

DPAC Executive Board & Action Group Activities Report

July 5, 2010

June 29 — DPAC testified at PA Senate Ag Committee hearing on ‘stranded’ premiums

- DPAC was instrumental in prompting the PA Senate Ag Committee to conduct a hearing on ‘stranded’ milk premiums. As you know, the PA State Issues Action Group and Denny Wolff have met with various leaders in the House and Senate on potential legislative changes to the state’s Milk Marketing Law (see February DPAC minutes).
- As this process of discussing legislative changes has progressed, Senate leadership indicated they want to know how much of the state over-order premium is stranded and how it is being stranded.
- The hearing’s producer panel included Daniel Brandt on behalf of DPAC. His testimony is posted at: http://www.dpac.net/publication_files/pa-senate-testimony-2.pdf.
- The Senate Ag Committee also heard testimony from the PA Dept. of Agriculture, PA Milk Marketing Board staff, the Greater Northeast Milk Marketing Association (co-ops), the PA Association of Milk Dealers, and Robert Schupper, dairy category manager for Giant Foods-Carlisle who spoke about the state’s Milk Marketing Law from the retail perspective.
- Sherry’s Farmshine story about the hearing is posted at <http://www.dpac.net/news/pa-stranded-premiums/>
- All testimony and an audio recording of the hearing are available at: <http://www.senatorbrubaker.com/agriculture/2010/062910/agenda.htm>
- DPAC board members and other dairy producers attended the packed hearing room of more than 60 people.
- Justin Ritter, a rising third-year law student at Penn State-Dickinson, was present for the hearing to get background on the issues for his legal research for DPAC per June’s action item. Ross Pifer, Director of the Agricultural Law Resource and Reference Center at the Dickinson School of Law attended the hearing, and he indicated some interest in working with Ritter—a former student of his—as a resource.

June 25 — DPAC participated in USDA / Dept. of Justice workshop / hearing in Wisconsin:

- The DOJ / USDA workshop hearing on dairy market transparency, concentration and vertical integration was an eye-opener in Madison, Wisconsin. From start to finish, among all participants, there were continual references to the widening farm-to-retail price spread in which the dairy farmers’ share has fallen from around 50% in the 1990s to 38% in 2007 to 27% in 2009. The other common thread was the lack of market transparency and its effect in manipulating the process of price discovery for milk.
- The DPAC crew who traveled out there was happy to hear Sen. Herb Kohl—the influential Senator from Wisconsin who is chairman of the Senate ag appropriations subcommittee—pledge to: “undertake all necessary steps to see that the CME and CFTC operate effectively.”
 - Sen. Kohl also made this important statement in his opening comments: “*The dairy industry must have market transparency, with more frequent reporting that is expanded to include more products. The USDA has the authority to do it, and Congress wants to work with USDA to make it happen.*”
 - Sen. Kohl showed great awareness of the effort to fund section 1510 of the current Farm Bill, which is the building block of better price discovery that DPAC has been pushing for. It was gratifying to see that the message we are sending is being received.

