

Dairy Policy Action Coalition (DPAC) Board Meeting Minutes
September 26, 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), Daniel Brandt (vice-chair), Jake Esh, Duane Hertzler, Dale Hoffman, Zach Meck, Nelson Troutman, Paul Horning, Dan Stoltzfus. **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. **Wisconsin**—Ken Wunderlin. **New York**—Deb Windecker.

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

Guests: Calvin Covington, consultant and former CEO with Southeast Milk; Maury Cox, executive director of the Kentucky Dairy Development Council.

PROCEEDINGS:

Chairman Cliff Hawbaker called the Board business meeting to order shortly after 1:00 p.m. with 14 board members present; **four** ad hoc producer members present; all three members of the professional team present; and two guests present.

Approval of Minutes and Treasurer's Report:

- Rob Barley motioned to approve the August 2011 Minutes. The motion was seconded by Dave Forgey and passed 14-0.
- Zachary Meck motioned to approve the September 22, 2011 Treasurer's report. The motion was seconded by Alan Kozak and passed 14-0.
- **September 22, 2011 Treasurer's Report:**
 - **The beginning balance on August 18, 2011 was \$3,542.43**
 - Contributions from August 19 through September 22, 2011 totaled \$11,704.33 from nine agribusinesses and/or organizations (\$8,650.00), and 33 dairy producers (\$3,054.33).
 - Expenses paid August 19 through Sept. 22, 2011 totaled \$9,224.14, itemized as follows:

1) \$ 220.20	08/25/11Paige Eshelman – Services / mileage 8/8/11-8/19/11
2) \$ 159.50	08/25/11Premier Global Services – Conference Calls
3) \$ 25.60	08/26/11Staples / Paige Eshelman reimburse office supplies
4) \$1,355.18	09/01/11Ag Writing Srvcs./Corresp. Secy duties & expenses – August 2011
5) \$ 543.00	09/06/11Paige Eshelman – Services 8/25/11 – 9/2/11
6) \$ 100.00	09/15/11 Bernard C. Morrissey – September 2011 Rent
7) \$5,725.00	09/15/11Versant Strategies – Relation Services & expenses, August 2011
8) \$ 82.09	09/15/11Staples / Paige Eshelman – Reimburse ink/envelopes
9) \$ 50.00	09/15/11Graham Scholarship – Donation in memorium of James R. Graham (Julie Walker's father)
10) \$ 398.00	09/22/11Yoder's Printing– 5000 2-sided flyers
11) \$ 408.60	09/22/11Paige Eshelman – Services/mileage 9/6/11 – 9/15/11
 - **This left an ending balance on September 22, 2011 of \$ 6,022.62**

- Treasurer Bernie Morrissey noted that the only outstanding invoice is Versant Strategies' September invoice totaling \$5,725.00 and due by the end of September. Current funds available of \$6,022.62 leaves us a balance of \$297.62.

Executive Board and Activities Report:

- Chairman Hawbaker noted that the Secretary has sent updates throughout the month of the DPAC activities along with an Executive Board Report, which was sent to all board and ad hoc members, containing the Exec Board and Action Group Chairs' recommendations for amending the DPAC legislation to expedite its introduction before the Oct. 14 deadline for consideration by Ag leadership for the Congressional Joint Select Committee on Deficit Reduction (Super Committee).

Federal Legislative Update:

- Denny Wolff discussed the Discussion Draft bill from Sen. Bob Casey's office. The executive board and action group chairs had reviewed it and gone over some of the language with Sen. Casey's office.
 - One key point was the portion of the bill dealing with a producer choice between MILC payments or subsidized LGM-Dairy insurance premiums. Looking at the deductible as a \$1.50 maximum on 3 mil lbs of milk, and the deductible can be adjusted by producers to cover additional milk; or additional milk can be covered at the producer's own expense.
 - Another key point was that the Executive Board and Action Group Chairs made the recommendation to omit the Market Cow Bonus Program from this particular bill and pursue as a separate action due to the time constraints of getting the bill introduced in time to be considered by Ag leadership and the Congressional "Super Committee" with deadlines of October 15 for budget numbers and Nov. 1 for Committee Farm Bill policy recommendations. It was felt that there was not enough time to bring people up to speed on the benefits of the 10-cent assessment to run a Market Cow Bonus Program and there would be pushback, perhaps, from the beef industry. Furthermore, the 10-cent assessment proves problematic with the new House Cut-go rules as this would be farm income that would be assessed to run a program and thus could not be considered taxable income.
 - Plan is to introduce and then find co-sponsors.
- The Board discussed the Discussion Draft, a copy of which had been provided to all board members and ad hoc members prior to the meeting.
 - Question on LGM, the \$1.50 deductible on 3 mil lbs of milk makes it comparable to the MILC from a farm standpoint and budget-scoring standpoint.
 - Chairman Hawbaker explained the recommendation to omit the MCBP even though it still has merit, there are concerns about the fact that either bill could fly on its own, but together neither may fly.
 - Alan Kozak reminded Denny that the milk-feed ratio reference as standard for impact analysis of federal order changes, he asked if it can be changed to a milk-feed "margin" instead of "ratio."
 - Denny noted that it's a word change because everything else in the bill talks about "margin."

