Minutes of the Dairy Industry Advisory Committee

Tuesday, April 13, 2010, through Thursday, April 15, 2010

A public meeting of the Dairy Industry Advisory Committee (DIAC) was held at the USDA Jamie L. Whitten Building, Washington DC, Room 104-A, on Tuesday, April 13, 2010, through Thursday, April 15, 2010.

All committee members were present, including:

Name	**State**	**Business**
Andrew Novakovic, Chairman	NY	Cornell University
Erick Coolidge, Vice Chairman	PA	Le-Ma-Ra Farm
Paul Bourbeau	VT	Paboco Farms, Inc.
Jay Bryant	VA	Maryland and Virginia Milk Producers Cooperative Association
Timothy Den Dulk	MI	den Dulk Dairy Farm, LLC
Debora Erb	NH	Springvale Farms/Landaff Creamery, LLC
James Goodman	WI	Northwood Farm
James Krahn	OR	Oregon Dairy Farmers Association
Edward Maltby	MA	Northeast Organic Dairy Producers Alliance
Rodney Nilsestuen	WI	Wisconsin Department of Agriculture, Trade and Consumer Protection
Robert Schupper	PA	Giant Food Stores
Manuel Souza	CA	Mel-Delin Dairy
Patricia Stroup	CA	Nestle
Sue Taylor	CO	Leprino Foods Company, Inc.
Edward Welch	MN	Associated Milk Producers Inc.
James Williams	GA	Williams Dairy Trucking, Inc.
Robert Wills	WI	Cedar Grove Cheese Inc.

All officers from USDA were in attendance for all or part of the meeting, including:

Brandon Willis, Deputy Administrator for Farm Programs, Farm Service Agency
Serving as Executive Secretary
Dana Coale, Deputy Administrator for Dairy Programs, Agricultural Marketing Service
Serving as Alternate Executive Secretary
Solomon Whitfield, Acting Director of the Price Support Division, Farm Service Agency
Serving as Designated Federal Official
Erin Taylor, Marketing Specialist, Agricultural Marketing Service
Serving as Alternate Designated Federal Official

Tuesday, April 13

U.S. Secretary of Agriculture, Tom Vilsack, 8:25 AM

Secretary Vilsack opened the meeting and explained that the genesis of the committee was the serious deterioration in the situation for the U.S. dairy industry that began in early 2009. He reviewed the actions taken by USDA in 2009 to stabilize the dairy industry. He expressed concern for the short-term situation of dairy farmers, noting that, although dairy prices rose in the latter part of 2009, they have fallen recently as dairy cow numbers have increased. He is also greatly concerned about the long-term situation of the dairy industry, noting the increased price volatility that dairy farmers have experienced in recent years. He emphasized that the work of the committee will be important not only for the dairy industry, but also for rural America.

The Secretary encouraged the committee to use USDA and other resources available to help them to evaluate alternatives.

The Secretary stated that the committee has the responsibility of making recommendations for both long-term and short-term solutions to the problems facing the dairy industry. He mentioned that he would like some recommendations from the committee concerning short-term solutions before the end of the calendar year.

While the Secretary was in attendance, each of the committee members introduced themselves and briefly shared their thoughts about serving on the committee.

Member Comments, 8:55 AM

Each member of the committee took a turn in providing some introductory comments. Price volatility was a top priority or major concern among many of the committee members. Topics discussed included: supply management proposals; proposals to change the Federal order system; the relationship between dairy regulation and dairy product innovation; the substitution of non dairy ingredients by manufacturers; proposals to link regulations with dairy farmer cost of production; the need to increase demand for dairy products domestically and internationally; proposals for margin protection; proposals for regulations that vary by region; environmental regulations; and the problem of insolvency among dairy farmers.

Chairman Novakovic stated that the reason the committee had been brought together was the spectacular downturn in the dairy situation in 2009. According to Mr. Novakovic, the committee should focus on immediate issues and look at long-term solutions. The question that the members should ask is, "What should the results be?" He urged the committee to avoid treating symptoms and instead to look at underlying causes of the problems facing the industry.

Break, 9:55 AM

Dairy Farm Financial Condition, Mitch Morehart (USDA Economic Research Service (ERS)), 10:35 AM

Mitch Morehart presented results from a partial budgeting model of dairy farms using data from the USDA Agricultural Resource Management Survey (ARMS). Data for the ARMS survey is collected through voluntary surveys of dairy farm businesses (DFBs) evaluating their income, expenses, assets and debt. Mr. Morehart defined a DFB as a business where 50 percent or more of its total value of farm production comes from milk and dairy products. The most recent ARMS data is available through 2008 when there were 56,000 DFB's. Therefore, Mr. Morehart stated that the 2009 and 2010 model results are forecasts. Parameters for the model are taken from short-term forecasts provided in the USDA World Agricultural Supply and Demand Estimates reports, USDA Agricultural Long-Term Projections, and the Food and Agricultural Policy Simulator model used by ERS.

Mr. Morehart said that the model forecasts a sharp reduction in DFB average net cash income in 2009 with an increase in 2010. It forecasts a decrease in DFB equity (reported in current market value) of about 10 percent in 2009 with a further reduction in 2010. Mr. Morehart said the model has shown a debt-to-asset ratio for DFB's of 16-18 percent over that past three to four years. Mr. Morehart said that historically DFB's have a heavier debt-to-asset ratio than other types of farming operations. Mr. Morehart stated that the model forecasts about 18 percent of DFB's (representing about 50 percent of total debt held) in 2009 will have substantial problems in meeting their debt obligations (up from 7 percent in 2007).

Mr. Morehart also said that the model evaluates DFB's long-term viability by accounting for the DFB owner's own resources and unpaid family labor. At an all-milk price of $10 per hundredweight (cwt) of milk, the model predicted that more than 80 percent of DFB's would have long-run viability problems. On a volume basis, this represents about two-thirds of US milk production. Mr. Morehart said that the model also provides characteristics of farms with cost structure differences.

Mr. Morehart emphasized that the model forecasts for 2009 were based upon 2008 as a base period. Mr. Morehart stated that the estimates from the 2009 survey will be released in November 2010. He also pointed out that forecasts have had a good track record in previous years. Several of the committee members asked questions concerning his ability to disaggregate model results in various ways—for example, by region. He said that he is able to do this and that he would be willing to help the committee if they have requests for more information.

Lunch, 12:00 noon

Overview of Dairy Policy History and Impact on Industry Structure, Scott Brown (Food and Agricultural Policy Research Institute, University of Missouri), 1:05 PM

Scott Brown emphasized that there are several policy levers available to reduce price volatility, but each come with their own set of consequences. He discussed the history and effects of price support programs, direct payment programs, market assessments, supply reduction programs and milk marketing orders. He also discussed the relationships among the various USDA dairy programs.

Mr. Brown explained that price volatility was much lower in the 1970s and 1980s when the support price of milk was higher and therefore government spending on government dairy programs was high. He then reviewed historical government spending on government dairy programs.