- Three-part series on the DOJ / USDA hearing in *Farmshine*. Part One is posted at: http://www.dpac.net/publication_files/doj-usda-hearing-part-one.pdf. Part Two is posted at http://www.dpac.net/publication_files/doj-usda-hearing-part-two.pdf and Part Three will be posted next week at the DPAC website under “Updates”. Thus, this Executive Board & Activities Report will not cover all of the important points from that daylong hearing. But here are some snapshots:
- In addition to Sen. Kohl’s comment above, other policymakers and producers on the two roundtables and three panels throughout the day made continual reference to the thinly-traded CME, the lack of good price discovery in the dairy industry, and how these issues affect the price for milk at the farm level.
- To dispel the concern that Capper-Volstead was “on-trial,” USDA Sec. Vilsack, Assistant Attny Gen. Christine Varney, and Senators Kohl and Feingold (Wisconsin) all made statements that the purpose of the hearing is not to look into the cooperatives because they realize the good work that the cooperatives do.
- The first panel on the topic of “trends in the dairy industry” included University of Wisconsin law professor Peter Carstensen, University of Wisconsin professor emeritus Bob Cropp, and University of Connecticut professor of agriculture economics Ron Cotterill. This panel also included Land O’Lakes chairman Pete Kappelman and Delaware dairy farmer Jerrel Heatwole with DFA.
 - Kappelman talked about how it’s important for co-ops to be “effective” and “relevant.” He said Walmart is 100x larger than the largest dairy cooperative; Kroger is 20x larger. He said: *“We do not feel ‘big’ in this environment. He asked: “Who is big and what is big enough?”* His point was that cooperatives get bigger and more consolidated to try to give producers some leverage in a marketplace dictated by big and bigger.
 - Carstensen put forth the notion that there should be more accountability in the now concentrated cooperative system of marketing. He asked this provocative question: *“What is it that the co-op managers are up to, that, but for the Capper Volstead protection, would be felonies? I think this is a fair question to ask. Cooperatives should have to open their books like any other public company.”*
 - Cotterill said: *“Ultimately, fairness in dairy pricing requires a political answer not an economic answer.”* He focused on “channel consolidation,” (aka channel efficiency) and the resultant “coalescing powers” in the marketplace. Mergers and acquisitions in the processing sector are said to be a good thing to increase “efficiency.” But, said Cotterill, *“Show us the efficiency, please... Part of the antitrust law is that they have to show this efficiency, and not just that, they have to show that they have passed on the benefits. They are supposed to reward people at both ends of the chain (producers and consumers)”*
 - He said that, “Our nation’s cheap food policy is now bankrupt. Buyer power (in the middle) is subsidized by the ends (farmers and consumers) as the lion’s share of the margin stays with the retailers and processors.”
 - Retailers “must be put on notice that someone is looking at the margin.”
 - Massive shift in how milk is priced at the supermarket level over the last 20 years—from a loss-leader to a cash-cow. Margins for retailers have grown from 20% to 40% now.
 - Cotterill advised the DOJ to “very carefully define the markets.” He said dairy product markets can be national while fluid milk markets are regional.

- The second panel on “market consolidation” included Univ. of Wisconsin associate professor of applied economics Brian Gould, retired dairy industry executive Calvin Covington (formerly with Southeast Milk), CEO of Organic Valley cooperative Louise Hemstead, former Northeast Dairy Compact administrator Dan Smith, and DFA senior vice president John Wilson.
 - Gould said the dairy industry has undergone “major changes.”
 - The number of dairy cooperatives maxed out at 2200 after World War II. Together, they had 40% of the milk market.
 - By 1980, there were 435 cooperatives with 77% of the market.
 - By 2007, there were 155 cooperatives with 82 to 83% of the market.
 - The 1960s and 70s brought the trend toward local cooperatives consolidating to larger regional cooperatives.
 - Cooperatives have continued to consolidate by mergers through DFA and LOL and the use of Marketing Agencies In Common (MAIC). The purported reason is to “meet the needs of larger processors and the larger final purchasers.”
 - Using two indexes that measure concentration and market share, Gould said the “HHI concentration index” score for cooperative milk grew from “extremely low” in 1987 to a “moderate” score in 2002.
 - Look for more from this panel in Part Three of the stories in Farmshine. They will also be posted at www.dpac.net.
- The third panel on the topic of “market transparency” included Dennis Wolff, representing DPAC as well as Stephen Obie, director of enforcement, Commodity Futures Trading Commission (CFTC); Andy Pauline, assistant director, Government Accountability Office (GAO); Tanya Rushing, dairy farmer, Tylertown, Mississippi; Daniel Smith, former administrator, Northeast Dairy Compact Commission; Robert Yonkers, vice president and chief economist, International Dairy Foods Association (IDFA).
 - Denny Wolff accepted the DOJ’s invitation to participate in this panel on behalf of DPAC. He focused on the daily electronic reporting as a way to dilute the influence of the thinly-traded CME spot cheese price:
 - A DPAC news release is posted at <http://www.dpac.net/news/dpac-doj-usda-hearing/>
 - A transcript of his comments is posted at http://www.dpac.net/publication_files/d-wolff-comments-doj-usda-hearing-062510.pdf
 - Bob Yonkers for IDFA said that, “In the dairy industry, we really don’t have price discovery for farm milk. We have price discovery for cheddar cheese, butter, and nonfat dry milk, and those prices are used by USDA to regulate prices. There are fewer buyers and sellers in each individual marketplace, than for farm milk overall.” He also said that the problem for more frequent reporting is that there are not many buyers and sellers for robust price discovery.
 - Andy Pauline from the GAO said their studies show that 83% of the USDA formulated milk price comes from that CME cheddar cheese price because the industry uses that price to set the prices that are captured by the NASS Survey. There is a 98% correlation between the two. GAO had recommended that USDA give consideration to alternate proposals.

