

Dairy Policy Action Coalition (DPAC) Minutes

August 12, 2010—10:15 p.m. – 3:45 p.m.

At 890 N. Reading Road, Ephrata, PA 17522

Board Members present in person:

Pennsylvania—Cliff Hawbaker (chair), Rob Barley (vice-chair), Daniel Brandt (vice-chair), Zach Meck, Dan Stoltzfus, Jake Esh, Nelson Troutman, Max Smith, Rodney Metzler, Eric Frederick, Dale Hoffman, Paul Horning. **Ohio**—Alan Kozak. **New York**—Bryan Gotham.

Adhoc Producer Members present:

Tennessee—Jack Fritz (in person). **Indiana**—Dave Forgey (by teleconference).

Wisconsin—Sue Schultz (by teleconference).

Professional Team present in person:

Recording Treasurer - Bernard C. Morrissey. **Correspondence Secretary** - Sherry Bunting, Ag Writing Services. **Gov. Relations/Advocacy**: Dennis Wolff, Versant Strategies

Guests present in person:

Noah Wenger, former PA State Senate Ag Committee Chair now with Versant Strategies

Guests present by teleconference:

Kentucky—Bob Klingenfus (producer). **Tennessee**—Julie Walker (AgriVoice Enterprises)

PROCEEDINGS:

Chairman Cliff Hawbaker called the Board business meeting to order at 10:15 a.m. with 13 board members present and one arriving at 11:00, three ad hoc members present (including two by teleconference, all three members of the professional team present, and three guests present (including two by teleconference).

Approval of Minutes & Treasurer's Report:

- Paul Horning motioned to approve the July Minutes and August Treasurer's Report. Dale Hoffman seconded the motion.
- Hearing no questions, objections or further discussion, the Minutes and Treasurer's Report were approved 14-0.

Treasurer's Report:

- **The beginning balance on July 2, 2010 was \$ 7,398.40**
- Contributions from July 3, 2010 through August 6, 2010 totaled \$17,730.00 from 17 agribusinesses and/or organizations, and 12 dairy producers.
- Expenses paid July 3 through August 6, 2010 totaled \$8,739.65, itemized as:
 - 1) \$ 317.60 Premier Global Services – Conference Calls
 - 2) \$ 350.00 Legal Research – Law student intern
 - 3) \$5725.00 Versant Strategies – Relation Services & Expenses for July 2010
 - 4) \$2347.05 Agriculture Writing & Photo Services (S. Bunting) June 2010 Services & Expenses
- **This left an August 6, 2010 ending balance of \$16,388.75.**

- Morrissey said this is the highest balance DPAC has had in the checking account at the end of a month just before the bills are paid on the 15th of each month. The bills typically run \$8000 to \$9000 as reflected above and in keeping with the \$100,000 annual budget the Board foresaw at its first meeting in Nov. 2009.

Fundraising Update

- The list of contributors grew last month to 187 individual producers, 71 agribusiness donations and/or producer organizations (57 different organizations; but multiple entities donating on a monthly basis). 14 states were represented by donations as of 8/6/10.
- Morrissey reported that Acuity Advisors and CPAs, LLP agreed in writing to represent DPAC as the coalition's accountant "free of charge". This offer has been accepted as a one-time "Cream of the Crop" "services in-kind" donation.

Bylaws Update:

- The DPAC Bylaws, as edited by attorney Lawrence Tabas, will be evaluated by the Exec. Board and then emailed to all directors for input and feedback. The original Bylaws were approved in December, pending review by an attorney.

Executive Board & Activities Report

- The Aug. Executive Board & Activities Report was emailed prior to the meeting, detailing the past month's activities as well as upcoming activities.
- The Activities Report shows DPAC is getting invited to a variety of meetings in other parts of the country—like the 10-state Southeastern meeting in Tennessee and the meeting of 30 organizations on dairy policy and supply management in Chicago. Things are happening, and DPAC is engaged and involved.
- The meetings in other parts of the country help keep the desire and momentum going at the grassroots level, and to keep the information flowing from producer to producer and to the DPAC Board.
- Hearing no questions or objections to the August Executive Board & Activities Report, the Secretary will post the Report to the website as provided.

