

Northeast Dairy Leadership Team Meeting
June 1-2, 2010
Binghamton, NY
Meeting Notes

Meeting Objectives:

1. Information: USDA Advisory Committee, IDFA/NMPF Task Force, and Policy Proposals
 2. Discussion: Dairy Policy Analysis report and congressional delegation discussion
 3. Decision making: NEDLT Points of Agreement review
 4. Action Plans: TBD
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Tuesday June 1, 2010

<u>Time</u>	<u>Topic</u>	<u>Objective</u>	<u>Speaker</u>
12:00 P.M.	Registration		
12:30 P.M.	Welcome, Introductions, Objective & Agenda review		John Frey
	Mission Statement Review: Ground rules - "Appreciative Inquiry" Direction so that we can work together as an industry Points of Agreement Hear about policy analysis and recommendations. What we can focus on long term. Better understand what our options are. See the trend to change in favor of the dairy farmers.		
12:40 P.M.	Dairy Policy Analysis Report:	Information/Discussion	Mark Stephenson

Analysis of Program Options to Reduce Dairy Price Volatility

The final results were not available as of June 01, 2010. When the results are available they will be posted on Cornell University web-site. Summary of background information below:

Programs Being Looked At

- Dairy Growth Management Initiative
 - Coalition of cooperatives
- Dairy Price Stabilization Plan
 - Holstein Association USA, Inc.
- Foundation for the Future
 - National Milk Producers Association
- Marginal Milk Pricing
 - Agri•Mark
- Costa Bill (Growth Management Plan)
- Sanders Bill

DGMI Key Features

- National Milk Marketing Board with broad authority
- 12¢ per cwt. assessment on all milk to fund program

- Suspended if fund reaches \$400 million
- Herd reduction
- Export assistance
- Commodity incentives (casein, etc.)
- Enhance risk management tools
- Manage inventories
- Board can impose lower milk price on marginal increases in producer's milk production.
- Milk production history based on average daily production from previous year.
- Pre-determined trigger based on milk and feed prices.
- Continues only with producer referendum.

Dairy Price Stabilization Program Key Features

- Initial base of milk production
 - Average of 2007, 2008, 2009 marketings
- Base then becomes year earlier production and rolls forward
- Base transferable only under special circumstances
- Administered by US Secretary of Ag.
- Market Access Fee on milk produced above base
 - Could be range from \$0 to several dollars
 - Once set is in place for year
 - Collected fees are pooled and returned to producers who haven't increased production.
- 2¢ per cwt. collected on all milk for program administration.

NMPF Foundation for the Future (FFTF)

- Four part program
 - Revise existing safety net programs
 - New margin protection program
 - Reform FMMO
 - Market stabilization program
1. FFTF—Revise Safety Net
 - Get rid of Dairy Product Price Support Program
 - Get rid of MILC Program
 2. FFTF—Margin Protection Program
 - Margin is All Milk price minus feed costs.
 - Feed costs are based on pre-specified ration of shelled corn, corn silage, soybean meal and alfalfa hay
 - Feed costs are based on needs of milking cows, sick cows, dry cows and heifers.
 - Base program is fully subsidized
 - Only 90 percent of production is covered
 - Base margin determined by CBO projection (imagine \$4)
 - Supplemental insurance available at partially subsidized.
 3. FFTF—FMMO Reform
 - Class III is unregulated. Survey of milk prices paid on all cheese plants processing more than 500,000 lbs of milk per day.
 - Class I mover based on advanced Class III.
 - Class II is advanced Class III plus 30¢
 - Class IV is current product price formula with indexed energy prices
 - Lowest regional Class III is pool draw base
 - Establish transportation pools

4. FFTF—Market Stabilization Program

- Same Milk-Feed margin
 - When margin is below \$6 for two consecutive months, paid for 98% of milk
 - When margin is below \$5 for two consecutive months, paid for 97% of milk
 - When margin is below \$4 for two consecutive months, paid for 96% of milk
 - All above plus monetary penalty