- Ben Shelton said the group from Southeast still struggles with the two-class system. He shared the concern about the bill asking the Secretary to explore it; but “having no idea what we’ll get.”
- Chairman Hawbaker stated that the language keeps us at the table. He said he understands the Southeast concerns and would like the Southeast to be involved in the discussions of shaping this so that it is beneficial for the Southeast. He noted that a two-class system takes out some of the volatility and brings more of a true market price.
- Competitive pay price was discussed: NMPF’s FFTF (Dairy Security Act) uses a regional competitive pay price; whereas the Casey bill would take the time to understand the best way to come up with a competitive price and that may be at the national level as component minimums.
- Denny noted that this needs to be studied and be the result of hearings around the U.S. as part of the information gathering process. That’s why this section of the bill is left open and general. It is more of an umbrella. This should allow for good public debate and discussion to see how a two-class system can be implemented and how a formula could be devised.
- Alan K. noted that his discussions with others outside of DPAC brings up the point that having the price decided by a competitive pay survey just on the Class III cheese milk (as NMPF FFTF proposed)... just will not work. He also stated that we (DPAC) do not have all the answers, so the bill forces the experts to come together and help find the answers.
- Calvin Covington noted that from the Southeast region’s point of view, they don’t want to support something that ends up going backward on price. With competitive pricing, he said, one of the things that pops up is “deregulation to get enough plants in the survey.” He said they want to make sure -- before supporting something -- that it will be an enhancement for the Southeast and not something they will lose money on.
- Component values are included in the bill, so it is open for setting a formula based on components not classes.
- The discussion proceeded to go over the FO reform part of the bill line by line.

IN GENERAL- Not later than September 30, 2014, the Secretary of Agriculture shall establish a 2-class system for classifying milk under Federal milk marketing orders issued under 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, consisting of a fluid milk class and a manufacturing milk class (with the price for both classes determined using the component prices of butterfat, protein, and other solids).

(2) AMENDMENT TO ORDERS-

(A) IN GENERAL- **The Secretary shall submit a report to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate that includes the text of proposed amendments to the Federal milk marketing orders to implement the 2-class system for classifying milk.**

(B) EFFECTIVE DATE- The proposed amendments described in subparagraph (A) shall take effect not earlier than the date that is 180 days after the date on which the report is submitted under that subparagraph.

(b) Deadline for Issuance of Orders- Section 8c(4) of the Agricultural Adjustment Act (7 U.S.C. 608c(4)), reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, is amended by striking `After' and inserting `Not later than 30 days after'.

(c) **Economic Impact Assessment- The Secretary of Agriculture shall--**

(1) carry out a review of the milk-feed margin during the 1-year period ending on the date of enactment of this Act; and

(2) not later than September 30, 2013, and each time a proposed change in the Federal milk marketing order formulas is considered by the Secretary--

(A) assess the economic impact, over a 1- and 2-year period, of proposed changes in Federal milk marketing order formulas on--

(i) milk supply;

(ii) farm profitability;

(iii) consumer demand; and

(iv) market prices;

(B) submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate a report that describes the results of the assessment; and

(C) consider, and include in the record, the results of the assessment before making a decision on any proposed change to the Federal milk marketing order formulas.

- The way it reads is the Secretary “shall” have two classes but it does NOT say “shall” have competitive pay price. In fact, competitive pay price is not specifically mentioned at all.
- During the discussion, it was emphasized that an economic assessment would occur before making a decision on any proposed change to Federal milk marketing order formulas.
- From the Upper Midwest, JB noted that growth in the dairy industry will come from new products and methods to sell around the world and that the fluid market has not been a growth market. So the concern is that we not stifle the manufacturing growth area.
- Calvin C. noted that the pooling allows the collection of **the differential – to be passed through to producers --** if the new product processor is a pool plant.
- Question was posed to the representatives of the Southeast as to their position on Peterson’s Dairy Security Act (NMPF Foundation for the Future), Covington and Shelton noted that Southeast Milk has issues with that bill also, and has not met yet to decide on a position.
 - Ben S. noted that the biggest concern is the forcing of supply management to get margin protection, but he acknowledged that the Southeast does feel the FFTF is significantly watered down in the DSA bill.
 - In general, the Southeast feels the current system is not that bad, and that it works for them, but that the concern lies more in how it is run.
 - Alan K. noted that the DPAC board and staff really have appreciated the relationship with the Southeast, and understand the Southeast’s concerns. Question was asked about how the Southeast will approach a DPAC decision to move ahead with the Casey bill anyway.