Mr. Brown said that World Trade Organization (WTO) obligations must be taken into account if changes are made to the Dairy Product Price Support Program. Mr. Brown explained how the Aggregate Measure of Support (AMS) is measured for U.S. notifications to the WTO. Mr. Brown explained that the 2008 Farm Bill mandates support prices for dairy products instead of for milk and that this should substantially lower the total for dairy's contribution to the AMS.

Mr. Brown discussed two programs that were used during the 1980s: the Dairy Termination Program and the Milk Diversion Program. The Dairy Termination Program was a dairy herd buyout program. He said it was effective at increasing milk prices, however, this led to herd expansion by non-participants in the program and the onslaught of dairy cows sent to slaughter lowered beef and cattle prices. The Milk Diversion Program made use of a refundable assessment for producers who did not expand production. It had a small effect on longer term milk production.

Mr. Brown explained the formulas involved in calculating Milk Income Loss Contract (MILC) payments and how those changed from the 2002 Farm Bill to the 2008 Farm Bill. He provided estimates of the eligibility for different production caps and analysis of alternative direct payment levels.

Mr. Brown explained some fundamentals of the Federal Milk Marketing Order Program. He explained that Federal orders convert dairy end products prices to minimum milk prices used in the classified pricing system it utilizes to compute minimum payments to dairy farmers. He also explained the relationships among Federal Milk Marketing Orders and other government dairy programs.

Mr. Brown indicated that many policies do not have long-term effects on milk supplies. Exceptions would be quotas or capped programs such as the MILC program. He further indicated that the use of levers available to deal with volatility depend upon money made available for programs through the budgeting process.

Milk Utilization Patterns, Don Blayney (USDA, ERS), 2:35 PM

Don Blayney stated that there are alternate ways to look at milk utilization patterns: in aggregate, or by product. He presented graphs and tables with data from 1980 through 2008. The graphs revealed that while there has been a population increase over this time period, overall fluid milk consumption has remained relatively flat – resulting in a decline in fluid milk consumption on a per capita basis. This contrasts with cheese consumption which has been increasing on a per capita basis. Overall, Mr. Blayney said, there has been an aggregate increase in dairy utilization.

Mr. Blayney said that in the 1980's there was a large volume of dairy products in government stocks. He said that currently total stocks are growing, but that they are commercial, not government stocks. Therefore, it will be commercial decisions that determine what happens with that stock. Mr. Blayney also said that dairy exports are increasing, but such transactions carry more risk because export sales are more deeply impacted by global factors.

Mr. Blayney indicated that there are questions about how dairy policy is related to prices and price volatility. He said that milk utilization is most clearly visible in Federal milk marketing orders and State orders as classified prices and component prices are clearly affected by how milk is used.

Mr. Schupper stated that Europe is looking for a standardized skim milk powder product. He asked if the U.S. should be producing this type of product instead of powder for Commodity Credit Corporation (CCC) purchases. Mr. Blayney agreed stating that international marketers are looking for standardized ingredient type products. Mr. Schupper added that when prices for NFDM were increasing, companies built powder processing facilities. However, now that NFDM prices are declining he thought we will now be processing more milk through those powder facilities than we otherwise would to keep the plants at full capacity.

Mr. Bourbeau expressed his view that cheese inventories are holding market prices down. He asked Mr. Blayney how much cheese is in storage and how does USDA verify those numbers.

Mr. Blayney indicated that that information is collected through the National Agricultural Statistics Service.

Credit, Food Demand, and Environment Panel

James Putnam, Farm Credit East, 3:35 PM

Farm Credit East participates in a joint project with Yankee and Maine Farm Credit called the Northeast Dairy Farm Summary. Statistics are compiled from data collected from member dairy farms. James Putnam presented information from the 2009 survey which consisted of 544 farm businesses.

According to Mr. Putnam, member farms experienced their worst losses ever in 2009, even when adjusted for inflation. Average net cost of production in 2009, without government payments, was $16.84 per hundredweight. Operating costs remain high compared to prices in 2010. According to Mr. Putnam, on a cash margin basis, the average break-even point for the surveyed farms was $16.02. This compares with an actual milk price of about $13.80, giving farmers an average cash margin of -$2.22 in 2009.

Mr. Putnam said that in 2009 surveyed dairy farmers lost much of their debt capacity. Mr. Putnam said that over the past 3 years, surveyed farms showed an increase in debt per cow of $600. He compared this to the surveyed debt per cow observed over the past 16 years which increased $500. Mr. Putnam emphasized that their member farms took many steps to deal with the problems they faced. Farm Credit also took several steps to work with its customers. He said they were big users of FSA loan guarantees and thanked USDA for this help.

For 2010, Mr. Putnam expects most farmers to break even but he did not think that it will be a recovery year. He said that many dairy farmers have lines of credit that have been maxed out, and will have more problems in trying to put off capital replacement.

Mary Christ-Erwin, Porter Novelli, 4:00 PM

Ms. Christ-Erwin stated that Porter Novelli is concerned with changing behavior of consumers. She said that the company was instrumental in helping USDA with the Food Guide Pyramid and Dietary Guidelines. Much of her discussion related to information obtained from Porter Novelli's Styles database. The database attempts to capture psychographic information concerning consumer attitudes, beliefs and insights. The database surveys approximately 10,000 consumers per year and has a response rate of approximately 50 percent.

Ms. Christ-Erwin discussed some overarching aspects of consumer behavior. She believes frugality from the recent downturn will stay with us for some time. She believes there is a collision between what she calls Michael Pollan-fresh-organic-sustainable-close to the earth-local-carbon footprint and the economy. She emphasized that people are not confused about what to eat. They basically know healthy eating habits although they may not follow them. An issue that needs to be better understood is the aversion of many consumers to processed foods.

Ms. Christ-Erwin discussed the profile of women, ages 25 to 49, with children under 18 years of age. She noted that most families still eat meals together in the family dining room. These women do not try new foods to a great extent, they usually do not buy organic products, about half read nutrition labels, and about 70 percent have cut back on eating out. Those surveyed view saving time as an important aspect of breakfast, nutrition as important for lunch, taste as important for dinner, and both nutrition and taste as important for snacks.

Christ-Erwin reviewed five questions that consumers consider when making food choices:

- Will it be eaten?
- What is the benefit of its consumption?
- Does the cost of the product equal my pleasure?
- What are the odds of replicating consumption?
- What is my role, willingness and availability?

Ms. Christ-Erwin discussed the following factors affecting consumer demand: target, desired behavior, effort, real and perceived "get," motivation, opportunity, choice, thing(s) required of you and cost.

American Farmland Trust, 4:30 PM

Jim Baird discussed American Farmland Trust's Agricultural and Environment Initiative. In particular, he discussed the Chesapeake Bay Restoration. He said there has been an ongoing conversation about this for the past 30 years but that in the last 18 months those efforts have become more intense. Mr. Baird outlined four aspects of those efforts:

- The governors of States that border the Chesapeake Bay developed plans in 1985 to address water quality issues. These plans have changed over time. Currently, goals have been set to restore the bay by 2025.
- The new administration issued an executive order that requires agencies that are associated with water quality for the bay to develop plans to meet goals.

