

DPAC Executive Board & Activities Report

July 15 – Aug 25, 2011

August 25 – INDIANA – Farm Bill Listening Session hosted by Senator Richard Lugar and Congressman Stutzman of Indiana. Dave Forgey will present comments on Farm Bill Dairy Policy.

August 22 – WISC-MINN-NY Teleconference – DPAC organized a conference call with Wisconsin Dairy Business Association (WDBA). WDBA had previously asked DPAC to sign their letter opposing FFTF DMSP to the House & Senate Ag Committees. The executive board made the decision to add DPAC to the groups that are signing this WDBA letter (along w/ National All Jersey and Minnesota Milk Producers Association). The 8/22 conference call brought DPAC together with WDBA, Northeast Dairy Producers Association (NEDPA) & Minnesota Milk Producers Association along with Paul Bleiberg, ag staffer for congressman Reid Ribble (R-WI) who serves on the House Ag committee for discussion of Rep. Ribble's alternative and DPAC's Cornerstones for Change was presented for Q&A from the other organizations. The conference call was very productive. DPAC participants included board members Cliff Hawbaker, Rob Barley, Duane Hertzler, Alan Kozak, Dave Forgey, Ben Shelton, and ad hoc member Joe Borgerding doing double duty for DPAC & MN Milk Producers. Denny Wolff gave an overview on CFC. Bleiberg from Ribble's office talked about his alternative ideas and gave some insight on what is happening right now in Washington. But the majority of the call was Q&A on DPAC's CFC.

August 18 – SENATE AG Correspondence – Sherry received email request from Senator Stabenow's office & Senate Ag Committee staff requesting information on cost to fund LGM Dairy. She responded by promptly contacting Bruce Babcock at Iowa State, who created the program. Bruce worked up the numbers & provided them to Sherry over the weekend, which was forwarded to Sen. Stabenow's office. The information is included with DPAC board packets.

August 17 – MINNESOTA Land O'Lakes Delegates Meeting, Minnesota – Zach Meck received request for DPAC Cornerstones for Change information for LOL delegates meeting in Minnesota. Sherry provided email version and he took packets along to the meeting.

August 17 – PENNSYLVANIA - Ag Progress Days meetings with PA Congressional delegation – Denny Wolff, Cliff Hawbaker, Rob Barley, Dale Hoffman and Duane Hertzler had good meetings at Ag Progress with Congressman G.T. Thompson (R-House Ag), Jake Kuhns for Tim Holden (D-House Ag), and Mitch from Sen. Pat Toomey's office (R-PA). Denny reports that everyone seems interested, but no commitments until they see a bill. All in all, everyone agreed FFTF has some issues and there are plenty of dairy farmers opposed to the mandatory supply management.

August 13 – INDIANA – Dave Forgey met with a high-ranking policy maker from Washington and was able to share DPAC Cornerstone for Change and many of the issues we are working to implement. This person has already seen the draft proposals from Rep. Collin Peterson and says that proposal is not in a legislative format and it is more in regulatory format. This person believes that DPAC has the only other proposals that are complete enough to currently fit into legislative format. While they don't believe anything will happen before the Farm Bill they feel that if we would present a bill in the correct format it could have an impact on Farm Bill legislation as well as educate other legislators to the current and potential future issues that face dairy right now. They also feel that we need to talk with legislators especially on the Ag

committees. Sherry can list these again but Leahy from Vermont is important and his staffer was in the briefing DPAC had in D.C. on Aug. 3. We need a strong congressional leader on the Ag Committee to help us develop the bill and to get it rolling.