Special Guest Comments:

- Morrissey recognized former PA State Senator and former Chair of the PA Senate Committee on Agriculture and Rural Affairs: The Honorable Noah Wenger.
- Wenger said: "I want to commend you for getting into this rough territory. I knew it would not be easy, but you are doing the right things." He said he follows DPAC in the media and hears good things about the coalition's work.

Legislative Update

- Denny Wolff updated the Board on the progress of **Mandatory Electronic Price Reporting** for dairy products.
 - Since April, DPAC had been working with Ag Appropriations Subcommittees to get funding for Section 1510 of the 2007 Farm Bill. But then an opportunity presented itself via the authorizing Ag Committees of the House and Senate.
 - **The House and Senate Ag Committees included electronic reporting for dairy within their reauthorization of Mandatory Reporting** for beef and pork, for which the current authorization is due to expire on September 30.

- 1) It was good to see dairy included in this reauthorization (H.R. 5852 and S. 3656), along with beef and pork, said Wolff. But the dairy provision calls for “weekly” reporting instead of “daily.”
 - 2) The House Ag Committee passed H.R. 5852 on July 28 and the Senate Ag Committee passed S. 3656 on Aug. 5. Both bills require USDA to establish the electronic reporting system, but the electronic reporting for dairy will occur once a week (every Wednesday) for the previous week’s sales.
 - 3) Wolff said: This is a step in the right direction to go from a NASS Survey to electronic reporting even though frequency is still weekly.
- Wolff reported that members of Congress were concerned about the dollars. They did not want this piece of legislation to go to the Congressional Budget Office (CBO) for “scoring” under the “pay-go” system. CBO scoring is not the same thing as “actual” cost.
 - Wolff also reported that just getting the electronic reporting system established is a victory because it takes funding off the table. The flipside is: The cost issue doesn’t make sense, considering that USDA said the cost is \$600,000 to adapt the beef reporting software for use in dairy price reporting, and \$400,000 to educate the dairy manufacturers on using it. These costs are the same whether the “send button” to actually transmit the data is pushed every day or once a week.
 - One week after H.R. 5852 passed the House Ag Committee, Wolff was in Washington, D.C. to meet with Sen. Bob Casey’s office again on this issue. The meeting included a senior staff member for Senate Ag Committee Chair Blanche Lincoln (Arkansas) and a staff member for Sen. Patrick Leahy (Vermont), where they talked about electronic reporting.
 - Wolff learned that the Senate Ag Committee vote was to be the very next morning, and Senators were concerned about a CBO Score if they changed the dairy wording to “daily” reporting. They just wanted to get this Mandatory Reporting Act of 2010 passed (for the livestock and meat reporting reauthorization) without having the dairy language become a battleground that could potentially hold up the authorization for the beef and pork industries who already depend on this reporting.
 - Wolff indicated that dairy producers appreciate the step Congress has taken, but he told the Senators “we’re not happy because this does not go far enough. It needs to be ‘daily’ reporting.”
 - A call to action went out that afternoon to DPAC’s grassroots network of producers and producer groups, and Wolff reported the response was overwhelming to the degree that the Senators took notice, as did the International Dairy Foods Association (IDFA is the dairy processors’ organization).
 - “This group did a wonderful job helping to inform the Senate Ag Committee of how important “daily” reporting is vs. “weekly” reporting. Your phone calls do quite a bit, said Wolff. “This was the moment when producers educated their U.S. Senators.”
 - IDFA countered DPAC’s grassroots move with a late night scramble. They learned that at least one Senator was considering offering an amendment the next morning to change the language to “daily.” So IDFA lobbied late that night

against “daily” reporting, sending emails to all members of the Senate Ag Committee. They have a very strong lobbying presence in Washington, D.C. “That was one of the big walls before us,” said Wolff.