- A measure of the total maximum daily load, the quantities of pollutants that are allowed into the bay, is now being developed. This is based upon a consent decree from the judicial branch.
- Bills have been introduced in the House and the Senate to deal with water quality issues for the bay. American Farmland Trust supports some aspects of the bills but not others.

Mr. Baird discussed take-aways from his speech. People need to understand that large quantities of nitrogen and phosphorous will need to be removed. The Environmental Protection Agency (EPA) has the ability to take action if goals are not met. Legislation has the potential to allow greater flexibility. The EPA will need reasonable assurance from the agriculture community that goals will be met. Mr. Baird discussed targeting of resources to meet goals. There are some trade-offs between what is effective and what is equitable. Mr. Baird provided a quote from an Executive Order Draft Strategy by EPA: “Losing Farms and Forests is not in the interest of the Chesapeake Bay ecosystem….”

Gerald Heatwole is a dairy and poultry farmer from Rockingham County, Virginia. He said that there are many dairy and poultry farms in that area, and thus there is considerable runoff of phosphorous and nitrogen. Mr. Heatwole first became concerned about the situation 22 years ago when a well on his farm had a high nitrate level. He has been involved in issues of water pollution since that time. Mr. Heatwole stated that his farm has had a nutrient management plan for almost 20 years and that it takes considerable time to keep up with the 100-page plan.

Mr. Heatwole stated that costs of environmental compliance are rarely considered in figuring the costs of production for farmers. He expressed his appreciation for the USDA National Resources Conservation Service which provides assistance (cost shares from 40 to 80 percent) for environmental improvement projects. However, even with this government assistance, he has spent more than $400,000 for environmental compliance over the last 4 years. Mr. Heatwole discussed the Virginia Waste Solutions Forum. He said that it is through this forum that many interested groups come together 3 or 4 times per year to discuss the environmental issues that they must address.

Mr. Heatwole said that he is very concerned about livestock waste in streams and is surprised that consumer groups have not taken steps to encourage consumers to demand products from farms where streams have been fenced off. Mr. Heatwole proposed that the committee consider recommending an environmental surcharge of $0.50 per cwt of all milk produced to be pooled and made available to farmers for assistance with environmental compliance costs.

Question and Answer Period, Panel, 5:00 PM

Several questions were directed to James Putnam of Farm Credit Services. Mr. Putnam emphasized that while the situation is improving for dairy farmers, he has some concern that dairy farmers will not be are able to reduce their debt before the next downturn. He indicated that there has been some overinvestment by financial institutions in some areas of the country. He also pointed out that he has not observed the elasticity of response that we saw in previous downturns and that this could be due to changes on the producer or lender side. Mr. Putnam indicated that there was a smaller variation in production costs between large and small dairy farmers in 2009 than in previous years. Putnam mentioned that there have been problems with FSA loan guarantees because FSA has been overwhelmed in trying to respond to farmers needs.

Erick Coolidge made a few comments concerning environmental actions that his farm is currently taking. He urged people to be patient concerning progress of agriculture in reaching environmental goals. He said that there have been some actions taken by dairy farmers to address environmental concerns where credit has not yet been given. Concerning promotion of the dairy industry, he believes that it is important that the message be communicated to the public that the money spent on agricultural production in the U.S. helps to assure a safe, local food supply.

Adjourned for day, 5:30 PM

Wednesday, April 14

U.S. Deputy Secretary of Agriculture, Kathleen Merrigan, 8:45 AM

Deputy Secretary (DS) Merrigan indicated that the Secretary has taken unprecedented steps in the last year due to low dairy prices. However, these steps still have not "done the job." She stated that the dairy industry has gone through boom and bust cycles for the past three decades. She challenged the committee members to be "good historians" given that the tough issues facing the dairy industry are not new ones.

DS Merrigan indicated that government dairy programs have gone through subtle shifts over the years. They are evolving and complex. Dairy policy has been an "ongoing attempt to get it right." Often dairy policy has reflected quick responses to crises. DS Merrigan gave a brief history of dairy policy from the time of the Great Depression through the 2000s. She indicated that farm policy has often been reactive, taking "band aid" approaches. DS Merrigan urged the committee to think in deeper terms.

Dairy Product Price Support Program (DPPSP) and Milk Income Loss Contract (MILC) Program, Milt Madison, Farm Service Agency (FSA), 9:00 AM

Mr. Madison said that taken together, the DPPSP and MILC program can be viewed as two-tiered support. Direct payments through the MILC are triggered made when prices are at a higher level than they are when purchases are made through DPPSP.

Mr. Madison discussed DPPSP purchases in terms of a trade-off between the desire for steady prices the desire to keep budget costs down. He said that through the 1970s, support prices were tied to parity. This brought about stable prices but large government purchases and high storage costs. Since the 1980s price support costs have been reduced, but direct payments have increased. Mr. Madison said that currently the DPPSP makes product purchases at prices that are equivalent to a milk price of approximately $9.40 per cwt. Recently, FSA has looked into the possibility of setting support prices at the level of operating costs. In 2008, this would have been $14.50 per cwt, and in 2009 the level would have been at $12.50 per cwt.

Mr. Madison also reviewed the MILC program and pointed out that there are substantial differences in how MILC payments are distributed regionally because of different average farm sizes in different areas of the country. He said that MILC payments have been concentrated in the Northeast and Upper Midwest with the States of New York, Vermont, Pennsylvania, Wisconsin and Minnesota receiving about 55 percent of the payments. California, the largest dairy producing State has received about 12 percent of the MILC payments.

Mr. Madison said that the two programs have different costs and benefits for consumers. MILC payments lead to slightly higher milk production, thus lowering prices for consumers. DPPSP payments bring about higher dairy product prices for consumers as dairy products are removed from the commercial market.

Dairy Export Incentive Program (DEIP), Mark Rowse, Foreign Agricultural Service (FAS), 9:20 AM

Mark Rowse described the DEIP as a direct subsidy program whose primary purpose is to assist U.S. exporters to compete against subsidized prices of other countries. DEIP was established by the Food Security Act of 1985. Under the WTO Uruguay Round negotiations, permitted subsidies were reduced over a 6-year period that ended in 2000. Under the Uruguay Round, U.S. export subsidies were reduced by 21 percent on a quantity basis and 36 percent on a budget basis from the base period. Mr. Rowse said that DEIP reached its high in 1995 when more than 246 metric tons of dairy products were exported through DEIP.

Rowse emphasized that DEIP's operating policy is to avoid displacing commercial sales. DEIP bonuses are set at levels to bridge the gap between U.S. prices and world market prices. Mr. Rowse explained that when FAS evaluates DEIP proposals it looks at how the export product would contribute to trade policy goals, what its contribution would be in meeting export goals, what will the effect be on non-subsidized exporters, and it evaluates the subsidy requirements verses the benefits. According to Mr. Rowse, the use of DEIP subsidies at times when the U.S. prices are lower than world prices and the U.S. is competitive in world markets without subsidies would not accomplish anything. Also, he said that DEIP bonuses are targeted at exports to countries where they are in competition with other subsidized products.