August 11 – Correspondence Sherry B sent thank you notes to all legislative aides and professional staff who attended the DPAC Cornerstones for Change briefing in D.C. **Wed., Aug 3.** Along with the thank you notes, a copy of Bob Cropp's paper on milk classes and components was also provided. http://www.dpac.net/publication_files/cropp-paper-on-classes-and-components.pdf To read all the comments that came in after Alan posted DPAC's.... go to this link and check them out. <http://www.regulations.gov/#!docketDetail;D=AMS-DA-10-0089>

August 9 – USDA Alan Kozak, chair of standards and regs action group worked with Sherry to draft DPAC's letter of comment on the mandatory electronic reporting proposed rule to USDA AMS. The letter of comment is available at http://www.dpac.net/publication_files/dpac-comment-on-usdas-electronic-reporting-rule.pdf

August 8 – PENNSYLVANIA Several DPAC members attended the FFTF meeting in Harrisburg, PA (Rob, Paul, Duane, Zach, Nelson).

August 6 – MINNESOTA The Dairy Star magazine included DPAC's CFC in a Dairy Policy Q&A for a centerspread comparing proposals. Sherry filled out the questionnaire relative to Cornerstones for Change. Asked for a copy of the piece, but still haven't seen it in print or online.

August 5 – MICHIGAN Howard Straub reports that the Michigan Farm Bureau Dairy Advisory Committee met in Lansing and heard a presentation from Michigan Milk Producers Assn about FFTF. After some discussion, they decided not to support FFTF and to add language to the policy book that pretty much follows CFC.... To be voted on at the State Annual Meeting in December.

August 4 – PENNSYLVANIA Sherry sent CFC packets per Dale Hoffman's request to all board members of PDMP & had brief discussion with their Exec Director before doing so. Zero response so far.

August 4 – PENNSYLVANIA Nelson Troutman, Zach Meck and Bernie Morrissey attended a WGAL Town Hall Meeting at Lebanon Fairgrounds. Nelson read comments he prepared on the "stranded premium" in PA. This was a great opportunity to get consumers involved and aware of the PA over-order premium issue as well as national dairy issues. Check the website for a copy of Nelson's comments.

August 3 – WASHINGTON, D.C. 8 representatives of DPAC traveled to Washington DC to do a formal briefing to the legislative staff of house and senate members. Senator Casey reserved a meeting room in the new capital visitors center and the briefing was attended by an impressive 18 offices including many from the US House and Senate Ag Committees as well as leadership in the US House and Senate. This excellent turnout was accomplished by DPAC members reaching out as constituents to their members of Congress. The briefing went well and attendees were very interested in the Cornerstones for Change (CFC) policy suggestions. Following the briefing we continued the discussion with Senator Casey's staff to see if they are interested in sponsoring a

bill representing the Cornerstones for Change language. They were impressed by the good work of DPAC and we will continue the discussion with them and others during the next few weeks. Following the meeting in the Capital, we traveled to American Farm Bureau Headquarters and presented our plan to David Salmons. The DPAC CFC policy fits well with the policy of AFB and as we move forward with legislation we will be asking for their support. AFB does not support the FFTF supply management policy suggestions. Following the AFB meeting we stopped at IDFA to share with them our Cornerstones for Change proposals. They liked many parts of our plan and were especially pleased that it did not include a government mandated supply management program. It is interesting that they, too, have many constituent groups to serve, from the Krafts and the Deans down to the local ice cream makers and specialty cheese and yogurt makers who are developing new markets and new products. Our meeting with IDFA helps fulfill House Ag Chairman Lucas' directive that producers and processors need to agree if new dairy policies are to move forward. We will continue the dialogue with Senator Casey's staff as well as gather some additional information to strengthen our policy position and continue efforts to get support for what will become legislation representing CFC.

August 1 – PENNSYLVANIA Denny had a discussion with Mike Rader from PA Senator Vogel's office on the position of DPAC regarding FFTF and supplied him with a copy of DPAC's letter to Congressman Peterson as well as information on CFC. He continues to work with Mike on S.B. 993 and what compromises will be acceptable to DPAC. It is important to note that this state legislation is still being discussed and has not been abandoned. The next few weeks will be important ones.