- Stephen Obie from CFTC said surveillance of dairy markets is “very vigilant.” CFTC is in charge of regulating the futures markets, not the spot market (where cheese is traded), but they do have some enforcement there if it relates back to positions on the futures markets. CFTC can investigate cases tied to Class III milk futures.
 - He said open dialog with producers is important and he gave the toll free # for calling in a complaint: 866-FON-CFTC.
 - He also said people in the dairy industry want price discovery and that perceptions, themselves, can undermine confidence in the marketplace. “The cheese trade on the CME is not actively traded, and that does concern me,” he said.
- Dan Smith talked about the proposal he and Paul Christ have been working on, with the support of the Maine Dairy Industry Association. DPAC’s policy framework has much in common with their work. They also presented at Sec. Vilsack’s Dairy Industry Advisory Committee (DIAC) meeting on June 3 when DPAC presented in Washington.
 - They are four years into working on this proposal, which has already been through one round of USDA AMS hearings in 2007 and was presented to the DIAC.
 - They are finding general consensus that end product pricing is not working and it needs to be replaced. “The CME is too thin a market to base a pricing proposal around,” said Smith. Producers and processors both agree on this (and this is consistent with DPAC’s positions).
 - Smith said their proposal is to “price the transaction between the producer and the processor, rather than pricing the transactions between the processor and his/her customer.”
 - “A Return to Competitive Pay Price...” is available at: http://www.fsa.usda.gov/Internet/FSA_File/5_whit_christ_dpac_diac_rev.pdf

June 24, Afternoon —DPAC met with Family Dairies Board in Madison, Wisconsin

- DPAC accepted an invitation to meet with the Board of Directors of Family Dairies USA—an Upper Midwest marketing cooperative with more than 3000 members based in Madison, Wisconsin. Cliff, Duane, Alan and Sherry met with them the day before the USDA / DOJ national hearing on dairy markets in Madison.
- Family Dairies USA is a grassroots, non partisan, regional dairy co-op organization dedicated to bring fairness and equity to its family farm members in dairy policy matters and to provide excellence in dairy marketing services. According to its website, this cooperative was established in 1972 – at a time when Midwest dairy farms were under the threat of three new super co-ops sweeping across the southern and central U.S. They formed then to provide marketing service to members and began to fight for Federal Milk Order Reform by calling for a single nationwide milk order.
- Cliff explained how DPAC was started as a grassroots coalition, is funded by donations, and has a Board made up of only dairy farmers.

- We presented DPAC's Cornerstone for Change and connected with their Board.
 - On market transparency, they were interested in how to help support daily electronic reporting in the current ag appropriations bill. We encouraged them to communicate with Senate ag appropriations subcommittee chairman Herb Kohl of Wisconsin and David Obey (also of Wisconsin), who chairs the full appropriations committee in the House. We provided the list of all ag appropriations subcommittee members, which cover their membership area.
 - Since the USDA recently ruled to put some drinkable products under Class II, this issue was top-of-mind. Members of the Family Dairies Board noted that many dairy producers believe milk is milk, and the current four-class system is a way of cheapening the price to producers.
 - They appeared to share DPAC's position of favoring two classes of milk, and eliminating the current government product price support purchases.
 - They stressed that they do not favor regional protectionism. The view they have is that the Northeast and Southeast have been more protectionist in past Farm Bills.
 - Cliff, Duane, Alan and Sherry explained that the regulations that have developed in the eastern Orders over the past decade or more, particularly the Southeast, are actually creating somewhat of a disadvantage for the "local producers" by encouraging out of area milk and making it more difficult for local milk to compete as Class I utilization is diluted. DPAC favors local milk having a level playing field and a fair chance to compete with out-of-area milk for its own local market. There was a good bit of understanding developed during this discussion, which continued in the evening meeting where many regions were represented and Midwest dairy farmers sat at tables next to their counterparts from the North and Southeast.
 - We discussed the question of—given a clean slate—without the politics that are currently involved: "How would they want their milk to be priced?"
 - They would want to see less restriction on the movement of milk, fewer milk classes and more competition.
 - There was consensus that dairy farmers need to actively help build an agenda for the future and sort—together—through the issues that have tended to divide regions in the past.
 - The Family Dairies Board said they would help support daily electronic reporting with members of Congress on ag appropriations from the Midwest.
 - They also said they would reflect on our discussion and take up consideration for a financial contribution to DPAC at a future meeting, and we asked them to think about having a producer from their organization be an adhoc member to DPAC.