Marginal Milk Price (MMP)

- Base production is daily average for peak 3 month period in previous 12 months.
- Program triggers when class III drops below \$14
- Paid class III price on all milk over 99% of base (or 98%, 97%, etc.)
- Collected monies used for demand-increasing programs

Costa Bill (aka Dairy Price Stabilization Program)

- Based on Growth Management Plan
- Quarterly rolling base
- Allowable growth triggers
 - Milk-Feed Ratio $\geq 2.0 = 3\%$
 - Milk-Feed Ratio 1.75-1.99 = 0%
 - Milk-Feed Ratio $\leq 1.74 = -3\%$
- Standard Market Access Fee
 - Milk-Feed Ratio $\geq 3.0 = \$0.03$
 - Milk-Feed Ratio 2.5-2.99 = \$0.13
 - Milk-Feed Ratio 2.0-2.49 = \$0.25
 - Milk-Feed Ratio $\leq 2.99 = \$0.50$
 - Imposed on all milk production
- Alternative Market Access Fee
 - Equals Standard Fee x 5
 - Imposed on over base production
- Collected fees returned to under base producers

Sanders Bill

- Difficult to model because not well specified.
- Secretary of Agriculture and Producer Board establish rates and fees based on broad economic considerations
- Quarterly price stabilization payment for milk over allowable base
- Stabilization dividends on milk under allowable base

Preliminary Findings

- A number of mechanisms can work to stabilize prices.
 - All rely on penalty / rewards
 - Can be price enhancing if milk production is shorted
 - Can affect imports and exports if price enhancing
 - Can impact farm structure
 - Can enhance volatility if implemented poorly.

2:00 P.M. USDA Dairy Advisory Committee Panel Information/Discussion
Erick Coolidge, Robert Schupper, Andy Novakovic

- Andy Novakovic

- All information about the Dairy Advisory Committee is available on the following web-site:
<http://www.fsa.usda.gov/FSA/webapp?area=about&subject=landing&topic=dia>
- The advisory committee was implemented under the Federal Advisory Committee Act (FACA).
- Andy was appointed as a “Special Government Employee”. This is a non-paid position that required training.
- The next meeting will focus mainly on “price discovery”.
- Three committees: 1) short term solutions, 2) dairy farm profitability, 3) milk price volatility, also look at USDA’s use of existing authorities. USDA secretary of Ag can raise minimum prices but has to come up with the money to do so.
- Do not expect any of the subcommittees to be making recommendations, preliminary informational reports - to help focus agenda for 3rd and 4th meetings.
 - No recommendations without having a fully open public discussion first.
- Secretary Vilsack put it in context of Rural America - beyond production agriculture.
- Vilsack wants a rapid response - end of this year report.
- Committees are no where close to making a recommendation...in process of analyzing, waiting for Stephenson report.
- Erick Coolidge
 - Impressive experience. Committee that is not self-serving and comes to the table without an agenda - comprised to make a difference in the industry. Not just about a producer but the economy that follows the production and precedes the production. Vilsack spoke with passion and conviction that this committee can make a difference. Timing is critical. Farmers do not have the time to continue under these circumstances. Needs to happen short-term with a long-term positive impact.
- Robert Schupper
 - We are all in this together. Retailers get pressure to reduce prices and they look for partners to do that. Trying to gather a lot of information. Long term viability is needed for producers, processors, and retailers.
- Questions
 - What are the Committee resources? Committee members get travel to D.C. three times a year. USDA employees available to help with research. Sometimes the committee will ask presenters to come in on their own expenses.
 - Why did HSUS present to the committee? The public has a right to present to the committee. HSUS signed up to present during a public comment period. They obviously wanted to get HSUS perspective on public record.