- Wolff reported there are still two opportunities to pursue the “daily” reporting language. And there are a lot of parts to the puzzle:
 - We can work with members of Congress to try to amend the Mandatory Reporting Act on the House floor before they vote in September when they return from Congressional recess. For this, we need to “find a champion” and it needs to be a member of Congress who can garner the votes of colleagues to get the amendment passed.
 - We can also continue to work with the Senate and House Appropriations Committees before they go to conference committee. This is a longer timeline because the FY 2011 budget is not expected to pass by the end of this fiscal year on Sept. 30. Wolff reported that the feeling in Washington is that the FY 2011 budget will drag out past the fall elections until January, and the government will operate on continuing resolutions until then.
- Wolff explained that a lot of what DPAC is doing is to educate the Congressional members on these committees. They said they did not understand the point of “daily” reporting is to dilute the influence of the CME on setting the milk price.
- Directors noted this example shows why DPAC is critical as a grassroots dairy farmers effort as NMPF did not actively back the “daily” reporting language.
- It is possible that Sec. Vilsack’s Dairy Industry Advisory Committee (DIAC) may play a role in advising how USDA implements electronic reporting for dairy.
 - There is language in the Senate Ag Appropriations on Dairy Price Reporting, which specifically encourages the Secretary of Agriculture to heed the advice of the DIAC on implementing it.
- **Wolff is working on getting two key Senate staffers from Washington D.C. to visit some dairy farms, so they can develop a relationship with the DPAC grassroots to see first hand what is going on at the dairy farm level.**
- Wolff’s short term plan is for DPAC to go back to Washington D.C. in September and meet with members of the House.
- Wolff said emails and phone calls are great, but the actual face-to-face meetings are where things get done, so he will set up some meetings to occur mid-Sept when Congress returns.
 - The Board suggested DPAC should have a conversation with IDFA to find out what their objection is to “daily” reporting (and the expansion to more products). Maybe we could come together on this or at least understand their true objection.
 - DPAC board talked about staying focused on this issue.
 - **Denny Wolff will try to set up a meeting with IDFA.**
 - **Wolff will also set meeting dates with members of Congress on break and in Washington between now and Sept. 15.**
 - **DPAC Board members were also urged to make contact with their U.S. Representatives before Sept. 12. A personal visit is preferred whenever possible.**

- Dave Forgey said he has been in contact with members of Congress from Indiana.
- Forgey also reported that he will attend a Dairy Policy Forum in Wisconsin on August 18, hosted by Wisconsin Farm Bureau and the Professional Dairy Producers of Wisconsin (PDPW). Jerry Kozak, CEO of NMPF, will be there presenting information on NMPF's Foundation for the Future, and there will be other panelists discussing the California plan (Costa / Sanders bill) as well as other aspects of present and future dairy policy.

MILK PRICING ACTION GROUP REPORT:

I. 10-State Southeast Meeting in Tennessee:

- Rob Barley, Cliff Hawbaker, Jack Fritz and Sherry Bunting reported on the 10-state meeting of dairy producers in Athens, Tennessee on August 5 (states represented were: VA, NC, GA, FL, KY, TN, MS, AL, AR, and PA)
 - They reported the meeting was a big step. People were focused.
 - There was widespread agreement with the focus on market transparency and price discovery.
 - The Southeastern producers were encouraged and came up with a platform to move forward and participate partly because of DPAC being a group that stands up for the farmers' interests.
 - Hawbaker said the meeting was a great time of connection between farmers, with synergy on these national issues.
 - The Southeast group will re-convene in Georgia on Sept. 9 to organize, potentially, as an action group or affiliate of DPAC.
- **Bunting read the six action items from the 10-state Southeast group meeting:**
 - **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.
 - *There were 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.
- DPAC Board discussed whether they should have a vote to support the above mentioned Southeast action items. However, the Board did not want to move out in front of the Southeast group on this as some of the items are regional issues, which DPAC would look to the Southeast group to take leadership on making a more formal recommendation.

- Rob Barley motioned to table the adoption of the Southeast action items, pending the outcome of the Southeast group's next meeting in Atlanta, Georgia in September.
- Alan Kozak seconded the motion, and the motion passed 14-0.