June 24, Evening —DPAC met with producers from many regions for policy discussion

- DPAC Board members Cliff, Duane and Alan (PA and Ohio) along with adhoc members Laura Covert (New York) and Jack Fritz (Tennessee) shared an evening meal and dairy policy discussion with producers from various regions the night before the national USDA / DOJ hearing in Madison, Wisconsin. Sherry Bunting and Maury Cox (executive director of the Kentucky Dairy Development Council) joined DPAC's delegation to this discussion.
- The dairy policy discussion was organized and moderated by David Cooper, general manager of Family Dairies, which is a member of the Midwest Dairy Coalition. The discussion included producers from the Midwest, Northwest, Northeast, Mid-Atlantic, and Southeast. Dairy policy discussion participants were:
 - **Bob Cropp**, Retired Professor Emeritus – University of Wisconsin-Madison Cooperative Extension.
 - **Steve Etko** – Midwest Dairy Coalition.
 - **Rod Nilsestuen** – Wisconsin Secretary of Agriculture.
 - **Paul Toft** – Dairy Producer, Board Chairman of Associated Milk Producers Inc. (AMPI) based in Minnesota, Toft is also an officer on the National Milk Producers Federation (NMPF) Board.
 - **Ron Statz** – Midwest Regional Dairy Director – National Farmers Organization (NFO).
 - **Gene Paul** – NFO – Past National President.
 - **Brad Nosbush** – Dairy Producer, First District.
 - **Sue Schultz** – Wisconsin Dairy Producer, Family Dairies USA.
 - **Randy Peterson** – Wisconsin Dairy Producer, Family Dairies USA.
 - **Peter Kleiman** – Michigan Dairy Producer, Family Dairies USA Board Chairman.
 - **Doug Row** – Midwest Dairy Producer.
 - **Ken Wunderlin** – Wisconsin Dairy Producer, Family Dairies USA.
 - **Samantha Zastrow** – Family Dairies USA Summer Intern.
 - **Don Mielke** – Dairy Producer, NFO, Congressman Kagen's (WI) Ag Committee.
 - **Sherry Bunting** – DPAC correspondence secretary.
 - **Cliff Hawbaker** – Pennsylvania Dairy Producer, DPAC Chairman.
 - **Alan Kozak** – Ohio Dairy Producer, DPAC.
 - **Duane Hertzler** – Pennsylvania Dairy Producer, DPAC.
 - **Laura Covert** – New York Dairy Producer, DPAC.
 - **Jack Fritz** – Dairy Producer, Tenn. Dairy Producers Assn. & DPAC.
 - **Maury Cox** – Kentucky Dairy Development Council Exec. Director.
 - **Sherm Polinder** – Washington State Dairy Producer, Darigold.
 - **David Cooper** – Family Dairies USA General Manager.
- Cooper thanked everyone for getting together to share ideas in the hopes that dialogue between groups would be for the benefit of all.
- He also explained that Family Dairies is in its 39th year as a grassroots cooperative, that is a testing cooperative with milk marketing programs also. It originated as a National Farmers Union cooperative and has been involved from the beginning in the national legislative process. He said Family Dairies was instrumental in the Dairy Diversion Program of the 1980's—a voluntary supply control program authorized by the Dairy Production Stabilization Act of 1983, under which producers in 1984-85 received payments of \$10 per cwt. for reducing their milk marketings by between 5 to 30% below an earlier base period. Family Dairies also took an active role in international trade issues and almost single handedly stopped the Swiss government's dumping of Swiss cheese on the U.S. market.