July 28 – WASHINGTON D.C. SOUTHEAST DAIRY PRODUCERS MET WITH REP. TOM ROONEY's STAFF Ben Shelton (North Carolina) reports that he and Joey Ricks (Florida) met with a staffer at Congressman Tom Rooney's office (R-FLA) in Washington. Rep. Rooney chairs the House Subcommittee on Livestock, Poultry and Dairy. They also participated in a gathering of producers from 17 states who met with House Ag leadership July 27, including Collin Peterson on as part of a three-day conference. Alan Kozak (Ohio) was involved in some of the July 27 meetings as he represented DPAC on a dairy policy roundtable that day.

Couple things emerged from the various meetings:

1) Peterson indicated that the rules for "pay-go" in Congress do not allow a "new gov program" to be passed and paid for with a "new tax". This poses problems for the NMPF Foundation for the Future "scoring" because the FFTF bill by Peterson now calls for 50% of the supply management penalties collected from dairy farmers to be deposited in the U.S. Treasury for deficit reduction. This is considered a "tax" on producers to pay for a "new program" which would be the national margin insurance in FFTF.

2) Perception of some attending the meeting with Peterson is that Peterson is still pretty convinced that he is "the only one trying to do anything for dairy." He indicated that it has taken him all of these years to understand dairy so he appears to be aloof to the suggestions of others. He remains committed to FFTF and said that if the industry does not rally together around one plan, dairy will get nothing.

The key observation from Ben Shelton in his meetings with Congressman Rooney's aide is that there doesn't seem to be a lot of support for FFTF because it brings more government control and gov cost and that the newcomers on Capitol Hill aren't going to go for that type of philosophy.

Those who met on Capitol Hill had the feeling that, If dairymen let Congress know they are not for FFTF, then it probably won't go anywhere.

July 27 – WASHINGTON D.C. Alan Kozak (Ohio) represented DPAC at a dairy roundtable with panelists from NMPF / NDPO / DPAC / IDFA. Alan focused most of his comments on DPAC's central question: "Are we going to continue to serve as balancer of world supplies or leader in supply the world?" He had 15 minutes to brief the attending group of 36 dairy producers and industry persons from 17 states to give an overview of DPAC's dairy policy positions and suggestions.

Alan's did an outstanding job representing DPAC and his presentation was well received. One producer in the audience, after hearing the whole panel, referenced Cornerstones for Change as a compromise the group should talk about, and he wondered what IDFA's rep (Slominski) thought of it. While IDFA's plan is much different than DPAC's, Slominski did say IDFA could accept DPAC's suggestions as being in the right direction, and they would have to review the Market Cow Bonus Program (voluntary market adjustment for producers) before commenting on that part of DPAC's Cornerstones for Change. The producer in the audience, who brought up the question of compromise, wanted to know if the others (Bill Rowell from NDPO and Chris Galen from NMPF) could see Cornerstones for Change as a compromise. Chris Galen from NMPF said "FFTF is the true compromise" because everyone hates it a little. Bill Rowell from NDPO said FFTF "is the vehicle."

Ben Shelton was an attendee at this event. He asked for a show of hands as to who in the room wants government-mandated supply management. Not one person raised their hand. Ben stated: "I guess none of us want supply management, or we don't want to say that we do."

The discussion of dairy policy was active and producers showed interest in DPAC's proposals.

Alan then went along with the group of producers to a meeting with House Agriculture Committee professional staff John Goldberg and Mary Knigge. Congressman Collin Peterson met with the group of dairy producers for 30 minutes. Peterson stated that he was the only one really working on dairy policy. He told the group that if the industry does not come together around one plan, they will get nothing.

July 27 – WASHINGTON DC TOM SUBER FROM US-DAIRY EXPORT COUNCIL (DEC) GAVE PRESENTATION IN D.C. BEFORE THE DAIRY POLICY ROUNDTABLE:

KEY POINTS FROM SUBER PRESENTATION

"If U.S. can displace 70% of MPCs 50% of casein and 10% of cheese imports that is a \$600 million opportunity. Of the 2.3 billion (3% of U.S. supply) in U.S. imports, 90% is MPC and casein. US has capabilities to produce these products, but not the incentive."