II. Subcommittee on Milk Marketing Models (3-M Subcommittee)

- In April, the DPAC Board had tabled the Exec. Board concept of adding a special subcommittee to study marketing on a small scale to see how the current system and regulations affect the ability to broaden competition on a larger scale. The formation of the "Marketing Models Subcommittee" was tabled and the Exec. Board was tasked with getting more information on the concept before bringing it back to the Board.
- During the August meeting, the Board was brought up to date on this information that had been gathered via conference calls with various professionals over the past four months.
- The Board discussed the "thought process," and explored three questions "to bring our minds into looking at the pricing of milk."
 - What does "competitive pay price" mean?
 - What are your thoughts about a one-class system?
 - How do dairy producers adopt a concept of "producing for a market."
- Competitive pay price means something different to different people. The point is to evaluate ways to expand price discovery:
 - At DOJ hearing in Wisconsin in June, the point was made that there are few buyers for each of the four main commodities, but many buyers for raw milk at the farm level. Pricing based on four commodities related to the three manufacturing classes actually stifles competition.
 - Competitive pay price? All Markets bid for milk versus bid for surplus cheese on CME that in turn sets the price of milk?
- Board explored the question: Of the four classes of milk, which one has the most profit?
Class IV: "The one we are paid the least for."
 - The Board discussed make allowance, powder pricing and marketing, and government purchasing -- priced on lowest value product: NFD, but uses can create substantial value mark up that is currently unrealized by the dairy producer in the Class IV end product price formula scheme.
 - Class I represents the "power class," and is not necessarily always the highest "value class." All the other classes are tied to Class I in the pool, and the product pricing (or value) is all mixed up within those classes.
- Moving on to a discussion of one-class, Hawbaker asked the Board for their initial thoughts.
 - That is a "big step."
 - What would be the ramifications?
 - What could it do for the dairy farmers?
 - This is part of a thought process to "produce for a market" or "produce for a customer."
- An outside-the-box discussion continued around the ideas of how policy could encourage innovation, competition and producers having a better understanding of the market. How could policy be developed that would change the dynamic to a situation where: "When the milk man backs his truck up to my tank of milk, I know what I'm getting paid for the load."

- Consensus: The industry is reaching a time when producers need to be as involved in marketing their milk as they are in producing it. The key is to identify and then define the markets: what is wanted, when... and how to produce for that.
 - One example is “Quality,” which could be SCC or components, etc.
 - Another example is “local,” what is the value of “locally produced?” What is the “market” for local milk among consumers, retailers, processors.
 - 1) A couple Board members noted they had talked to or met with chain retailers in their region and what they heard is that retailers are “very interested in locally grown and produced food, and that BST is not an issue, but “local” is an issue.
 - 2) Retailers indicated that consumers will eventually look for country of origin labeling
 - All comes back to knowing the value of milk’s different uses; and looking forward to produce for a market; produce for the future: If the market wants 100,000 SCC, for example, let the market pay the producer for that.
 - 1) Where is the value? What are the specifications? How do producers access this value?
- Consensus: The problem is there is no competition, and the farmers need to examine their options, educate the public, lawmakers, and other sectors of the industry; work to restore competition.
- Consensus: The system is not working for producers; The pricing system should work for both sides.
 - One Board member reflected on his experience 10 years ago, when he and a few other producers developed a formula to understand the value of their milk and looked at different ways to market it. Then DMS came along and that was the end of being able to stimulate some competition.
- Consensus: Forward contracting may be an option for some producers already, but the current pricing system makes it difficult to use the available tools.
 - One board member gave the example of forward contracting on the Class III futures markets, and then if the milk is de-pooled or the producer price differential (PPD) goes negative, then what does the farmer do? The contract doesn’t cover it. “Now we have to look at contracting the PPD, too,” he said.
 - A Board member asked why can’t the pricing system use a bidding system. The technology to do something like that is available, and it could be an option for producers to choose whether to put their milk in for bid at an “offered price.”
 - There was also discussion of how some processors wonder what a fair market price is to pay. The largest-of-the-large control this with the occasional bids and offers on the CME surplus commodities market (cheddar, butter, powder). The CME price is not a true competitive pay price and yet it indirectly sets the price of all milk to producers.
- Chairman Hawbaker suggested that now is the time to take this concept out on the road and start getting people to think what it might look like.