- The purpose of the dinner meeting was to discuss dairy industry reform, as there are opportunities for producers to “come together” and “get serious” about these efforts.
- Famed Green Bay Packers’ coach Vince Lombardi’s quote was set forth as the theme for discussion: *“Individual commitment to a group effort—that is what makes a team work, a company work, a society work, and a civilization work.”*
- Cooper listed some of the dairy policy topics, but Supply Management made up the majority of the discussion.
- Some attendees discussed the House (and now Senate) bill reflecting California’s Dairy Price Stabilization Program (DPSP), which is similar to the Holstein USA plan.
- Sherm Polinder (Washington State) said he is four miles from the Canadian border, and it’s “like walking into a different world: dairy farmers have new tractors, new parlors and the average age is 42.”
- Proponents of the DPSP bill say the point is to transform the sharp volatility of recent years to a wavy line—not a flat line—so instead of fluctuating from \$10 to \$20, the milk price would have a more narrow spread from \$13 to \$18.
- DPAC chairman Cliff Hawbaker said we have to think of “who we are as dairy farmers.”
 - We are independent guys and gals.
 - We want to be part of free enterprise
 - We currently carry all of the price risk, and that’s the root of the problem.
 - We are talking about legislating our last freedom that we have of what we can do at the farm level to make a choice.
 - And yet part of what we may need to do is to look forward into the market: Are we mature enough to produce for a market?
- Paul Toft, on the National Milk Producers Federation (NMPF) Board, said NMPF’s plan is “still changing.” Even though the Board approved it, changes are still being made and board members are still receiving feedback. (The most recent NMPF 41-page Foundation for the Future report is available at: <http://www.nmpf.org/files/file/Foundation-for-the-Future-061010.pdf>)
- Toft talked about some of the differences between the DPSP bill compared with the price stabilization portion of NMPF’s Foundation for the Future.
 - One major difference is the DPSP would start with an annual historical base and compare future production as a rolling average; whereas the NMPF plan uses a three-month prior production.
 - The DPSP (Costa bill) is triggered by a forecast.
 - NMPF’s plan is triggered by milk-over-feed “margins.” Toft said they are still working on what those universal “margins” would be.
 - He gave this example: If the margin between feed cost and milk price is less than \$6 per hundredweight for two consecutive months, then the haulers will pick up all the producers’ milk, but the producers would only get paid for 98% of the milk they ship.
 - The margins would be based on the difference between milk price and a universal feed cost calculation, which would also be the basis for the revenue insurance program NMPF proposes to replace MILC payments.
 - This would be catastrophic loss protection, not insuring a “profit.”

- It would trigger rarely—for economic situations like in 2009—at the base subsidized level at 90% of production.
 - Under this catastrophic loss model, the revenue insurance NMPF proposes would not have triggered in 2002, 2003 or 2006. It triggers on a higher level of “margin” loss, like in 2009.
 - NMPF’s proposal also requests the Adjusted Gross Income (AGI) restrictions applied to MILC and other counter-cyclical payments would not apply to indemnity payments under the revenue protection plan.
- NMPF sees their approach as being “legal” under the World Trade Organization (WTO).
 - Some producers felt this second tier milk during a “margin trigger” may not be enough of a deterrent, especially if the plants and cooperatives would still get to receive the excess milk even though they wouldn’t be paying for it. (Why not just leave it on the farm? But I guess that wouldn’t work because the farmer may decide to find a market for it?)
 - Some were concerned that NMPF is providing a concept without enough details.
 - One producer’s thoughts: “If we don’t take care of this ourselves, someone else will to do it for us.”
 - Bob Cropp said a lot of young people want to stay in the dairy business, but not at 35 cows. Growth models need to be part of the picture.
 - Ken Wunderlin touted an idea Family Dairies has talked about for quite some time (and it’s an idea that has been mentioned in DPAC meetings as well as on the DPAC survey). He said: “We still aren’t discussing what happens to the surplus, or do we even have a surplus? Why not have a CWT-type of assessment and simply use it to buy product (in times of low prices and heavy inventory) and allow the farmers’ own fund to move that product directly to food and nutrition programs?”
 - Wisconsin Ag Secretary Rod Nilsestuen said: “Something has to happen, and the pain is producing a desire to do something.” The question, he said, is what is politically possible?
 - Gene Paul of NFO noted that Supply Management (DPSP) is a long-term proactive approach versus a reaction to something that just happened. “The processors will chew us up and spit us out,” he said. “We have to get behind something. Even if it’s not perfect, it’s better than what we have now.”
 - All-in-all, the discussion was productive and producers stepped away from their own regional perspectives to take a broader view.