"window of opportunity expected to endure long-term" (But graph in attached presentation shows trajectory for U.S. is downward if key policy reforms do not happen; upward if key policy reforms do happen).

"Reminders that the window won't stay open indefinitely: Major importers have renewed investments in domestic production; recent willingness to protect local producers may give domestic producers time to increase competitiveness; Oceania and EU aggressively pursuing FTAs with developing countries; long-term growth likely for some EU producers such as Ireland and Netherlands; Brazil, Argentina, Ukraine and Belarus hold potential; the U.S. has yet to make key reforms"

"Long term outlook shows demand gap is WIDER than anticipated, window of opportunity remains open with U.S. as likely source; BUT EFFORTS STILL NECESSARY."

"Currency contributes to volatility BUT WEAK CURRENCY IS UNIMPORTANT TO DAIRY TRADE."

"Currency weakened in 2002-03."

"When U.S. Currency weakens, all nations can buy more dairy products from WHOMEVER because all dairy products globally are priced on U.S. dollar, Thus U.S. dollar affects total demand for dairy; not who they are buying it from."

"If we try to compete with other nations, the issue will not be currency. BUT where currency does matter is when we directly compete with countries THAT SELL IMPORTS TO US. That is a direct one-to-one." (U.S. currency affects imports as comparison to NZ and EU currency).

"The issue with imports is more about competing, not just keeping the imports out... how to produce more of what the buyers want. Some companies have grasped and are on the pathway (Hilmar, UDA, Darigold, Glanbia) but broader base of industry continues to make run of the milk NFDM and Block/Barrel cheese. They are not ready for the tight spec of world market. It's not a quality issue, but an issue of tight specifications on products. Up til now, U.S. has not cared about certain specs and are balancing milk as opposed to making products for the market. NFDM gov purchases are backstop perceived as avoiding risk to processor / coop and collectively this has magnified the risk for producers. The issue is to have relationship with customers."

"U.S. export potential no longer governed by filling in the NZ - EU gaps in supply - It is demand driven and the world supply - though higher - is not enough to satisfy the world demand."

EXAMPLE OF MAKING PRODUCTS FOR WORLD MARKET: "Gouda is third largest cheese traded globally. We make virtually zero. Gouda solids can be made in cheddar plants. Opportunities are there today... we just need to free them up."

July 27 – WASHINGTON DC DR. ANDY NOVAKOVIC (Cornell) GAVE PRESENTATION IN D.C. BEFORE THE DAIRY POLICY ROUNDTABLE:

SOME INTERESTING POINTS & PERSPECTIVE FROM DR. NOVAKOVIC'S PRESENTATION:

Federal Orders are regionally divisive with longstanding gripes. Since 2000, the reform put in place is deemed as "not doing the job."

That reform was done ultimately through regulations but was enforced by legislation. Rep. Steve Gunderson of Western Wisconsin led the charge in 1996 for "dramatic change."

It was "legislatively pushed" FO Reform (1996 authorizing legislation / implementation by 2000).

Flash forward to 2011... The Insurance Approach and the Supply Management Approach "achieved unification in Foundation for the Future" via NMPF. (The I will give you what you want if you give me what I want scenario).

FO Reform: Everyone agrees we need it; but hard to find agreement on precisely what should be fixed.

Dr. Novakovic traced the work of the Dairy Industry Advisory Committee:

Farm Savings Accounts were discussed (tax deferred profits)

Dr. Novakovic will be at a new office in Washington for the next one or two years as an economist helping to sort through dairy policy on special assignment.

