

Why electronic reporting is DPAC's cornerstone

DPAC survey: Producers want transparency

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Special for Farmshine

DPAC Update 'Controlling your own destiny'

EPHRATA, Pa.—What is the value of a hundredweight of milk? We all know milk at the farm level is priced per 100 pounds (cwt) and blended according to the percentage of utilization among four federal milk classes. But there are a multitude of dairy products made from 100 pounds of milk, and basic calculations may not sufficiently represent the pricing efficiencies that are available to manufacturers where byproduct cream, whey, and other components of milk are used to produce additional products from the same 100 pounds of original farm milk.

Product yield calculations can also vary and be controversial. They vary not only by plant processes but also in the way experts say they can be calculated (fat basis, other solids not fat, protein). Plus, there are the byproduct considerations that flow from the manufacture of one product to the manufacture of another product.

Following the flow of milk components is extremely difficult, and it has changed quite a bit in the past 10 to 20 years. For example, dry whey and whey protein concentrate are products that have more value in the marketplace today than 10 years ago, and they are made with the whey byproduct of cheese manufacture.

Another example is ice cream mix production utilizing cream that is a byproduct of bottling 2% or skim milk for drinking.

Yet another example is the diminishing importance of cheddar cheese, an aged and storable product, in the marketplace compared with the increased production and popularity of mozzarellas, pizza cheese and other Italian fresh cheeses, which are made-to-order.

And let's not forget the increased prominence of soft products, like yogurt in its ever-increasing forms and formulations.

Add to this, the fact that the producer pay price for manufacturing milk forfeits arbitrary manufacturing or 'make' allowances set by USDA for making storable commodities: cheddar, butter, nonfat dry milk and whey. The combination of make allowances and support prices can encourage expanded production of certain "low risk" products based on these "program" factors, regardless of what products the market demands.

Meanwhile, Federal Milk Marketing Orders set some of the milk pricing factors for the expressed purpose of maintaining a consistently abundant supply of fluid drinking milk for consumers.

These are some of the market factors that affect the movement and usage of milk throughout the supply chain from the farm to the consumer.

Since 2006, dairy market experts and economists have been talking about how the "archaic" milk pricing system needs an update or an overhaul. And it is generally agreed throughout the industry that price discovery is among dairy's biggest challenges.

For the Dairy Policy Action Coalition (DPAC), marketplace transparency is a foremost focus, and mandatory daily electronic reporting is viewed as the cornerstone.

The dairy industry has been talking about electronic reporting for more than three years. It was a hot topic in 2006-07, and was included in the 2007 Farm Bill, but not yet funded or implemented.

The industry remains on the proverbial one-yard-line still holding this ball that simply must get into the end-zone.

Within a few weeks of forming DPAC, the charter board of 20 grassroots dairy producers set daily price reporting, and other issues affecting market transparency, as a top priority.

Government relations consultant Dennis Wolff has been working with congressional leaders to get an appropriations bill written to fund electronic reporting. Next week Wolff and several DPAC board members will travel to Washington to meet with House and Senate staffers and USDA in order to get legislation moving and to talk with USDA about a price tag for implementation.

Dairy farmers universally agree that it's high time to reduce the influence of the Chicago Mercantile Exchange (CME) surplus cheese market as the primary driver of the farm milk price (including the Class I base).

Electronic reporting would make this possible by reporting negotiated trades on a daily basis, much like the beef and pork industries, where USDA releases daily reports detailing the wholesale value of all retail cuts.

Congressional leaders are looking for concrete things they can do to help dairy producers have a more functional milk pricing system. That is DPAC's strength: a concrete list of dairy policy actions that are focused on the milk pricing system, beginning with electronic reporting.

DPAC conducted a dairy producer survey in *Farmshine* and on the website, and the results were considered during the board's March 11 milk pricing workshop meeting.

During a four week period ending March 11, DPAC received 375 responses, with 348 providing their state and demographic information. Those 348 responses represented 157,564 cows and 23 states.

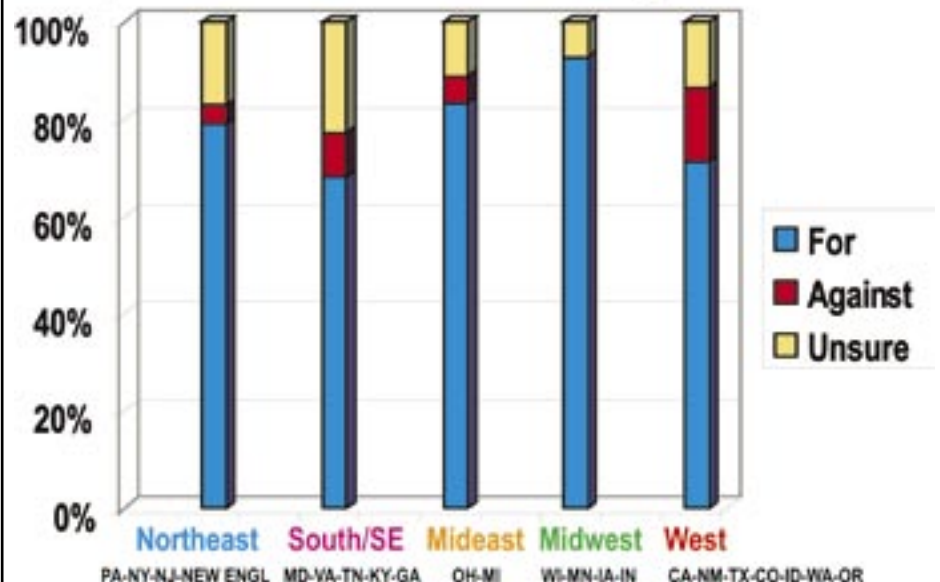
Market transparency was ranked in the top three concerns by 70% of respondents. Market volatility, concentration, and future profitability were ranked in the top three by 55 to 61% of respondents, and over-production was ranked in the top three concerns by 28% of respondents.