June 17 —DPAC issued joint press release with City of Phila. to media:

- The press release — [posted at: http://www.dpac.net/news/pmmb-decision-is-a-first-step/](http://www.dpac.net/news/pmmb-decision-is-a-first-step/) — responded to the Pa. Milk Marketing Board’s June 2 decision and references the ‘stranded’ milk premiums and legislative remedies. It also announced the June 29 Pa. Senate Ag Committee hearing.

June 15 — DPAC met with Maryland Dairy Industry Oversight and Advisory Council

- Denny Wolff accepted an invitation to brief the Maryland Dairy Industry Oversight and Advisory Council about DPAC. The Council is made up of dairy farmers, milk processors and other affiliated dairy industry representatives. Its function in Maryland state government is to advise the Governor and other elected officials on dairy issues. Wolff presented DPAC's Cornerstone for Change as outlined to U.S. Ag Sec. Tom Vilsack's Dairy Industry Advisory Committee on June 3. The information was well-received by the Maryland Council, and they showed particular interest in how better price discovery could help dairy producers use risk management tools. They also expressed concern about how to provide a safety net for producers.

June 8 — DPAC participated in PA Farm Bureau Dairy Issues Forum

- DPAC was invited to participate in the Pennsylvania Farm Bureau's Dairy Policy Forum in Camp Hill. Sherry Bunting presented essentially the same outline as was presented to Ag Secretary Tom Vilsack's Dairy Industry Advisory Committee (DIAC) on June 3. Denny Wolff arrived in time for questions after having a previously-scheduled DPAC meeting with Pa. Senate leadership at the Capitol.
- The PA Farm Bureau leaders had good questions, and what surprised some of them is how high the percentage of total cheese production is made up of Italian cheeses and how the "other" cheese category has grown. In 2009, Cheddar and Italian were both equal at about 41% each of total cheese production in the U.S., and Italian (mainly mozzarella) is on the rise in 2010. This relates to DPAC's push for daily electronic reporting and expansion of the reporting to include more products beyond Cheddar, Butter, Nonfat Dry Milk and Dry Whey.
- One question was asked as to whether daily electronic reporting would change the use of the four-week average of the weekly NASS Survey prices for setting milk prices to farmers. Wolff and Bunting responded that at first, the answer is that the NASS Survey of Cheddar, Butter, NFDM and Dry Whey would continue to be what is used by USDA to plug into the price formulas, but that daily electronic reporting—in the short term—would remove the two week delay and make the prices more current. It would also inject accountability into the CME trading system by having a parallel daily price report. DPAC's longer term goal is to push for expanded reporting of more products and to simplify classes so that manufacturing milk would move to its highest value use via a competitive pay price and fluid Class I differentials would be added to a weighted average of competitive pay price.
- Bunting noted that mandatory daily electronic price reporting for dairy is already in the current American Farm Bureau policy handbook, along with making inventory-reporting mandatory and subject to auditing. She said the key issue is to get the funding (\$1 million) in the current FY 2011 ag appropriations and to keep the language for daily reporting and quarterly auditing as processors may hope to change the language to weekly electronic reporting, which would defeat the purpose. Bunting also noted that DPAC connected with the DIAC on this issue in their June 3 meeting, and that the Wisconsin Farm Bureau representative (Jeff Lyon) was very interested in what DPAC has proposed.

June 8 — DPAC met with Senate President Pro Tempore Joe Scarnati

- Daniel Brandt, Zach Meck, Nelson Troutman, Denny Wolff and Bernie Morrissey met with Senator Scarnati to discuss legislative changes to the PA Milk Marketing Law. They were well received by the Senator, but the big question is how much of the current premium is truly stranded? The Senate would want more information before pursuing legislative changes. They want to have a good handle on the accuracy of the figures and the areas of the current law in which there are “gaps” for the premium to escape payment to producers.
 - A second hearing, to focus exclusively on stranded premiums, would help inform this legislative process – especially since the PMMB issued a June 2 Order to address some of the stranded premium by changing the formula for plants that source milk from both in- and out-of-state and sell milk at the retail and consumer level in-state. The Pa. General Assembly tends to look at that Order as having solved the problem; however, DPAC explained it only addresses part of the problem, and the dealers are indicating they will challenge the Order anyway in federal court. This makes legislative changes even more necessary.
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UPCOMING EVENTS

Maryland Dairy Industry Association

- **July 16** — DPAC and Sherry Bunting accepted an invitation to address the Maryland Dairy Industry Association (MDIA) in Frederick Maryland. The MDIA voted in June to support DPAC’s efforts.