3:00 P.M. Break

3:15 P.M. IDFA/NMPF Task Force Information Suever/Wickham

Processors’ Perspective on Dairy Policy - Suever presentation

- IDFA
 - Constant decline in fluid milk consumption
 - Foreign investment
 - Standard of identity
 - Price volatility
 - How do dairy policies currently measure up?
- The percent of farm milk used in fluid milk products has declined for over 30 years
- Per Capita consumption of fluid milk products on decline

- Canada per-capita consumption of dairy is declining while the U.S. continues to grow (declining twice as much as U.S.)
- Two Approaches to manage price volatility
- 1) Government Intervention on a market-wide level
 - Regulated pricing schemes
 - Production quotas/supply management
 - Regional winners & losers
- 2) Farm and firms manage their own individual risk
 - Most agricultural commodities in the US
 - Government subsidized revenue protection
 - Innovation and dairy demand growth□
- Policy should support efforts to help dairy industry use risk management tools
 - Subsidize dairy focused insurance programs
 - No USDA premium subsidies offered for LGM-Dairy
 - Other ag commodities receive high premium subsidies
 - Total premium subsidies were \$5.42 billion in 2009
 - Corn: \$2.04 billion
 - Soybeans: \$1.19 billion
 - Wheat: \$1.09 billion
 - Dairy options pilot program
 - Something similar needed today
- IDFA's Dairy Policy Blueprint -
- Principles for a 21st century dairy policy
 - An effective dairy farm safety net based on farm income or milk margin
 - A competitive orientation focused on fostering innovation and growth
 - Consistent with enhancing demand rather than controlling prices and supply
 - Supportive of trade expansion
 - Margin insurance or revenue insurance safety net replacing both the Price Support Program and MILC program
 - Federal Order reform needs a comprehensive panel review, not legislative edicts
 - Permanent forward contracting
- IDFA Federal Order Reform Principles
 - Competition for farm milk is local/regional; any reform must allow for local competitive factors to determine farm milk prices
 - Complex, product price formulas encourage farm milk to move based on regulations, not markets; reform should eliminate formula pricing
 - Classification system is too complex; reform should have no more than two classes
 - Current program no longer provides sufficient incentive to move milk to Class I; reform should address this issue
- Back to Basics Proposal
 - Simplifies classification by having only two classes of milk use:
 - Fluid use continues as Class I
 - All other uses will be Class II
 - Class II will have no minimum price:
 - Local/regional market conditions determine the price paid for farm milk by all plants
 - USDA surveys/audits price paid by all plants and reports regional farm milk prices and a national, weighted average competitive pay price

- National average competitive pay price becomes the Class I mover
 - Class I differentials remain the same
 - Pooling regulations remain the same
- Part of the Class I differential becomes a Direct Delivery Differential
 - Not pooled; paid to farms/coops for milk shipped to Class I plants and used in Class I products
 - Remaining part of Class I differential is pooled
- Summary Points
 - The dairy industry has changed significantly since the Federal Order and Dairy Price Support programs were implemented in the 1930's and 1940's
 - There is great potential for growth in demand for US dairy products both here and abroad
 - But we face real marketplace challenges and must find the best ways to position our products, innovate and meet new market opportunities
 - Our current policies and programs limit opportunities for growth rather than encourage it
- Implementation?
 - IDFA is committed to working with other dairy industry groups to reach a consensus on moving dairy policy reforms forward
- Wickham - DFA/Dairy/lea/DMS presentation - Final National Milk Recommendations are not out yet
- FMMO Reform Key Points
 - Some change needed / desired
 - Abrupt deregulation costs Northeast farms \$.50 - \$.80/cwt (our opinion)
 - Changes need some consensus - farms and processors
- Problems with FMMOS:
 - Price Support Problem
 - Encourages imports
 - Disincentive for innovation
 - Helps rest of world
 - Price level (\$9.90) not relevant
 - Make Allowance
 - Zero sum game
 - Make allowance goes up, farm price goes down
 - Need competitive survey (like old M-W)
 - Higher of Class III or IV for Class I Mover
 - Class I Handlers need to pay additional charge re: balancing/transportation
 - Do regionally - caveat is that regions with small number of plants would be determining price (looking at 5-6 regions)
 - CME will not be in equations
 - Auditing folks will still be in there and surveying (every month) for 40-50 plants.
 - Problem with powder pricing & California separate
 - World market
 - Need price to reflect
 - California is an exporter and is not in FMMO system
- Summary of Principles of Processors Support
 - Farm safety net (milk/feed margin)