Mr. Rowse said that in 2009, the DEIP was activated in response to subsidies by the European Union. This was the first time DEIP had been used since 2004.

Question and Answer Period, Milt Madison and Mark Rowse, 9:30 AM

There was considerable discussion concerning the $60 million worth of cheese purchases mandated by an appropriations act in the fall of 2009. These purchases have been spread out over several months and will continue through 2010.

Mr. Krahn asked that of the $60 million appropriated for government purchases of cheese in 2009, why was it used to buy shredded cheese? He believed more cheese could have been purchased and more people could have been fed with that same amount of money if the government bought block cheese.

In response, Milt Madison explained that the Food and Nutrition Service (FNS) purchases serve the purposes of both providing help to farmers and providing products that are needed for FNS purposes. FNS conducts surveys to help USDA make decisions about the products that are purchased. While purchases of 40 pound blocks of Cheddar cheese may seem preferential as far as dairy farmers are concerned, Mr. Madison said that purchases of shredded cheese may be more useful for FNS purposes. He elaborated that it is a higher cost to the Federal government to buy a commodity product, ship it out to be further processed, then ship it back to the food bank for feeding programs than to purchase a finished product that can be used by the FNS without further processing.

Some of the committee members, including Ms. Erb, expressed the opinion that the purchases should have taken place soon after the appropriations act made funds available. Mr. Madison indicated that at this point contracts for all of the cheese purchases have been made. He said that there was an issue of timing. The appropriations came at a time when barters and CCC purchases were already in effect and USDA did not believe it was feasible to add substantial purchases from a third program at the same time. DS Merrigan indicated that when making purchases, USDA seeks to figure out when the purchase will have a market impact.

Mr. Goodman asked if government cheese purchases were allowed to have imported inputs. Mr. Madison indicated that the purchases were of natural cheese using U.S. produced milk. Mr. Goodman requested data relating to U.S. dairy exports/imports. Mr. Rowse indicated that he could provide that information to the committee.

Mr. Welch asked why processed cheese purchases were left out with the change to a product support program in the 2008 Farm Bill. Mr. Madison stated that that decision was made as part of the legislative process.

Mr. Maltby asked if there was data available to relate the subsidy program to the effect on retail prices. Mr. Madison said that a Report to Congress evaluated the effect of the MILC program. He added that other research found that wholesale prices are passed on to through retail prices, but not directly.

Ms. Taylor inquired as to the role European subsidies had in the decision to not activate DEIP since 2004. Mr. Rowse said the NFDM is the primary driver of DEIP. He said that the U.S. has been the biggest supplier of NFDM up until last year, and before that it was not necessary to apply dollars to a market in which the U.S. is already a price maker.

In response to other questions, Mark Rowse again emphasized that DEIP strives to not take actions that will displace commercial exports. DEIP bonuses are targeted at exports to countries that are mainly importers of dairy products. He does not see the likelihood that products that are exported under DEIP will return to the U.S. given the countries that are targeted and the cost involved in re-exporting the products.

Ms. Stroup asked if the DPPSP has been effective in making product disappear from the market. Mr. Madison was not aware of any research on this subject. Ms. Stroup then asked if the DPPSP program has been found to stifle new dairy product innovation. Mr. Madison stated that USDA hears those comments from the industry – that the NFDM price is not allowed to fall far enough to encourage processors to process skim milk solids into other innovative ingredients.

Dairy Options Pilot Program (DOPP), Lee Ziegler, 10:00 AM

Mr. Ziegler discussed the Dairy Options Pilot Program as an education program authorized by the 1996 FAIR Act that subsidized 80 percent of the put option premium for Class III and Class IV milk and up to $30 of broker commissions per round-trip transaction. Participation in the program was relatively small: 6,359 producers completed the training, less than 10 percent of all eligible producers. Twenty-one percent of the producers trained actually purchased options. Funding for the program was not authorized after 2002. There were significant barriers that limited the effectiveness of the program: education, complexity of markets and basis risk. The program was found to have little impact on production and prices.

Dairy Livestock Gross Margin for Dairy Cattle (LGM-Dairy), Kent Lanclos, 10:00 AM

Mr. Lanclos described the LGM-Dairy insurance policy that was approved by the Federal Crop Insurance Corporation Board of Directors in July 2007 and subsequently expanded in March 2009. The program is owned and maintained by Iowa Agricultural Insurance Innovations (IAII). Mr. Lanclos said that it insures a gross margin between Class III milk price and feed costs based upon the prices of corn and soybean meal. Price discovery is determined using CME futures settlement prices. He said that producers may sign up 12 times per year for the program, premiums are due at the time of sign up and that the program can be tailored for any size farm. He emphasized that the program does not protect long term gross margins. He said that participation in the program has been small--in 2007, there were about 40 policies compared to 90 policies so far for 2010. He said that because premiums are not subsidized it can be cost prohibitive for many producers to take advantage of the program.

Mr. Goodman asked whether farmers found either of these programs (DOPP or LGM-Dairy) worthwhile. USDA responded that because the LGM-Dairy program was so new it has been unable to derive the impact. They added that similar programs are available in other agricultural industries but participation also is not large because of the unsubsidized premiums. Joe Glauber

(USDA Chief Economist) added that programs perform well when markets fall. He emphasized that the programs are not designed to make money – they are meant to insure against losses.

Break, 10:20 AM

Federal Milk Marketing Orders (FMMOs), Will Francis, USDA Agricultural Marketing Service, 10:40 AM

Will Francis gave a brief description of the Federal Milk Marketing Order system and reiterated that the program is a voluntary marketing tool, not a price support program. It was authorized by the Agricultural Marketing Agreement Act of 1937, and has been continuously modified over the years, to assure that a reserve supply of milk is available to meet the needs of the fluid milk market. Mr. Francis said that it currently covers about 65 percent of milk produced in the U.S. and that its fundamental purpose is to level the playing field between producers and processors through its two primary functions - classified pricing and market-wide pooling. He emphasized that the FMMOs establish minimum prices and that handlers often pay prices that are higher.

Mr. Francis provided some information about the California milk marketing system. Six other States also have programs similar to the Federal order system. He said that the California system is very similar to the Federal order system, but there are some differences: (1) California has a higher solids standard for fluid milk, (2) there are some differences in classification of products, (3) there is component pricing for all classes of milk, and (4) California uses prices from the CME rather than from NASS to determine minimum prices.

Ms. Taylor asked if, in the long-run, FMMO program participating producers receive more money than they otherwise would. Mr. Novakovic replies that, as the program is currently structured, it does not effectively enhance producer prices.

Cooperatives Working Together (CWT), Jim Tillison, National Milk Producers Federation, 11:10 AM

Jim Tillison explained that CWT is a National Milk Producers Federation program that provides assistance on the supply side through a herd retirement program and on the demand side through export assistance. Mr. Tillison said that when the program began about 67 percent of the cooperatives participated in the program. It was funded by payments of $0.05 per cwt of milk marketed. He said that the current participation rate is about 75 percent, and in 2006 the funding level increased to $0.10 per cwt of milk marketed.

