regulated and high Class I utilization.
 - BUT, producers are losing market share and Class I utilization is severely eroded.
- What would it look like on a blank page where anything is possible?
- Interest in coming up with a simplified plan that presents a choice in the marketplace.
- Concept discussed: “We, as producers, have all gotten complacent. Time to think about producing for a market.”
- Question: “Do we prioritize ‘ownership’ of our market (i.e. the ability to compete for that market on level field), or is highest priority a regulatory answer to inadequate price?”
 - Both ‘price’ and ‘market’ are important to long-term viability of dairy. But ability to compete for (and access) a market is critical to sustaining region’s dairy culture, infrastructure, and future opportunities for young people and for family farms—both large and small—to remain viable in a region.
- More details from this Southeast meeting will be emailed when full report is complete.

August 5 — LEBANON, PENNSYLVANIA — DPAC members meet with legislators at Lebanon County Fair and with producers at Holstein Field Night.

- Daniel Brandt, Zach Meck, Nelson Troutman, and Bernie Morrissey met with Lebanon area legislators and producers during County Fair (end of July) and Holstein Field Night (beginning of August).
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UPCOMING EVENTS

Eastern Pennsylvania meetings for producers and agribusinesses, sponsored by Sensenig's Feed Mill and ADM Alliance Nutrition

- **August 10** — DPAC will be featured on the agenda of local informational meeting about milk pricing and dairy policy at Martindale Mennonite Fellowship Center, Ephrata, Pa., beginning at 7:00 p.m. Bernie Morrissey and Sherry Bunting, along with board members Paul Horning, Zach Meck and Nelson Troutman will attend.
- **August 12** — DPAC will be featured on the agenda of local informational meeting about milk pricing and dairy policy at Kinzer Fire Hall, Kinzers, Pa., beginning at 7:00 p.m. Bernie Morrissey and Sherry Bunting, along with board members Jake Esh and Dan Stoltzfus will attend.

Second Southeast Meeting

- **September 9** — DPAC chairman Cliff Hawbaker, vice-chair Rob Barley and a couple others from DPAC Board will join southeast dairy producers in Atlanta, Georgia for second grassroots dairy producer meeting in establishing Southeast DPAC Action Group.

Respectfully submitted

Sherry Bunting, DPAC Correspondence Secretary

August 8, 2010