- Foster innovation and growth
- Policy to enhance demand vs. control prices (National Milk not in favor of supply control)
- Support trade expansion
- Eliminate price formulas
- Collapse Class II-IV to one manufacturing class
- No manufacturing milk price minimum
- Current system not providing \$ to move milk to Class I
- Federal Order Reforms
 - Class I mover is national weighted average advanced competitive Class III price, no change in differentials
 - Class II price is national weighted average advance competitive Class III price plus a 30¢ differential. Class III price is a competitive pay price
 - Survey both regulated and unregulated proprietary cheese plants
 - Processing 500,000 pounds of milk a day
 - Making all varieties of cheese
 - Class IV is a formula with indexing for energy costs
 - Pool draw base is lowest regional competitive Class III
 - Balancing/transportation pool is funded from Class I processors paying in the “higher of” revenue equivalent
- Advance Class I & II Base Price
 - The weighted average of what proprietary cheese plants paid for milk two months prior updated using CME up to 23rd day of the month prior.
- Benefits
 - True price versus formula
 - Eliminates end product price formulas
 - Reduces price volatility
 - Encourages product innovation by eliminating minimum price
- These are the results from two days of meetings and is not an end product, only a progress report. It is a work in progress.

3:45 P.M. Discussion / Q & A / Presentation Review

4:15 P.M. NMPF Proposal discussion

Panel

Neal Rea - Agri-Mark

- Marginal Milk pricing plan ~ on strategic task force for a year.
 - Allow for production growth
 - Reduces margin volatility
 - Minimum government intervention
 - Does not impact import/exports
 - Who manages the money? Maybe USDA & producer group? ~ how fund export assistance?...leave it out and make it voluntary to support (like cwt program)
- Is part of National Milk Plan
- Think they are another 60-90 days away from agreement. Need to get enough support.
- Q: What do you think producers will do...change management or dump milk to cut production? Hard to say. Best way would be to cut costs and = lower production. Processor needs to be part of this. Can't cut supply and bring back up over night.

- Need to get consistency together to get bills pushed through. Feels same time frame as farm bill (as legislatively). Jan 1, 2011 no cwt program. Need to take action. Peterson has opened up hearings on 2012 Farm Bill. Less than 40 working days in this fiscal year.
- Should talk about how risk management insurance plans and Marginal Milk pricing plan can co-exist in one plan? Need to pressure USDA to implement RMA tools now.

Clyde Rutherford - Dairylea

- Concerned about west out-producing again
- Cheese prices down .02 cents today even after announcement of herd buy-out program, and moving inventory
- Milk supplies and cow numbers are up

What is the likelihood of something getting done this year? Bob Gray, more momentum than he has ever seen before. BUT, knows it will not be easy. It will be very, very difficult. Upper Midwest is not as interested in this. It will take a long hard fight.

What is policy for National Milk to go forward with a plan/decision? Take a vote - depends on who votes which way...needs at least 60% to at least re-assess and keep moving forward.

5:00 P.M. Group discussion

Discussion / Decision Making

What are the issues of each table, and thoughts & opinions?