Mr. Tillison said there have been 9 herd retirements from 2003 through 2009 with a total of 475,762 cows culled, and 9.088 billion pounds of milk removed from production. The average herd size for the accepted farms has been 182 cows. He said that an analysis by Scott Brown of the University of Missouri indicates that the effects of each herd retirement is longer than one year. Mr. Tillison provided a chart that showed estimates of the effects of the herd retirements on the all-milk price from 2004 through 2009. He stated that for every $1 spent on the herd retirement program, it returns $15-$16 to the dairy industry. He also estimated that without previous CWT herd retirement buyouts, the all-milk price in 2009 would have been $1.90 per cwt less.

Mr. Tillison provided a list of 19 dairy products eligible to CWT member cooperatives for the export assistance program. The category with the largest quantity of exports under the program has been butterfat. He provided a chart that shows estimates of effects of the export assistance program on all-milk prices from 2004 through 2009. He estimates that for every $1 spent on the export assistance program it returns around $14 to the industry.

Mr. Tillison also discussed changes and additions to the program which include: (1) whole or partial herd retirement; (2) a replacement heifer reduction program; (3) updates to the export assistance program; and (4) studying the idea of an Export Marketing Agency in Common.

Mr. Wills asked if the CWT program has a floor on using the world price as a limit on subsidies to prevent exports from coming back into the U.S. Mr. Tillison said that they do not accept bids to Mexico and Canada, they look at world prices and compare them with domestic prices, and they attempt to be sensitive to people already exporting product commercially to a destination before making an export assistance decision.

Trade Agreements and Other Countries' Dairy Policies Impacts on U.S. Dairy Policy Options, Joe Glauber, USDA Chief Economist, 11:30 AM

Joe Glauber presented a chart showing the value of imports and exports of dairy products. The graph showed that the value of dairy imports in 2008 was about double that of 2006 before falling in 2009. Mr. Glauber attributed much of the increase in 2007 and 2008 to droughts in New Zealand and Australia. He said in 2009, demand fell and output increased in Oceania. He said that the U.S. exports more nonfat dry milk (NFDM) than any other product, and imports mostly milk protein concentrate, casein and cheese. Mr. Glauber pointed out that the EU is allowed much higher WTO export subsidy commitments than the U.S.

Mr. Glauber explained WTO boxes used in categorizing domestic support:

- Amber box: most trade distorting

- Green box: none or minimally trade distorting
- Blue: trade distorting but has production limiting features
- *De minimis*: potentially trade distorting but too small to justify regulation, subsidy is 5 percent or less or the total value of production

The DPPSP and the MILC programs are part of the amber box category. The U.S. limit for the Aggregate Measure of Support, the amber box, is currently $19.1 billion. Dairy was the largest portion of the U.S. Aggregate Measure of Support, about $4.8 billion in 2007. However, with the change in program from a Milk Price Support Program to a Dairy Product Price Support Program, dairy's contribution to the Aggregate Measure of Support should be reduced to approximately $3 billion per year.

Mr. Glauber briefly discussed proposals for the Doha Round of WTO negotiations. He said there have been efforts to reduce the number of tariff lines that can be declared as sensitive products. He said there are proposals to phase out export subsidies by 2013 and for food aid needs to become more disciplined so that food aid does not displace commercial exports.

In response to questions, Mr. Glauber classified some possible dairy related programs into the WTO boxes. According to Mr. Glauber a supply management program with a price target as prescribed in legislation would generally be considered amber box programs, while insurance programs could be considered green box if they meet the criteria in Annex 2 of the WTO Agreement on Agriculture.

Break for Lunch, 12:10 PM

National Milk Producers Federation (NMPF) Policy Proposals, Jerry Kozak,
1:10 PM

Jerry Kozak stated that current dairy programs have some short-term effects but do not go far enough to help the long-term situation of the dairy industry.

According to Mr. Kozak, discontinuing the DPPSP would allow for greater flexibility in meeting global demand and would shorten periods of low prices. He said that NMPF also believes that a different program is needed to better protect farmers' income than MILC. NMPF proposes replacing both programs with a Dairy Producer Income Protection Program (DPIPP).

Mr. Kozak said that the DPIPP would be designed to protect farmers against catastrophic losses of income due to destructively low margins. He emphasized that the program would not protect a profit or a break even margin, nor would it encourage production. The protected margin for the program would be defined as the all-milk price minus a feed cost. NASS currently uses a feed cost ration based on the prices of corn, soybeans and alfalfa hay. He said that NMPF is working on an adjustment to the NASS formula to improve the feed cost ration value. In response to questions, Mr. Kozak indicated that he would provide more detail on the NMPF feed cost ration once it is finalized.

According to Mr. Kozak, the DPIPP would provide two levels of coverage: a base plan and a supplemental plan. The base plan, which would be entirely subsidized, would guarantee a $3 margin for the life of the next farm bill. Producers would be able to opt for additional protection, at their expense, under a supplemental plan. Mr. Kozak said that insurance would be provided for a historical base volume and would not be transferable from one farm to another.

Mr. Kozak stated that while NMPF supports FMMOs, changes need to be made to them to make them more relevant. He wants to keep the basic framework but make it more in line with the current industry structure. He reviewed changes to the program that both NMPF and the International Dairy Foods Association agree with:

- Maintain Class I minimum pricing with pooling of differentials
- Use a competitive pay price for Class III and eliminate end product price formulas
- Maintain Class II minimum price using Class III plus a differential
- Use California Class 4a to price Class IV (maintaining minimum pricing)

Mr. Kozak said that the NMPF has a Production Management Subcommittee that is reviewing other supply and demand approaches to address volatility, focusing on a blend of trigger-level concepts and elements of the Growth Management Initiative by Dairy Farmers of America. He said that the subcommittee does not support the Dairy Price Stabilization Program advocated by the Holstein Association and the Milk Producers Council.

In response to questions, Mr. Kozak explained that payments from the DPIPP would be made by USDA, that language in the legislation would need to exempt the program from payment limitations, and the there will be a formula for new producers to allow them to enter the program. Mr. Kozak said that program details should be finalized in June 2010.

Ms. Erb said that statements arguing that the MILC program provided little cost assistance to farmers were inaccurate. She also asked how the program will be funded if all producers need a payout at the same time. Mr. Kozak said the funding would in part come from funds that are currently allocated to the MILC program and the DPPSP. He estimated that in 2008, a 70 cow farm would have earned $15,000 more under the insurance program than they did if they received MILC payments.

International Dairy Foods Association (IDFA) Policy Proposals, Connie Tipton, 2:05 PM

Ms. Tipton opened by contrasting dairy industry statistics from 1940 and 2008. She said that over time dairy cooperatives have become fewer, but they control a larger part of the milk supply and they have become more powerful. She said that over this time period, while milk production and per capita dairy product consumption have increased, per capita fluid milk consumption has declined. Ms. Tipton asserted that Federal Milk Marketing Orders have had a negative effect on fluid milk consumption due to its higher Class I price.