Multi-group “Meeting of the Minds” in Southeast U.S.

- **July/August 2010** — DPAC’s Chairman Cliff Hawbaker, Vice-Chair of the Milk Pricing Action Group Rob Barley, correspondence secretary Sherry Bunting and adhoc member Jack Fritz (TN)—in cooperation with the Kentucky Dairy Development Council—are working on a potential meeting of multiple groups in the Southeast. The purpose is to have a “meeting of the minds” on regional issues—namely Transportation Credits (*See background information on next page*), milk diversions, and erosion of Class I utilization—and to encourage them to “caucus” as a region of adhoc members to DPAC as shown in DPAC’s organizational vision chart.
- We will also be working with attendees on fund raising. To-date, the Boards of the following southern producer groups have given a “vote of confidence” to DPAC’s efforts:
 - Tennessee Dairy Producers Association (April 29);
 - Kentucky Dairy Development Council (April 30);
 - Georgia Milk Producers Inc. (June 3);
 - Upper South Milk Producers (we have received unofficial word of their support);
 - Maryland Dairy Industry Association (June 10);
 - DPAC has also corresponded with members of Southeast Milk Inc in Florida
 - DPAC has also received an invitation to meet with North Carolina Dairy Producers Association, but the date given had coincided with the trip to Madison, Wisconsin for USDA / DOJ hearing.

BACKGROUND — Southeast issues surrounding transportation credits

- Sherry and some of the board members who attended the DOJ / USDA hearing have followed up on what is happening currently in the Southeast. Producers have contacted Sherry after she wrote an article on the movement of milk in-and-out of the Southeast in Farmshine, posted at <http://www.dpac.net/news/southeast-surplus-producers-asking-questions-about-transportation-credits/>. The topic was initiated by FMMO reports showing a record level of milk moving out of the Southeast in May and June. This was referenced by the CME Daily Dairy Report and had previously been discussed briefly in the Milk Pricing Action Group's May conference call. Maury Cox from Kentucky Dairy Development Council has also written: "Is this Orderly Marketing of Milk" in the May/June newsletter available at <http://kydairy.org/Documents/KDDCNEWSLETTERMayJune.pdf>
- There has been some discussion by DPAC adhoc members in the Southeast of having a "meeting of the minds" in the region to bring together the organizations that have voted their support of DPAC (Tennessee Dairy Producers, Georgia Milk Producers, Kentucky Dairy Development Council, Upper South Milk) as well as other organizations that have made contact with DPAC (Southeast Milk, North Carolina Dairy Producers).
- During the DOJ / USDA hearing in Wisconsin, Third generation dairy farmer, Tanya Rushing from the "cream pitcher of Mississippi" talked about market transparency and the impact of Transportation Credits on local farmers in the Southeast Order. She spent a lot of time trying to find out the price paid in May for her milk by the bottler: \$20.65. But the price she received was \$15.16.
 - *"Our pay price is based on butter, powder and cheese on the CME and then the Class I mover is added. My hauling bill was \$1 / cwt. If we have to pay the hauling cost for our milk from our farm to the plant, then the supplemental milk that is coming in should have to pay their hauling too. Some of the \$5.49 difference is going to pay for supplemental milk coming into our area. If it went into dairy farmers' pockets, we may not have farms here going out of business. The price the bottler paid is \$1.36 times more than I received on my farm. The local price of milk in the store equates to \$41.80 per cwt. That's 2.76 times more than I received. In the last 20 years, the excessive milk production of larger farms in areas where they have not cultivated a market has pushed the price down, and the price supports helped it happen. In 1990, local producers here got 85% Class I utilization. Now, we produce 35% of that Class I market and the other 65% is supplemental milk that is transported from as far as 900 miles away crossing multiple state lines. For every truckload that enters the southeast, a few more farms go out, and the ones that are left are paying the hauling charge to get that milk into the Southeast."*
- Calvin Covington, retired dairy industry executive from the Southeast, also testified at the DOJ / USDA workshop on the consolidation panel. He noted that Southeast Milk (cooperative based in Florida) has an ultrafiltration plant in southern Georgia where three loads of milk can be condensed to one for shipment to a cheese or other manufacturing plant. This was a good investment for the co-op to manage the Florida surplus in the months when the "snow birds" leave. This plant is getting a high level of use because the premium is better than what the co-op's producers would get right now having their milk pushed North and West to other Orders, while milk from elsewhere dilutes their Class I utilization at home.
- Transportation Credits (t-credits) are used to bring supplemental or reserve milk into Orders 5 and 7, but not 6 (Florida).