- One class, produce for a market, regions could be around a market not just defined by a geography—a system that allows the Southeast farmer to compete for his Class I market on a level playing field, and at the same time, allows the Upper Midwest farmer to not be hindered by having a low Class I utilization.
- **Goal #1 of the subcommittee:** To look at dairy policy as though milk could be sold all as one class. Discussion may end up being a true two-class system, where manufacturing uses compete and fluid is still a separate class.
- **Goal #2 of the subcommittee:** To define the markets and identify three or four models of what marketing could look like and how current or future dairy policy impacts those models.
- **Goal #3 of the subcommittee:** To take the concept of “producing for a market,” and making supply management (or controlled growth) a reasonable part of that because “you are producing for a market instead of just producing and letting someone balance that.”
- Consensus: No better time than now to be thinking outside-the-box, considering the gap between what consumers pay for retail dairy products and what farmers are paid for milk.
- The 3-M Subcommittee discussion relates to future dairy policy because:
 - There are confused, uneducated masses in Washington, D.C. Every dairy farmer should visit Washington at least once a year.
 - To gain influence with lawmakers, producers won’t compete in dollars, but they can compete by coming together.
 - Important to bring consumer along into the discussion.
 - The power is in having a focused grassroots effort because lawmakers really do want to hear from the farmers.
- Central questions:
 - What are producers looking for in a market, what do they want?
 - What do the processors want?
 - Key is the System must work for both sides.
- **Alan Kozak of Ohio motioned that DPAC form the Subcommittee on Milk Marketing Models. Bryan Gotham of New York seconded the motion, and it passed 14-0.**
- Chairman Hawbaker appointed the following DPAC Board Directors to the Subcommittee on Milk Marketing Models:
 - Rob Barley, Pa.
 - Duane Hertzler, Pa.
 - Dale Hoffman, Pa.
 - Bryan Gotham, NY
 - Alan Kozak, Ohio
 - Intentions to name producers from the South, and then from the Midwest.
- There was further discussion of how to use this “modeling” work to stimulate thinking.
- Bottom line: The discussion of “one-class” is simply to pursue the concept through Milk Marketing Models Subcommittee, but it really involves everyone on the DPAC Board, and it involves all the action groups and ad hoc members. For example, marketing models can also address supply management.

SUPPLY MANAGEMENT ACTION GROUP REPORT

- Action group chairs Jon Jenkins and Gary Kline were unavailable for this meeting, but the Board spent part of the afternoon on this topic, starting with a report from Denny Wolff, Alan Kozak and Sherry Bunting on the 30-organizations meeting in Chicago in July.
- Chairman Hawbaker gave everyone Proverbs 30: 15 & 16 to think about and the analogy is that regulations are “never satisfied.” Regulations beget more regulations and it is never enough, the more regulations there are, the more regulations are needed.
 - **How to break that self-feeding regulatory cycle in dairy? Clear the clutter?**
- Hawbaker also coined the term “controlled growth” versus supply management.
- **Chicago meeting:** attended by 60 people from 30 organizations (refer to details in the Aug. 6 Exec. Board & Activities Report) Alan, Duane, Denny, Sherry and Dave F. attended.
 - No decisions were made; and no silver bullet was found.
 - The 30 organizations in Chicago decided the economists’ report on stabilization plans needed further study to refine the input. There were issues of comparing “apples” to “apples.”
 - Preliminary analysis showed all programs (NMPF Foundation for Future, Agrimark Marginal Milk Program, and the Costa/Sanders bill or California / Holstein plan) had the ability to take the extreme volatility out of milk price, but none of the programs made any real difference in cumulative net farm income over the five-year study period.
 - This analysis and discussion is all part of the journey to getting producers unified on a plan.
 - DPAC attendees had good opportunities to reinforce relationships with other dairy groups and to build on those relationships and further develop them.
- **Points of discussion on supply management / controlled growth:**
 - Having so many dairy farm organizations involved in the open dialogue on “controlled growth” or “supply management” is an encouraging sign that producers can unite.
 - Farmers seem to have a comfort level with the old base program of the 1980s.
 - Farmers have concerns about losing market opportunities if they don’t make sure there is enough milk for the market (foreign competition).
 - Discussion: What about reversing the assessment and trigger to collect assessment from dairy farmers when price is high and spend the money purchasing products when the price is low?
 - Discussion: Could the current support program be modified and improved to become a farmer-funded, farmer-influenced purchase program. Could this be a way to cut through the red tape and have something that could get done more quickly since the framework of a support program is already in place.
 - Discussion: Milk protein concentrates (MPCs) are here to stay, why not move surpluses with production of MPC – temper the imports.