TABLE DISCUSSIONS:

- Will supply management process work? Will insurance process mitigate it?
- Really challenging to get upper Midwest to buy in to National Milk?
- Will CA be part of the order?
- Could do a part of a bill? - would be very challenging
- Response to price signals...will IDFA be against the whole supply mgt. program because of supply controls. Would not try to aggressively tank the whole bill.
- Supply Management - not well supported...concern about panel, new farmers, short-term impact, counter to capitalism, not a closed system - impact on imports, start with other areas...price discover, transparency, increase demand
- Risk Management - focus on something easier to use and would work for farmers, look at margins, ensuring a floor, better system for forward contracts
- Didn't support supply management, National Milk program - very complicated, dismal participation, truly managing risk through forward contracting, Dairy Growth Management had a lot of good things in it, grain side is so much easier, need to include how to build demand and export markets in National Milk plan.
- Eliminating dairy price support program
- Need for FMMO reform
- Move to 2 classes of milk
- Timeliness
- At a tipping point for all parts of the industry
 - Legislatively
 - FMMO
 - Farm Bill
- Go forward with milk margin pricing plan? What would be worst case result?
- FMMO changes would take @ year
- Need to increase dairy demand, what does world market milk consumption look like? Need very new and different products. Are we stifling our own innovation?

- Real concern about where we are going as a group, keep with entirety of our industry as mission statement says
- Concern it will take a year for any changes
- Northeast may lose out in a two class system
- Need to build demand
- Lots of questions about supply management program - how get new farms into the business? How do you support top producers who should be expanding and growing? Bottom producers that should be getting out?
- West might respond more to the marginal milk pricing more than Northeast because we tend not to over produce as much
- Will competitive pricing give us different results than with CME and NASS pricing?
- Is the current system actually broke, or did it just not deliver the right price?
- Pricing is not symmetrical with producers and retailers?

5:30 P.M. Adjourn

6:15 P.M. Dinner

7:15 P.M. Export mkts & volatility; policy perspective Discussion
Blimling & Associates

Bill Curley
Phil Plourd

Thoughts on Dairy Policy - Be careful what you ask for

- Fix What is Broken
 - Hard to determine what is broken is difficult, do not agree on what is broken
 - Find right fix with concrete understanding of what the problem is
 - Main problem is we've been through a pro-longed period of low prices that has brutalized producer balance sheets
 - "Volatility" is what is being blamed as the main culprit
 - Past year has been extraordinary in and out of dairy
 - Long-term policy fix may be the wrong prescription to a short term solution
- What Caused this Mess?
 - Gross misread of export markets were telling us in 2007-2008
 - Increased demand in U.S. products that we thought was going to be perpetual...and therefore everyone expanded
 - Current policies have been major driver of low prices
 - Price supports - why we lost the export market
 - Can't become a consistent participant in international market
 - MILC program
 - Reaction to the period of high prices in 2008
 - Global economic collapse
 - Under-developed risk management facilities - largely as a function of policy distortions.
- International market for past 2 years had higher milk powder prices than U.S. - feels this is because of U.S. government support prices.
- Impact of MILC payments - keeps low prices lingering...poorer producers hanging on still
- Q: What are the signals from the International Market that we missed?
 - Wasn't just dairy...everyone missed the signals
- Reaction to High Price
 - McDonalds - McDouble
 - Burger King follows suit