Ms. Tipton provided a graph indicating that while dairy prices have been volatile, they have not been as volatile as many other products. Ms. Tipton believed that there are two approaches to managing price volatility: efforts to control supply and tools to manage risk. In discussing the first approach, she presented graphs comparing the U.S. dairy supply and demand to that of Canada. While the milk supply and per capita consumption of dairy products have increased in the U.S., they have decreased in Canada where they utilize a supply management program. In discussing risk management, she provided a graph showing a reduction in price volatility for milk priced under the Dairy Forward Pricing Pilot Program. She said that IDFA supports efforts to help the dairy industry use risk management tools. She said that LGM-Dairy has done little to help the industry because its premiums are not subsidized. Other commodities, however, have received substantial insurance premium subsidies with total premium subsidies of $5.42 billion in 2009. She stated that IDFA would also support a program similar to the Dairy Options Pilot Program.

Ms. Tipton asserted that the complex FMMO program classified pricing formulas interfere with the ability for farmers and processors to use risk management tools. She also asserted that the DPPSP discourages product innovation and encourages production.

Mr. Wills asked if there is a problem with private solutions to volatility. Ms. Tipton responded that the industry would benefit by using futures and forward contracting, and stated that other agriculture sectors are currently doing well using those tools.

Mr. Maltby asked about the effects of U.S. milk quality standards on U.S. exports. Ms. Tipton said the industry needs to address this before Congress legislates a solution.

Mr. Souza asked if regulated prices can return the additional revenue to producers from value added products. Ms. Tipton did not believe so and argued that the industry needs to return to pricing milk via a competitive pay price and let the market return the additional revenue through premiums.

Mr. Wills asked if classified pricing should be abolished. Both Ms. Tipton and Mr. Kozak agreed that Class I differentials should remain because they thought it is not currently politically possible to do otherwise.

Mr. Goodman stated that farmers want a fair price for their milk, but that the market has not been doing a good job at returning to them adequate revenue. Ms. Tipton was of the opinion that the government should not guarantee producers a price, but should provide them a safety net. Mr. Kozak encouraged the committee to focus on margins, not prices, and to take a holistic look at current dairy programs.

Mr. Novakovic noted that volatility has two dimensions: the range; and how quickly it changes. He asked the committee to ponder how often does milk need to be priced in order to clear markets. Ms. Tipton offered that complicated dairy pricing policies make it difficult for IDFA's members to meet their customers demand. She said that most members are open to using long term supply contracts.

Break, 3:00 PM

Dairy Price Stabilization Program (DPSP)

Syp Vander Dussen, Milk Producers Council (MPC), 3:25 PM

Syp Vander Dussen began by noting the large reduction in dairy herds from 1982 to present. Mr. Vander Dussen asserted that when there is overproduction, under a market-wide pooling system milk flows to its lowest valued use. He further asserted that dairy cooperatives do not have an incentive to resist overproduction because producers demand that cooperatives take all of their milk, manufacturing cooperatives make money from make allowances, and the lower blend price has negative effects for producers but not for cooperatives.

Mr. Vander Dussen claimed that their proposed DPSP would be an improvement over existing programs and would be a better alternative than other industry proposed programs. Although MPC has supported the NMPF CWT program, Mr. Vander Dussen stated that the program does not have sufficient money and attempts to correct problems rather than prevent them. He also said that the supply management aspects of Senate Bill 1645 are not sufficient to keep prices at a reasonable level.

Rob Vandenheuvel, Milk Producers Council, 3:40 PM

Rob Vandenheuvel discussed the increase in dairy price volatility over time. According to an analysis by Drs. Charles Nicholson and Mark Stephenson of Cornell University, Mr.

Vandenheuvel said, price volatility can be expected to continue. Mr. Vandenheuvel claimed that the DPSP is a tool that can substantially reduce price volatility. He listed three priorities of the DPSP:

- Reduction of price volatility
- Avoidance of huge barriers to expansion or entry into the market
- Avoidance of creating a significant asset value in the "base"

Mr. Vandenheuvel said the DPSP would be administered by a Board which would set a quarterly allowable year-over-year growth in milk production and a market access fee. He estimated that the allowable year-over-year growth would be 1 to 3 percent, and producers exceeding the allowable growth rate would pay the market access fee. Market access fees that are paid by expanding dairies would be distributed to dairies that stayed within the allowable growth rate. He elaborated that the market access fee would have two levels: (1) a lower fee on all of the milk produced by an expanding facility, and (2) a higher fee on the additional milk produced beyond the facility's allowable production. Mr. Vandenheuvel claimed that this will allow the program to maintain low market access fees, avoid barriers to expansion and avoid high asset values on the "base." Mr. Vandenheuvel said that an analysis by the Cornell University economists suggests that the program would effectively reduce milk price volatility with relatively low market access fees.

In response to questions, Mr. Vandenheuvel indicated that Cornell is currently finalizing its analysis of the DPSP and is taking into account imports and exports. He said that the final analysis should be completed by June 2010 and he would provide that to the committee.

Ms. Stroup stated that if MPC's premise is that government market oriented policies cause overproduction problems, why not eliminate pooling. Mr. Vandenheuvel said that marketwide pooling provides producers with important negotiating power, but that it creates other problems which need to be addressed. He said the goal of the program is to smooth prices. He was of the opinion that increased demand attributed to new dairy products should cover the market access fee that would be paid by farms to increase production to meet this new demand.

National Farmers Union (NFU) Proposals, Chandler Goule, 4:25 PM

Chandler Goule focused his presentation on three areas: (1) effectiveness of recent USDA actions, (2) proposals that do not require additional legislation, and (3) proposals to be considered for the 2012 Farm Bill.

According to Mr. Goule, the temporary increase in the support prices and activation of the DEIP in 2009 were helpful, but these actions did not sufficiently raise prices. He was of the opinion that the $290 million appropriated by Congress in the latter part of 2009 was by far the most productive USDA action.

Mr. Goule said that NFU's proposals, that do not require legislation, include more emphasis on guaranteed loans for producers; standardization of labeling requirements for government programs and the CME; greater enforcement of the definition of milk in standardized dairy products; more accurate data provided by ERS and NASS; immediate implementation of farm bill provisions related to the FMMO system; determination that dairy producers are eligible for the Trade Adjustment Program due to unregulated imports of MPC, casein, and other products; increasing dairy product support prices; and pricing of milk to take into account regional costs of production.

For the 2012 Farm Bill, NFU supports supply management; make allowances that reflect a producer's cost of production; reformation of the DEIP program to move larger quantities of dairy products; and a list of substantial changes to the FMMO system.

In addition to farm bill issues, Mr. Goule said that USDA should move to close loopholes concerning imports of MPC and casein, and should push for full funding of the School Milk Program and Special Milk Programs.