- Flip side is government purchases of NFDMM would have to first be removed so residual milk could go into production of other products vs. products that stockpile and are harder to sell.
- Discussion: Would CWT type program work if the right people were in charge and are the right people always the right people (circular debate)? CWT program spent \$2.8 million in 2008 for administration.
- Farmers are pretty well united in the fact that they want any board that spends their money on “supply management” or “demand enhancing purchases” to be a **FARMER-RUN BOARD** representing cross-section of large and small farms.
- DPAC Board questioned why have an act of Congress? Answer: Because the only way to have a mandatory program covering all dairy farmers is through Congressional approval.
- **DPAC BOARD CONSENSUS:** Any “controlled growth” or “supply management” plan that takes dollars from farmers and redistributes them to other farmers or to purchase products from processors or cooperatives must be a farmer-run board instead of a corporate board.
- Consensus: If NMPF Foundation for the Future would pass in the next Farm Bill, as-is with the assessments at various margin triggers, then the role of NMPF board in spending the farmers’ money should be reduced.
- Consensus: The supply management discussion will continue and DPAC needs to be at the table.
- **Rob Barley motioned that DPAC join the 12 organizations that are funding the economic analysis by Dr. Mark Stephenson and Dr. Chuck Nicholson. The contribution will not exceed \$2500.**
- **Dan Stoltzfus seconded the motion and the motion carried 14-0.**
- Secretary will contact California Milk Producers Council about participating with the other funding organizations as the economic analysis of supply management plans moves forward from draft to final release in September.

STANDARDS & REGULATIONS ACTION GROUP

- Alan Kozak reported that the FAPRI report on fluid milk minimum standards was completed but not yet released: Hearing it is a good thing for the dairy industry in terms of using milk solids and improving taste and nutrition.
- On SCC limits, the market is still moving toward a 400,000 SCC limit; however USDA is negotiating with the EU to have the same system for determining the mean or average on an individual farm basis.
- Previous attempts by National Mastitis Council to reduce SCC limit were repeatedly turned down by the Interstate Milk Shippers (processors and co-ops). This board has jurisdiction and states have jurisdiction because FDA does not consider SCC to be a “food safety risk” to consumers.
 - Pennsylvania’s legal limit was recently changed from one million to 750,000.
 - Milk above 750,000 is not supposed to cross state lines.
 - 400,000 limit is a concern during summer months for Southeast producers; but many are meeting this standard and lower.

- **Biggest issue is enforcement.** EU requirement pushes the enforcement of farm level SCC limits vs. commingled supply. Blending high SCC with low SCC is a money maker for the middle.
- Lower limits, along with enforcement, would result in less milk available in the pipeline in the short term; less of a “supply” impact in the long term.
- Would improve producer pride in their product.
- EU requirement has been delayed until January 1, 2011.
- Reason for reduced SCC limit is to improve quality and shelf life.
- Farmers should get paid for the improved quality and the funds should come from the market.

PA STATE ISSUES ACTION GROUP REPORT

- Nelson Troutman and Zach Meck reported on their meeting with Pa. State Senator David Argall at the Lebanon Fair. Argall is a sitting State Senator who is interested in helping DPAC with the PA Milk Marketing Law changes. But he is also running against U.S. Congressman Tim Holden in November for a seat in the U.S. House of Representatives.
- Third-year law student Justin Ritter gave his Legal Research Report on potential causes of action concerning ‘stranded’ revenue meant for dairy farmers via Pennsylvania’s state-mandated over-order premium. This was an informational report as the Board seeks truth and transparency on this issue of ‘stranded’ premium.

NEXT MEETING

- The next meeting of the DPAC Board was tentatively set for Sept. 30, 2010 by teleconference beginning at 1:00 p.m. and the following meeting was tentatively set as a regular second Thursday of the month.

Respectfully Submitted by:

Sherry A. Bunting

DPAC Correspondence Secretary

September 29, 2010