

Dairy Policy Action Coalition (DPAC) Board Meeting Minutes

August 25, 2011—1:00 p.m. – 2:45 p.m.

At Ephrata, PA office and by teleconference

Board Members present (* = part of the meeting): Pennsylvania—Cliff Hawbaker (chair), Rob Barley (vice-chair), Duane Hertzler, Dale Hoffman, Zach Meck, Nelson Troutman, Paul Horning. Ohio—Alan Kozak. Indiana—Dave Forgey*. North Carolina—Ben Shelton. Tennessee—Jack Fritz. (* = left conference early)

Ad hoc Producer Members present by telephone: Michigan—Howard Straub. Minnesota—Joe Borgerding*.

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

Guests: Julie Walker, Southeast Dairy Coalition; Bob Cropp, professor emeritus, University of Wisconsin-Madison.

PROCEEDINGS:

Chairman Cliff Hawbaker called the Board business meeting to order shortly after 1:00 p.m. with 11 board members present; two ad hoc producer members present; all three members of the professional team present; and two guests present.

Approval of Minutes and Treasurer's Report:

- Paul Horning motioned to approve the July Minutes. The motion was seconded by Rob Barley and passed 11-0.
- Paul Horning motioned to approve the August 18 Treasurer's report. The motion was seconded by Ben Shelton and passed 11-0.
- **August 18, 2011 Treasurer's Report:**
 - **The beginning balance on July 14, 2011 was \$1,794.63**
 - Contributions from July 15 through August 18, 2011 totaled \$11,868.00 from 7 agribusinesses and/or organizations (\$4,900.00), and 38 dairy producers (\$6,968.00).
 - Expenses paid July 15 through August 18, 2011 totaled \$10,120.20, itemized as follows:

1) \$ 766.00	07/21/11 Yoders Printing – 2000 envelopes; 2500 penny/cwt mailers
2) \$ 20.31	07/21/11 Paige Eshelman --- Reimburse for mailing supplies
3) \$ 540.31	07/21/11 Paige Eshelman – services 7/12/11 thru 7/21/11
4) \$2,132.71	08/02/11 Ag Writing Svcs./Corresp. Secy duties & expenses – July '11
5) \$ 100.00	08/2/11 Bernie Morrissey – August 2011 rent
6) \$5,725.00	08/16/11 Versant Strategies – Relation Services & expenses, July 2011
7) \$ 252.00	08/16/11 Paige Eshelman – Services 7/22/11 thru 8/4/11
8) \$ 498.52	08/16/11 B.C. Morrissey Insurance –Postage 7/14/11 – 8/4/11
9) \$ 85.35	08/18/11 Paige Eshelman – Reimburse for ink & supplies
 - **This left an ending balance on August 18, 2011 of \$ 3,542.43**

- Treasurer Bernie Morrissey noted that the only outstanding invoice is Versant Strategies' August invoice totaling \$5,725.00 and due by the end of August. Current funds available of \$3,542.43 leaves us short by \$2,182.57. He also noted that he is planning a meeting with Cream of the Crop sponsors on September 1 to hear a report from Washington from the local Congressman and a report from Harrisburg from the local State Senator.

Approval of Executive Board and Activities Report for web-posting:

- Chairman Hawbaker noted that the Secretary has sent updates through the month of the DPAC activities along with an Executive Board Report of activities over the past four weeks for review and posting to the website.

Federal Legislative Update:

- Denny Wolff reported on the August 3 DPAC briefing with ag staffers for key members of House and Senate in Washington D.C. Board members Cliff Hawbaker, Rob Barley, Alan Kozak, Zach Meck and Duane Hertzler, along with ad hoc member Howard Straub, presented Cornerstones for Change (CFC) and their concerns about NMPF's proposal (Peterson draft) during the briefing attended by staffers from 19 congressional offices (see August exec board report). The staffers were engaged and had good questions.
- Denny reported that the group met with the staff of Sen. Bob Casey (D-Pa) after the briefing. They indicated the Senator's interest in putting Cornerstones for Change into legislative language as a dairy discussion draft and agreed to begin that process.
- The group also met with American Farm Bureau and IDFA while in Washington D.C. to present Cornerstones for Change (CFC).
- Denny reported that the CFC aligns with Farm Bureau's grassroots policy. He also reported that IDFA could not give an answer as to whether they could be supportive of CFC. They would review the CFC proposal and thought it could be something they would not oppose as strongly as they are opposing the FFTF proposal.
- On August 17, Denny and four board members (Cliff, Rob, Duane and Dale), met with Glenn "G.T." Thompson, a Congressman from northern tier Pennsylvania (Dale Hoffman's area) who sits on the House Ag Committee as chair of the Conservation subcommittee. The half-hour breakfast meeting at the Harpster Farm near State College was in conjunction with Pa. Ag Progress Days. DPAC promised Chairman Thompson they would provide the legislative draft as soon as it is ready and Thompson said he would look at it.
- While at Ag Progress Days, Denny (along with Cliff, Rob, Duane and Dale) met with Mitch, a staffer for U.S. Senator Pat Toomey (R-PA). Toomey is on the Congressional Super Committee that is looking at the across the board spending cuts to rein in the federal budget deficits. The discussion focused on open markets, since that is a core issue the Senator focuses on. His staffer was also eager to see the CFC legislative language, which Sen. Casey's office is working on.
- While at Ag Progress Days, Denny (along with Cliff, Rob, Duane, and Dale) met with Jake Kuhns, the ag staffer for Congressman Tim Holden (D-Pa.) who sits on the House Ag Committee. He was well aware of the controversy surrounding Congressman Peterson's dairy discussion draft (FFTF) and indicated interest in seeing the legislative language for DPAC's CFC.

- This brought the board’s legislative discussion to two action items, relating to Sen. Casey’s progress in writing the dairy discussion draft. The two items had been circulated as information items a week or so before the 8/25 board meeting:
 - 1) Specific language on the dairy safety net, and
 - 2) Advanced pricing of Class I skim and butterfat and Class II butterfat.
- Denny reported that Sen. Casey’s office had a dairy discussion draft in 2007 that included legislative language to remove that 4 to 6 week lag time between fluid and manufacturing class prices and to price all milk on the same four weeks of price data. The Senator wanted to know if DPAC wanted this included in the CFC dairy discussion draft his office is working on because the purpose of this point – originally – was to clean up and simplify the pricing system and to reduce volatility in the Producer Price Differential (PPD). It also makes the price signal more current by eliminating the up to six-week lag between fluid and manufacturing and it provides more product price data information for establishing the Class I “mover” (aka minimum advance price). Bottom line here is simplification, transparency, current price signal, and more product price data to arrive at a minimum price.
- Sen. Casey’s office also wanted to know where the MILC program fits into the CFC and suggested making it optional, where producers can choose to give up MILC in order to qualify for subsidized LGM-Dairy policy (subsidized premium available for milk up to a production cap; but available at full price beyond that production cap). This was portrayed as a solid start to giving farmers options on safety net and risk management (like ACRE did with crop insurance vs. direct payments).

FIRST ACTION ITEM – Advanced pricing language discussion

On the first Action item dealing with the “advance pricing,” Denny introduced Bob Cropp, professor emeritus, University of Wisconsin-Madison, as a resource to answer technical questions. Professor Cropp had been on previous DPAC teleconference meetings to answer questions or provide technical information.

- He explained that the “advance pricing” has been part of the Federal Orders for Class I and a portion of Class II since the 1960s. The rationale was for milk going into bottles and into the store with a day or two, that unless a processor knows what they will have to pay for the milk, it is difficult to decide what to charge the grocer.
- He also explained that under the current system: **Class I and a portion of Class II are determined by only two weeks of price data on cheese, butter, nonfat dry milk and whey in the month prior to the month in which the advanced price becomes effective.**
- One of the major reasons to consider this language for the bill is that the way it is now: Class I is priced six weeks in advance of the milk purchased for manufacturing. Markets change, and this has in the past led to depooling by cheese manufacturers when the Class III price runs up during that six week lag. Manufacturers are not forced to pool and only do so because of the advantages when the manufacturing price is below the fluid price, like it is most of the time. Sometimes it is not, and that’s when depooling occurs. With today’s decline in fluid consumption and increases in cheese consumption, this situation could present itself more down the road. In addition to depooling, is the situation of a negative PPD (producer price differential).
- Cropp explained how the advanced pricing currently works, and even though he has been familiar with Federal Order pricing data for many decades, he and everyone on the call were confused just trying to talk about which weeks of price data affect which classified milk

price (in and of itself a reason to consider doing away with this complexity that sets fluid and manufacturing prices on totally separate price data pathways).