During the Q&A later in the morning, Dr. Novakovic did talk about the tax structures and other policies that are completely separate from the dairy market that contribute to dairy expansion. Thus a government-mandated supply management program does not address those incentives (land swap tax incentives) for expansion in one area that could run counter to penalties on producers for a percentage of non-expanded production in another area.

July 26 – MICHIGAN NMPF'S MEETING ON FFTF IN LANSING, MICHIGAN:

DPAC board member Alan Kozak traveled to the Lansing, Mich. FFTF meeting with a group of central Ohio producers. Also attending were Ad hoc members Ryan Buschur from western Ohio and Howard Straub from St. Johns, Michigan.

The crowd of over 100 asked NMPF's Jerry Kozak and his crew a lot of tough questions.

One Ohio producer made the observation that FFTF is "giving us a cigar from our own box." He gave a history lesson of how the European Union (quotas) gave New Zealand the world market on a silver platter, and he asked: "Are we (U.S.) going to give it to them on a gold platter?"

Alan, Ryan and Howard all made comments and asked good questions. It was really a very informative meeting and there was good discussion.

One producer brought up something about FFTF that most of us did not know and which no one is talking about:

The triggers for the FFTF margin insurance program are reached by averaging coupled months (2) together (but the supply management part is each month as a separate trigger.)

FOR EXAMPLE: If the "margin" is \$3 one month, but \$5 the next month, the average is \$4, so the trigger for catastrophic insurance payment is not met. The national margin must average below \$4 for certain two-month couplings in order for producers to be eligible for the payment. At the same time, producers are penalized as payment for a percentage of their base production is withheld from their milk checks on that second month because the first month in the example would have been under \$4, so the supply management would have triggered immediately. That means, in this example, dairy producers would not have rec'd the "cigar" FFTF is "giving away" from the box of cigars (insurance plan) producers pay for via supply management.

Jerry Kozak and Jaime Castenada acknowledged that the two-month average would be used in determining whether a producer is eligible for a margin indemnity payment on the catastrophic base insurance as well as the supplemental purchased insurance. There was more good discussion to share from this meeting in Lansing, Michigan. I will send a separate report of what I learned there in a future email.

In general, the Midwest and Upper Midwest producers have been critical of FFTF, particularly in regard to the Dairy Market Stabilization Program and the Federal Order Reform. Both are viewed

as negative for the Upper Midwest and that was expressed by producers (according to press reports) who attended the FFTF meetings in Minnesota and Wisconsin. I also heard their concerns loud and clear, first hand, sitting in on the Michigan meeting that was attended by producers from both Michigan and Ohio.

July 25 – WASHINGTON D.C. DPAC sends letter to Congressman Peterson and House and Senate Ag Committees. Ben Stoltzfoos from Congressman Pitts' office forwarded the letter to the members of the House Dairy Caucus.

Letter to Peterson is posted at the DPAC website:

http://www.dpac.net/publication_files/dpac-letter-to-house-ag-cmte072511.pdf

One page position on FFTF: http://www.dpac.net/publication_files/dpac-position-on-fftf-brief072511.pdf

One page bullets on Cornerstones for Change: http://www.dpac.net/publication_files/dpac-cornerstones-for-change-brief-summary072511.pdf

July 22 – PENNSYLVANIA *Denny Wolff* was the luncheon speaker on DPAC and dairy policy at the national Hoof Trimmers Association Convention, in Lancaster, PA this year at the Willow Valley (DoubleTree).

July 22 – FUNDRAISING First mass mailing of Pledge-A-Penny forms and letters were sent. Mount Joy Farmers Cooperative mentioned the Penny-per-cwt in their newsletter! Sensenig's Feed Mill also mailed to all 400 of their customers!

July 16 – PENNSYLVANIA Sherry spoke at Bucks County Holstein Club's invitation during their annual summer picnic at Ensenada Holsteins, Doylestown, PA.

Respectfully submitted

Sherry Bunting, DPAC Correspondence Secretary

August 24, 2011