Adjournment for the Day, 4:45 PM

Thursday, April 16

Jim Miller, Under Secretary for Farm and Foreign Agricultural Services, 8:30 AM

Undersecretary (US) Jim Miller urged the Committee to maintain a broad perspective in considering dairy policy. He would like for them to think outside of the box but to keep budget realities in mind. In considering dairy policy, he urged them to keep two agencies in mind that are not usually the central focus of dairy policy: the Natural Resources Conservation Service and USDA Rural Development.

US Miller outlined a few different models of dairy policy: (1) the Swiss model which focuses on tourism; (2) the Canadian model which controls supply but has abandoned export opportunities; and (3) the New Zealand model which lets the chips fall where they may.

US Miller spent considerable time discussing issues with committee members. US Miller is optimistic concerning free trade agreements. He said there are significant opportunities for dairy exports but that exports are not the panacea that some thought they might be in the 1990s. He was of the opinion that price volatility inhibits the ability of the U.S. to be a reasonable supplier at a reasonable price.

There was some discussion concerning credit availability. US Miller stated that FSA has taken actions to expedite procedures and streamline processes for both direct programs and guaranteed loan programs. While credit markets have loosened for some sectors of the economy, he believes that credit markets have actually tightened for rural America. He mentioned that appropriated funds that USDA uses for credit markets are limited. Under the American Recovery and Reinvestment Act, $173 million was made available. US Miller stated that this money “went out the door” in about 48 hours.

Question and Answer Period with USDA Personnel, 9:15 AM

The following USDA personnel were present to answer questions from Committee members:

Dan Kerestes	NASS
Joe Prusacki	NASS
David Colwell	NASS
Jim Collum	NASS
Mark Rowse	FAS
Mark Overbo	FSA
Steve Freeman	FSA

Larry Salathe OCE
Chris Beyerhelm FSA

There was considerable discussion about NASS stock reporting. Dave Colwell is responsible for the NASS Cold Storage report. He explained that survey data for the report is collected each month. The survey includes all types of cold storage facilities, including those that store American, Swiss, other natural cheeses, and butter and has a response rate of about 70 percent.

Milk powder stocks are reported in the NASS Dairy Products Report. Jim Collum has responsibility for that report. In contrast to the Cold Storage report, the Dairy Products report includes only stocks held by manufacturers. Joe Prusacki answered questions concerning reporting errors for the NASS reports. Mr. Prusacki said that currently USDA has no auditing capabilities for stock reports and that NASS estimates storage quantities for facilities that do not report.

There were questions concerning NASS Dairy Product Prices reports. Dan Kerestes explained that the Office of the Inspector General had done an investigation of the price reporting and had made recommendations. NASS has made the recommended changes and thinks these have improved reporting accuracy. He said that under the mandatory price reporting program, AMS now has responsibility for verification of Dairy Product Prices reporting.

A question was asked about the affects of CME prices on producer prices. Larry Salathe, from the USDA Office of the Chief Economist responded that USDA uses prices from NASS surveys to determine minimum classified prices. Mr. Salathe stated that the Commodity Futures Trading Commission may have jurisdiction over CME spot market operations since the spot markets have effects on futures prices.

There were some questions concerning qualifications of products to be reported in Dairy Products Prices. Members were later given copies of the reports that list the requested information.

Mr. Salathe also responded to questions concerning volatility. He pointed out that insurance options are available. Other commodities have taken steps to help manage price risk, citing hogs as an example. In that industry, he said, a system is in place that provides for sharing of price risk between producers and meat packers. In response to questions about using ERS Cost of Production reports directly for government programs, Mr. Salathe stated that the data is useful for comparison purposes, but he is concerned about some aspects of the data, for example the value of unpaid labor.

Chris Beyerhelm from FSA answered questions concerning loans and loan guarantees provided by the government. He indicated FSA is understaffed and that recent government hiring changes will allow retired Federal employees to more easily work on a part-time or temporary basis. He said that FSA has hired some temporary workers and has tried to streamline the process. As a result of the economic downturn, FSA has made greater use of payment deferrals. He said that generally, loans provided through FSA target family farms where the operation provides the farm management and the family provides a substantial portion of the labor. When asked a question concerning credit counseling and financial planning, Mr. Beyerhelm responded that some States provide such assistance and that he would try to get more information to the Committee concerning this.

Committee Member Presentations, 10:45 AM

Erick Coolidge stated that he had not commented very much because he was focused on taking in information. He is confident that the Committee will produce a final product that will benefit the dairy industry.

Patricia Stroup emphasized that industry participants at different points in the supply chain are dependent upon one another. She stated that there are two main issues that the Committee needs to address. Do we want to grow the industry or give up on growth? Is the long-term price sufficient and how do we manage vacillation around that price?

She asserted that the DPPSP gets in the way of innovation and that the FMMO system exacerbates risk management efforts. She sees the market as the supply management system.

James Goodman stated that the issues facing organic dairy farmers were previously much different from those facing traditional farmers. With the economic downturn, however, organic dairy farmers faced the same problems related to volatility and profitability. He mentioned that he may be open to supply management ideas but that a program that involves killing cows is a public relations disaster. He believes that supply management also involves managing imports.

Goodman is concerned about products that are selected for government feeding programs. He passed around a package of a non-dairy cheese substitute product that he believes is inappropriately confused with processed cheese. He stated that his brother had picked up the product at a food pantry. He advocates measures for consumers to be more aware of what goes into their food: labeling according to standards of identity, country of origin labeling, etc.

Robert Schupper mentioned that the Committee should examine the milk price regulations operated under the Pennsylvania Milk Marketing Board. He noted that one of the problems with the industry is that there is much finger pointing. He stated that the Committee needs to look for commonalities within the sectors of the industry. Price volatility is not good for anybody in the industry. Efforts to increase consumption will help the industry as a whole.

Debora Erb stated that we do have a supply management program currently in place but that it is very cruel. She believes that it may be more important for the government to focus on price rather than on margin. Price discovery and volatility are the main issues that she would like the Committee to address. She stated that a letter from Senators and Congressmen has been sent to the Secretary asking him to immediately temporarily increase the DPPSP. She would not be opposed to the Committee discussing making the recommendation to the Secretary.

James Krahn stressed his belief that the situation for dairy producers should be the focus of the committee. He thinks that the Committee should consider supply management options but avoid extreme measures. He stressed that proposals need economic studies by USDA that look at impacts to Federal order areas. He believes that plans should take into account regional differences.

James "Ricky" Williams stated that much of the talk has been about cheese operations. However, his area of the Southeast is a fluid market. He said the Committee needs to consider recommendations that will help dairy farmers throughout the U.S. of all different sizes. He stated that in addition to dairying, he is also in the hauling business, which has much less price volatility. He hopes that the Committee can find a solution that would make price volatility of the dairy industry more in line with that of the hauling industry. He emphasized that he would like the Committee to find solutions that help without burdening the taxpayer.

Robert Wills stated that, as a dairy processor he adds value to the milk that he receives and processes, and this provides more money for dairy farmers. Wills went through a list of issues that the Committee should consider. He believes that volatility and risk management tools need to be examined in greater detail. He said the Committee should examine the effects of concentration on price levels and volatility. He is concerned that forward contracts and hedging instruments are having effects on price volatility. He also has questions about the effects of international markets on price volatility.