- Cropp noted there is no direct impact to the price of raw milk from making this change to bring the fluid and manufacturing price data together, but there would be an impact on volatility, which could perhaps result in a better average price over time.
- It was recognized that Fluid milk bottlers would object because it would put more price risk into their business when they have no risk management tools to use. (Manufacturers can use Class III or IV milk contracts on the futures markets, but Class I bottlers must pay the minimum price so they cannot forward contract on the futures markets).
- This advanced pricing discussion is also relevant to daily reporting.
- **Alan Kozak moved and Paul Horning seconded the motion “To include in the dairy discussion draft the language below that would eliminate advanced pricing of Class I by using the same four-week component prices that are used to calculate the manufacturing classes to calculate the fluid skim and fat.”**
 - The legislative language referenced by the above motion would read as follows:

[ADVANCED PRICING—Section 8c\(5\) of the Agricultural Adjustment Act \(7 U.S.C. 608c\(5\), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937 is amended by adding at the end the following:](#)

[“\(P\) ADVANCED PRICING.—Not later than \(insert date\), in calculating the advanced price of Class I butterfat milk and Class I and II skim milk under Federal milk marketing orders, the Secretary shall use the 4-week component prices that are used to calculate prices for Class III and Class IV milk, as determined by the Secretary.”](#)
- Ben Shelton noted that it does appear to reduce the ability to manipulate prices during that six-week lag time, but that he wanted to run the language by his counterparts in the Southeast Dairy Coalition before voting.
- The Secretary was directed to conduct an email vote and report back with results.
- *****Update on this Action item as of 9/21/11:**
 - *After three reminders by email (and phone & postal mail for those who do not receive email), many questions were raised from producers in the high fluid milk market of the Southeastern states.*
 - *The Southeast Dairy Coalition Chair (SEDC) indicated on 9/16 that he could not – after all – support it.*
 - *Email voting had tallied 11 for and 1 against (with 5 multi-state ad hoc members weighing in favor, but not counting in the vote tally).*
 - *After the close of voting on 9/16, another board member from the Southeast emailed a “no” vote; putting the total on 9/19 at 11 for and 2 against.*
 - *On 9/16, Sen. Casey’s office had sent the DPAC exec board an early draft copy of the CFC discussion draft language, which included the section on advanced pricing.*
 - *The Executive Board and Action Group Chairs subsequently had a conference call on 9/20 to go over the potential bill.*

- *The Secretary relayed the concerns of the Southeast Dairy Coalition as expressed by their Chairman, who is also a DPAC board member, as he was unable to break away to be on the 9/20 leadership conference call.*
- *The DPAC Exec Board and Action Group Chairs decided to make a recommendation to the full board at Sept. 26 meeting to remove the advanced pricing language and instead push for narrowing the time lag and making Class I “mover” more aligned with current market conditions after better reporting (daily) and other measures are enacted. This could be part of the hearing process to simplify the milk pricing system. In any event, it will again be taken up at the September board meeting.*

SECOND ACTION ITEM – Safety Net and MILC

On the second Action item dealing with the MILC, Bob Cropp also answered questions and provided technical information.

- Denny explained the question as maintaining the MILC program and seeking underwriting for individual margin insurance options (like LGM-Dairy), and then allowing producers to make a choice to give up MILC payments and select subsidized premiums for individual margin insurance (LGM-Dairy) for the capped production that would have otherwise been supported by MILC.
- This was a pretty straightforward discussion.
- **Rob Barley moved and Alan Kozak seconded the motion to include in the CFC dairy discussion draft such wording as to give dairy producers a choice to receive the benefit of subsidized LGM-Dairy insurance premiums or a direct payment via MILC. The motion passed 11-0.**
 - This language is consistent with language previously adopted by the Dairy Industry Advisory Committee, and it keeps the cost of LGM-Dairy from being an “add on” to MILC under the baseline on the dairy title of the Farm Bill.

