

**DPAC / SEDC Draft Bill Working Group**  
**Teleconference May 10 at 4:00 p.m.**

**Attendees:** Clifford Hawbaker, Ben Shelton, Alan kozak, Dave Forgey, John Harrison, Ken Wunderlin, Everett Williams, Rob Barley, Dennis Wolff, Calvin Covington, Maury Cox, Julie Walker, and Sherry Bunting

**Purpose:** To review information from the Milwaukee meeting and make decisions on moving forward with a two-class system that uses minimum prices and a rolling average (3-month or 6-month) for the advance Class I.

---

**FO Pricing Reform Parameters to include in DPAC / SEDC alternative bill:**

- I. **Establish two classes of milk:** Fluid and Manufacturing
  - II. **Establish a minimum price on components: fat, protein, lactose**
    - a. Group all manufacturing and price one manufacturing class by components.
    - b. Use a product price formula or other method to capture **minimum weighted value for butterfat, protein, and lactose** (or other solids) in the Federal Order system for those components.
  - III. **Keep Class I (fluid) as is:** Continue to price Class I as it is today. One shoe does not need to fit all sizes. Other option: use the component minimums to figure a manufacturing base price and add the differentials. Either way: utilization breaks out as fluid vs manufacturing.
  - IV. **Establish an advance price:**
    - a. Quarterly Advance Price or a rolling average(?)
    - b. Purpose: to reduce volatility throughout the supply chain.
- 

**FO PRICING REFORM DECISIONS & FOLLOW UP:**

- Denny to move forward with bill language.
- Sherry to send correspondence to Bob Cropp and Mark Stephenson asking them if they could do some modeling or calculations on the minimum components for manufacturing and the three-month (quarterly) advance pricing or rolling price, and what this request would cost.
- Calvin agreed to be in communication with Bob and Mark if they agree to do some modeling or a report for us.
- **Specifically,** Need to compare how our FO Reform parameters will work vs. other pricing proposals (like FFTF FO Reform) even though the legislation will only set parameters. We still need to be able to defend it in the negotiating process and when talking to fellow producers and policy makers. Also need to know if this is a win-win for producers and processors.

### **Market Cow Bonus Program:**

- No further questions on draft. Committee satisfied the report shows neutral to slightly positive.
- Committee wants to see average and large response assumption for “shocks”.
- Committee wants the language comparing MCBP to FFTF Dairy Market Stabilization Program in the final report.
- Sherry to communicate with Chuck Nicholson so he can prepare final MCBP report.
- Nicholson will invoice Upper South Milk – Thank you U.S. Milk!

### **Discussion Notes:**

- **Wolff observed:** “These are pretty significant changes from where we started, all the information is out. We don’t need further study groups and our panel in Milwaukee did a great job explaining how it can work.
- **Covington noted** that there was an excellent discussion in Milwaukee, but ultimately the dairy farmers need to decide what they want to do: One thing to base on is the question: Will it increase income to the dairy farms?
- **Very brief discussion of “totally free market” correspondence** and the group consensus was: **There are not enough buyers for that to work.** A totally free market with no minimums and no pooling or Federal Orders may be philosophically attractive; however, we have a lot of sellers of milk but not a lot of buyers, and in some areas, we have really only one buyer.
- **Rationale for two-class with component minimums and advance rolling price:** In the current system, we have 3 manufactured product classes with separate make allowances. As the markets change and as one class can increase in value, there is not always an incentive to see the milk go to that product the way the system is currently structured.
- **World markets:** *The question remains:* What do we have to do to encourage pricing milk on a product that not many processors or co-ops are making for the world market? (i.e. Skim Milk Powder vs. Nonfat Dry Milk).
- The point was made that this is something that can’t be done very well through the milk pricing system. **The bottom line is those plants have to see the opportunities.** They have to see they can make more money making those products, and the **key is to see the opportunity for the long term to justify millions of dollars in investment.**