- Through discussions with producers in the Southeast, here are some “pieces”:
 - Southeast producers received mailbox milk prices of around \$15 in May, to as high as \$17.50 in Florida.
 - Some cooperatives asked for the Transportation Credits (T-Credits) to be initiated, and other co-ops did not. The reason was to make up for independent producers not paying their fair share of the cost to balance the milk supply (local and supplemental), but there is not a very high % of non-cooperative milk in south to begin with.
 - Milk (farms) has disappeared faster in the South than previous assumptions (except for Fla. And Ga.) Florida and Southern Georgia have pockets where there are really large amounts of milk in a small area. They still have infrastructure, but other areas in Orders 5 and 7 are losing or have lost dairy infrastructure and are trying to regain it.
 - It appears that milk coming in is a little more than milk going out, and the question is: Is this in the best interest of dairy farmers, the industry... even processors in the long run?
 - Situation is exacerbated by big retailers and big processors engaged in their own price wars right now. Supermarkets are using milk as a loss-leader to attract customers. Meanwhile Dean Foods and La-La are in a price war for retailers and co-op / marketing agency full supply contracts enter into that picture.
 - Volatility also contributes because when the Class I “mover” is going up, bottlers go overboard for milk at the end of the month and the first week of the next month is “dead.” And when the “mover” is going down, the opposite happens. This actually creates weekly surpluses, so that surpluses and deficits happen at times based on the volatility alone (hurry buy-up or wait-to-buy).
 - Changes in retail delivery schedules also complicate the picture.
 - Orderly? Logical? Through June: 200-400 loads per week of supplemental milk were coming into Florida from other areas and a record high 300+ loads of milk were leaving the state for manufacturing, some going to an ultrafiltration plant in Georgia, some as far north as the Carlisle balancing plant in Pa. Sources indicate that Order 6 (Florida) has been running 100 loads per week more surplus than they should be running for this time of year.
 - Picture this: Distant milk comes into the Atlanta market on T-credits and local milk is displaced to Florida, and Florida milk is re-routed North and West. This convoluted scenario is possible. Or this: Texas and New Mexico milk is coming to Order 6 for the premium or Order 7 on the T-credit, while more Order 6 ultrafiltered milk from Georgia is going to Northeast, Midwest, and Southwest for cheese?
 - National Dairies (now owned by Grupo La La after DFA sold it last year) and Dean Foods started competing in the fluid milk market down south this Spring. Both companies are operated by former Pepsi Cola executives and they may be looking at their raw commodity “milk” like it is “corn syrup”.
 - Processors can also apply for and receive the T-Credits, which are paid from a pool fund where all Class I milk is assessed in the Order by 30 cents / cwt in Order 7 and 15 cents / cwt in Order 5.

- Processors can sign up a little milk further away and gain access to that money, just enough to bring non-co-op member milk from distant locations to undercut the over-order premium in the southeast.
- Using the T-credits to access the southeast market puts tremendous pressure on local farmers.
- Add to this the effect of La-La and Dean in a so-called “price war” beating down the price.
- Meanwhile, the cooperatives (via SMA) petitioned (and was granted) to start the T-credit payments from the pool in June this year when the regulation is for the milk deficit period usually beginning in July.
- The movement of milk out of Order 6 (which does not have T-credits) shows a tremendous surplus in June. So, at the same time Order 6 was sending 300+ loads per week out of the area, T-credits were being used in Order 7 (just above them) to bring milk in.
- The issue of costs to balance the market is legitimate, but T-credits look like they could be a failed way to do it, which has now created further problems in the movement of milk and the ability of local farmers to participate fairly in their own local fluid milk market.
- More on this as it develops. Another example of regulations having an intended purpose, with, perhaps, unintended consequences.

Respectfully submitted

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