By a wide margin, removing or reducing the influence of the CME spot market (by taking the NASS survey to the next level via electronic reporting) was ranked in the top three priorities by 77% of survey respondents.

The next highest priority was "decoupling" Class I, which was ranked in the top three by 55% of respondents.

On pricing concepts, 72% of respondents favored reducing the influence of manufactured product prices on the Class I fluid price.

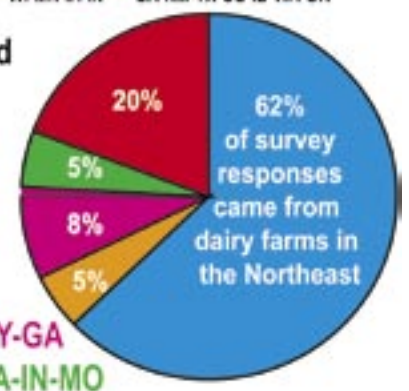
Eliminate Dairy Product Price Support purchases and replace with solutions that encourage innovation.



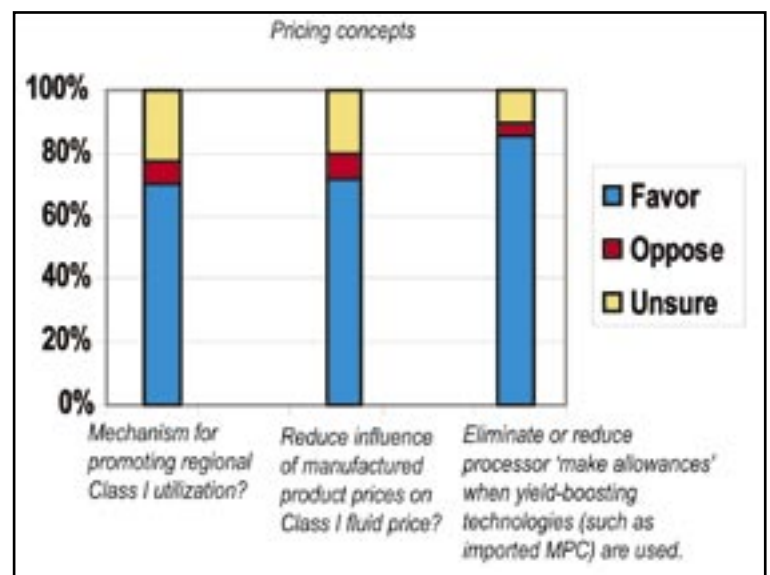
DPAC Survey responses were received from dairy producers in 23 states...

Shown here by regional distribution. (348 dairy producers representing 156,000 cows. Herd size: 20 cows to 15,000 cows; average 500)

- Northeast - PA-NY-NJ-New England
- West - CA-NM-TX-CO-ID-WA-OR
- Upper South/Southeast - MD-VA-TN-KY-GA
- Midwest - OH-MI Midwest - WI-MN-IA-IN-MO



Among western producers, this was favored by 60%, with 30% opposed and 10% unsure. In the Southeast, 86% favored reducing the influence of manufactured product prices on the Class I fluid milk price. In the Northeast, 76% favored this, while 16% were unsure. In the Midwest, 50% favored this with 17% opposed and 33% unsure.



Another dairy policy area that garnered many votes was eliminating dairy product price supports in favor of solutions that encourage innovation to move milk to its highest value use. Nationwide, 77% of respondents favored eliminating the price supports. In the West, 71% favored this and 15% were opposed with 13% unsure. In the Midwest, 93% favored eliminating the price supports, with zero opposed and 7% unsure.

In the Northeast, 79% of respondents favored the elimination of price supports, with 3% opposed and 17% unsure. And in the Southeast, 56% favored this, with 12% opposed and 31% unsure.

Look for more DPAC survey results in an upcoming edition of *Farmshine*.

DPAC is a coalition of grassroots dairy producers actively participating, with a unified voice, on policies and issues affecting milk pricing. For more information, visit the website at www.dpac.net or call 800.422.8335.