Timothy den Dulk emphasized that the Committee needs to look at long-term issues that affect dairy producers of all sizes. Although volatility is a problem, he would be concerned about solutions that decrease volatility too much. Some volatility is necessary to send signals to market participants. He believes that the CWT program has the short term effect of raising prices through decreased milk production but that the production response of producers to the higher prices can lower prices in the long-run. He likes NMPF's margin insurance proposal but believes that such a program should be modest. He views the MPC proposal as not allowing sufficient growth and taxing efficiency.

Lunch, 12:00 PM

Public Comment Period, 1:00 PM
Susan Prolman, Humane Society of the United States (HSUS)

Susan Prolman provided a packet to committee members containing press releases, reports and DVDs concerning welfare and treatment of dairy animals in the U.S. She said the HSUS would like to see the practice of tail docking banned in the U.S. as it has already been outlawed in California. HSUS has asked USDA to prohibit the transport of calves that are less than 10 days old. They are also concerned about slaughter practices that they do not believe are humane. Ms. Prolman pointed out that many issues that involve humane treatment of animals have effects on other concerns such as greenhouse gases, water quality and air quality.

Committee Member Presentations, 1:15 PM

Edward Maltby believes that some dairy farmers may add profitability by adding value to their products at the farm level. He believes that the sales threshold for producer—handlers was set too low in the recent Federal Milk Marketing Order decision which determines when a producer-handler is subject to pricing and pooling requirements. He believes that the impact of genetically modified organisms (GMOs) needs to be considered in dairy policy. Some consumers are concerned that milk marketed is from cows that have been provided genetically modified feed. This is a particular concern for exports. Maltby believes the Committee needs to look at regional initiatives and believes that credit solutions need to be examined. He is concerned about the large number of dairy farms that are exiting the business.

Manuel "Ray" Souza emphasized that the Committee needs to focus on both the immediate crisis and on long-term proposals. He stated that negative cash flow in the dairy industry has spilled over into financial institutions that lend to dairy farmers. He talked about the stress that farmers have been facing and emphasized that the Committee needs to consider a safety net that does not restrict opportunity. He said that the Committee needs to recognize that dairy is different from other types of agriculture in that there is greater investment in facilities.

Ed Welch stated that although there have been problems with current programs, they have served the dairy industry well over the years. He does not believe the DPPSP stifles innovation, but that some improvements in the program are needed. He stated that there have been problems in selling cheese to the CCC because USDA dairy graders have not been available. Additionally, since cheese is the main price setter for the industry; he believes that the support price should perhaps be raised for cheese. He pointed out that the MILC program provides significant benefits to 85 percent of producers but only 40 percent of the milk. He believes that the NMPF proposal is worth examining but he has some concern about the cost of it, and that supply management options should be considered,

Paul Bourbeau pointed out the importance of the dairy industry to the U.S. economy, stating that in the Northeast, every nine cows in the dairy industry generate one job. He believes that government programs should reflect regional differences. While he believes that it is important that the Committee consider long-term proposals, he said that action needs to be taken in the short-term in order to protect the industry from additional losses. Current options that can be considered are changes to DEIP, DPPSP, Dairy Research and Promotion Programs, flooring or decoupling the Class I mover in the FMMO system, mandatory audits on dairy product price reporting and additional humanitarian aid and donations to food banks. He mentioned that there are currently independent studies in the dairy industry including the Dairy Growth Management Initiative, Dairy Price Stabilization Program, initiating a mandatory program similar to CWT, marginal milk pricing, and the Dairy Producer Income Protection Plan. He believes that additional steps are needed in preparation for the 2012 Farm Bill including analyses of competitive pricing options, higher milk solids standards, a review of farm to retail price spreads and increased USDA involvement in the growth management discussion.

Jay Bryant stated that his cooperative owns bottling and balancing plants and feels pressure when prices are either very high or very low. He would like to see volatility decreased but believes that some volatility is not that bad. He mentioned that his cooperative members are divided about supply management. It really depends upon where the dairy farmer is in his career. He encouraged the Committee to be creative, mentioning that South Carolina was able to help dairy farmers through an income tax credit. He would like government policies that avoid adding to the WTO amber box.

Rodney Nilsestuen stated that producers have been deeply wounded by price volatility. He asserted that there is a delicate balance between supply management and market signals. He mentioned that there has been a fair amount of sentiment toward the MILC program. In his opinion, anything that replaces it would need to clearly be more beneficial. He believes that Federal orders and cooperatives need to be examined to determine if they are enhancing market power. He mentioned that currently USDA and the Department of Justice are looking into matters of concentration in the dairy industry. He proposed that the Committee consider the possibility of making dairy heifers available for Third World countries as an additional way to manage the U.S. herd when milk supplies are long.

Sue Taylor urged the Committee to avoid drawing conclusions yet, as the Committee has yet to dig deep enough to have a clear understanding of the issues. Although there has been considerable discussion about volatility, there is not much understanding of what causes volatility. She asserted that the Federal order system needs reform because it does not do a good job of moving milk to its best uses. According to Taylor, price supports work against innovation and trade because processors are less likely to manufacture specialized commodities that are desired for world markets. She mentioned the disposal problem for DPPSP stocks. She believes that it is impossible for the government to release stocks in a way that does not affect market prices. She emphasized that progress needs to be made with the WTO Doha Round. She would like to see the U.S. become a sustainable, instead of residual, supplier of dairy products to the world.

Public Comment Period, 2:45 PM

Congressman Jim Costa, California, 20th District

Congressman Jim Costa presented a bill he has written to implement the Dairy Price Stabilization Program as proposed by Milk Producers Council. He believes that it will bring stability to the dairy industry. He reiterated some of the points made the previous day by Rob Vandenheuvel of the Milk Producers Council. Costa emphasized that the program is meant to be producer driven, including a referendum and a review every three years. He emphasized that the bill is a work in progress and he would welcome input from the Committee concerning the bill. During the discussion, various Committee members voiced concerns related to: how much flexibility to provide the Board, who would be eligible to serve on the Board, whether or not the referendum would involve block voting for cooperatives, determination of the amount of the market access fee, and the possibility of adjustments to the program based upon milk-feed price ratios.

Meeting Wrap-up, Andrew Novakovic, Chairman, 3:30 PM

Andrew Novakovic stated that there are three issues related to prices: (1) price stability—how frequently do prices change and the rage of the change, (2) certainty - one's ability to accurately predict a future price, and (3) price adequacy or whether the price results in adequate net returns to farmers. He stated that tools that address one of the issues may not pertain to the other issues. In examining possible solutions, Novakovic urged the Committee to consider whether the government should have a tight grip on prices or help the industry to effectively manage price changes. He believes that it would be valuable to identify causes of price volatility. There may be some causes that can be controlled and others that cannot. One of the challenges for the Committee is to identify what the fix would look like. The Committee needs to consider the extent to which government can solve the problem versus the ability of the industry to solve its own problems.

Adjournment, 3:40 PM