Southeast Dairy Coalition Report:

- Board member Jack Fritz from Tennessee reminded everyone that National Milk Producers Federation (NMPF) would be having its Foundation for the Future (FFTF) meeting in Nashville on August 29. He said he hoped that DPAC can move forward with an alternative because no one in the South wants FFTF to move forward.
- Fritz also noted that the Southeast is still “not sold” on moving to a two-class system.
- Chairman Hawbaker noted that the board understands the concerns of the Southeast because of their regional situation being unique.
- Alan Kozak noted that DPAC’s pursuit of a simplified two-class instead of four-class system is different than what NMPF is proposing. He said: DPAC is proposing two classes as a framework, but asking that the hearing structure be used to determine how component minimums are used to determine one manufacturing class price. DPAC’s way of doing this through national hearings would allow people affected by the change to explore the benefits and concerns so that everyone has the opportunity to be heard. We want everything we do to

be – at worst – neutral for all regions even as the purpose is to simplify the system and improve transparency and price discovery.

- Board member Ben Shelton of North Carolina noted that the Southeast Dairy Coalition’s concern is that the Southeast does not have enough competition to make a two-class system work.
- Denny Wolff noted that a two-class system can be structured to use competition at the national level, not by region (as in FFTF). Then the formula comes out of the competitive area where the price discovery is established and then can be used everywhere. Denny stressed that, “it is very important and we have to get this right.” He said that is why DPAC is pushing it to a hearing process and the creation of an expert panel to accomplish the objective. “The purpose is to get everyone together and do what is best for dairymen.” He said an expert panel can explore the options and opportunities and then use the normal hearing process for gathering the necessary information.

Midwest Report:

- Ad hoc member Howard Straub of Michigan noted that farmers in the Midwest are adamantly against FFTF. He has distributed DPAC info to decision makers and farmers. He also is involved in discussions with the main ag staffer for Senate Ag Committee Chairwoman Debbie Stabenow (D-Mich.).
- Alan Kozak of Ohio and Ben Shelton of North Carolina noted they were both at a forum in Washington on July 28. Alan presented DPAC’s CFC on a panel that included NMPF, IDFA and NDPO. Ben was an attendee and he asked for a show of hands from 35 producers from 17 states. No one raised a hand for FFTF supply management. Alan presented DPAC’s Market Cow Bonus Program alternative briefly to the group and referenced Ben as a resource to answer more questions as he originated the concept.
- Ad hoc member Joe Borgerding of Minnesota noted that he was leaving the conference call early because he was on his way to a meeting with Minnesota Congresswoman (an republican presidential hopeful) Michelle Bachman.
- The board talked briefly about the conference call with Wisconsin Dairy Business Association (WiDBA) and Northeast Dairy Producers Association (NEDPA) and Minnesota Milk Producers Association on 8/22/11 as well as the letter being sent to Congress in opposition to FFTF’s Dairy Market Stabilization Program. During the conference call, DPAC presented Cornerstones for Change and answered questions from the leaders of the aforementioned organizations. A report about this conference call was noted in the August 25 Exec Board & Activities Report provided to everyone before the August board meeting and posted at the DPAC website.

Pennsylvania Legislative Update:

- Denny Wolff reported that the chair of the Senate Ag Committee, Elder Vogel, continues to hold S.B. 993 in committee. Denny said Vogel’s aide Mike Rader is working on specific language for a separate bill.
- Bernie Morrissey noted that he is still waiting on a return call from the Governor’s office as to a meeting with staff to discuss S.B. 993.

Global Issues Action Group:

- Dave Forgey was unavailable to report due to leaving the conference call early for another meeting.
- Alan Kozak reported that Tom Suber of US Dairy Export Council (US DEC) gave a very informative presentation at the July 28 meeting in Washington where Alan represented DPAC on a panel. The presentation is attached with these minutes and very worthwhile reading.

Supply Management Action Group Report:

- No report

Marketing Models Subcommittee Report:

- No report.

Standards & Regulations Action Group Report:

- Alan Kozak reported that National All Jersey's work on legislation to require higher solids standards for fluid milk (more milk in the milk) is still in progress. It saves dollars in CBO budget scoring of dairy programs. The DPAC board voted in July to support such legislation with a letter to members of Congress at the appropriate time.

Old Business:

- Bernie Morrissey gave a brief update on the penny per hundredweight campaign and the current financial support lagging.

New Business:

- No new business was reported.

NEXT MEETING

- The next meeting of the DPAC Board is tentatively scheduled for September 29 but may be moved up pending the need to review the pre-release of Sen. Casey's dairy discussion draft, which contains elements of Cornerstones for Change. (Meeting was subsequently moved to Monday, Sept. 26 at 1:00 p.m. eastern time).

Respectfully Submitted,

Sherry A. Bunting

DPAC Correspondence Secretary

Sept. 22, 2011