- Ben S. asked if the Southeast Orders can be left out of the Fed Order changes.
 - Denny wasn't sure if an Order can be exempted.
 - Calvin C. said Orders can be exempted because each Order has its own regulations and that any time there is a hearing, the hearing defines what Orders the hearing applies to.
 - Sherry B. noted that could be, but that going to a two-class system basically changes the way the manufacturing price is determined and that the manufacturing price forms the basis **to which** the fluid market differentials **are added**. So, indirectly it would still affect the Southeast Orders even if they priced differently.
 - Calvin C. did state that he hopes the relationship between DPAC and the Southeast will continue. He said if DPAC goes forward with this legislation and has hearings, they may find the Southeast opposing them on some of the FO hearings, but that is nothing different than what has been in the past. He said "any time dairy farmers talk together it's a positive thing."
 - Denny said the Casey bill will become part of a menu. It brings topics and points to the discussion as the Senate works on a dairy reform package.
 - The question was asked if the inclusion of a two-class system is a deal breaker with the Southeast, and would they outright oppose the bill before it even gets to the hearing process?
 - Ben Shelton said he could not answer that question at this time. He would want the key people from the Southeast to get back together first. He shared his concern about removing two main pieces from the bill: the Market Cow Bonus Program and the Advanced Pricing language.
 - 1) The secretary **(Sherry B)** stressed that the removal of the language concerning elimination of Class I Advanced Pricing was actually removed from the final bill... in deference to the wishes of the Southeast and the value they see in Advanced Pricing in a high Class I market.
 - 2) The secretary (Sherry B) also reminded everyone that the Market Cow Bonus Program has been removed from the bill due to the expedited schedule of meeting Super Committee consideration deadlines and the concerns raised by members of Congress on the program's effect on House Cut-Go Rules as well as needing more time to get consensus from producers – nationwide – to see value in the 10-cent assessment needed to pay the Market Cow Bonuses.
 - Maury Cox from KDDC also noted his agreement with the concerns expressed by Ben Shelton and Calvin Covington.
- The Chairman called attention to page 14 line 16 and 19 where the pounds of milk (10,000) on 16 then is pounds of product (10,000). He noted that the two have to be the same and that it should be 10,000 pounds of processed product.
 - The secretary (Sherry B.) noted that the current number is one million pounds of cheese per year or 90,000 lbs per month.
 - 10,000 lbs of product per month includes more plants but still not the very smallest processors.

- Chairman repeated the Exec Board recommendation and opened the floor for a motion to approve the bill draft as revised. The primary revisions are the removal of the Market Cow Bonus Program; the removal of the prior language that would have eliminated Advanced Pricing of Class I (in effect keeping the Advanced Pricing as is).
- Daniel Brandt motioned to approve the revised legislation draft as presented on September 26 by Senator Casey's staff. Dave Forgey seconded the motion.
 - Before voting JB noted that there are still antitrust issues that play into some of the CME pricing on which farm milk prices are based. He thought DPAC should make a comment on this CME activity separate from this bill.
 - Denny noted that the increased reporting and auditing in this bill assists in that issue.
 - JB thought a resolution would be good to support the DOJ to continue looking at this. The DOJ workshop in Madison in 2010 included DPAC testimony, which Denny said aligned with the draft legislation under consideration.
 - Secretary (Sherry B) noted that DPAC is on record on this issue without being part of an antitrust lawsuit of any kind.
 - Bernie M. noted that the coop members of NMPF voted on FFTF but now it is different and did their directors and delegates get to vote again on the changes?
- A roll call vote to approve the Casey draft legislation, as amended, resulted in 12 board members (and 4 ad hoc members) voting "yes"; 2 non-affirming abstentions; and 0 declared "no" votes.
- Chairman Hawbaker thanked the Board and Denny Wolff for their hard work to get to this point.
- Chairman Hawbaker talked about the Pitts-Fitzpatrick Letter and the trip to D.C. on October 12.
 - The D.C. trip will include more than PA farmers.
- Zachary Meck noted that NMPF CEO Jerry Kozak contacted him to say they would like to meet with DPAC and he put the question to the Board.
 - The Board discussed the invitation.
 - Zach said there were no conditions on the meeting except that Zach expressed the meeting should be held in Ephrata, PA at the DPAC office.
 - Board members stated that a condition could be to hammer out details and stress that a meeting does not mean support for NMPF's plan.
 - Chairman Hawbaker asked Denny Wolff to coordinate the meeting with Jerry Kozak.
- Dave Forgey noted that Sen. Lugar's dairy language is already being pushed forward and that Chairwoman Stabenow wanted to see the Casey / DPAC bill by Oct 1.
- Denny discussed the potential timetable for introducing the bill.
- Chairman Hawbaker asked for help in getting cosponsors for the Casey bill.

Old Business:

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

New Business:

- No new business was reported, other than the Treasurer (Bernie) mentioned a Christmas dinner on December 22. Details to follow.

NEXT MEETING

- The next meeting of the DPAC Board is tentatively scheduled for October 27 at 1:00 p.m. EDT by teleconference.

Respectfully Submitted,

Sherry A. Bunting

DPAC Correspondence Secretary

October 23, 2011