- Cheese slices - reduced from 0.75 oz to 0.50 oz (33% reduction in demand!)
- Cheese formulated out of frozen dinners and processed foods
- Whey loses out to dextrose and maltodextrin
- Ice Cream containers shrink again to 48 oz
- Economic Collapse
 - Consumer credit outstanding
 - 20 year period of expanding credit...came to a halt
 - Really hurt restaurants
 - New normal...consumer sensitivity to higher prices has been amplified....pay attention to prices
- Widespread Price Issues
 - Also affected crude oil, coffee, corn, cattle, etc.
- Extreme Policy Needed?
 - We are coming out of a period of devastating margins for producers.
 - Policy solutions are focusing on shrinking supply and guaranteeing profitability to producers.
 - This may feel good but is it right for the long run?
 - Policies are easily gamed and create a new set of problems
 - Is it not true that this is an anomalous situation?
 - Long term solution to a short term problem?
 - Would eliminating some of the policy derived causes fix the problem?
- Attacking Volatility?
 - A certain amount of volatility is useful and necessary; recent levels of volatility have tended toward the extreme and unhelpful.
 - Volatility means high prices as well as low prices.
 - Solutions designed to eliminate production in low markets that don't address the need to create production rapidly in short markets are intellectually dishonest and very thinly veiled efforts to increase price level.
 - Programs that drive higher price by seeking to limit production will invariably become victims of their own success
 - CWT is a tangible, contemporary example
 - Creating milk overnight may well be impossible
 - Understand that limiting production while not making provision for increasing it when necessary will lead to volatility at a higher price level...opening the door for more McDouble's and shrinking dairy demand
 - Let's not forget: market-based risk management solutions already exist and do work
 - Though the set-up is far from perfect, there was a fair amount of milk under contract in 2009
 - Dairy producers are fully capable of "getting it" - many already do
 - If we viewed the "volatility problem" through the lens of providing avenues for individual remedy (rather than market-wide approaches) the fixes would be obvious
 - Orientation toward pricing simplicity
 - Focus on building larger liquidity pools
 - Too Much Milk? - The Problem
 - Current system encourages over production by eliminating individual accountability for production decisions through pooling
 - Another layer of program = more rules to be gamed and more costs to the system

- Why not simplify and unwrap some of the pooling mechanisms?
- It is not universally true that there is too much milk. There is too much cheese (milk in West).
 - Subsidized by eastern pool dollars
- Is it really sensible to discourage milk production in the East under any circumstance?
- We have 75 years of experience suggesting that “tricking” the market only creates a different set of problems. We should be smart enough to recognize and accept that.
- Q: Feels no impact of doing away FMMO’s other than leverage to go to international market place

8:30 P.M. Adjourn

Wednesday June 2, 2010

7:45 A.M. Welcome

Jackie Folsom

7:45 A.M. Executive State Reports: PA, NY, VT State Secretary’s and Ag Commissioner

Secretary Reading

- Broaden education to include consumer and producer
- Risk Management needs to be part of the final recommendations...importance of some individual accountability. Only commodity with Government interest and no workable insurance program(s) - farmers can’t self-insure.
- Access to capital is key. Financing is bridge to a better year.
- Dairy Center for Excellence has done a lot of good work - building teams and good business decisions
- Been working on PA Milk Marketing Premium - will generate @ 7 million dollars for PA producers
- Tough budget year
- Contemplating what life will look like after Senator Specter leaves, he has done a lot for dairy
- Since 1980 have added 60 billion pounds of production - mid-course correction, how do we sustain that going forward.
- Be careful not to sacrifice “good” for perfect.

Secretary Allbee

- Year of challenges ~ especially on animal rights side ~ challenged aggressively by HSUS ~ one proposal would have required VT Secretary of Ag to shut down facilities based on 1 or 2 minor violations.
- Not just about the farmers ~ meet regularly with lenders, feed dealers, service-providers, the balance sheets have been brutalized.
- Issues are not new in many ways - 1870s - should not be trying to compete with the west, should be focusing on local and making products that consumers want
- Keep Local Farms research by Deputy Secretary Bothfeld - consumers and stores want to identify with producers. “Renaissance of the Past”.
- At a tipping point ~ time for change and time for re-direction. Ex. Capper-Volstead Act of 1922, farmers right to get together collectively and bargain.

- Needs to be compression of the milk price cycles in some way
- Have some advantages in Northeast ~ consumers wanting new products. Growth in artisan cheese makers, methane digesters, Keep Local Farms partners,
- Need better price discovery. Producers depend on FSA guaranteed loans
- We need to be open minded - 31% of milk production comes from very large farms nationwide. Keep in mind one size fits all does not work
- Vermont legislature historically is so energized about dairy - more than just farmers, landscape. Vermont is #1 place to visit in U.S. and #5 in world by National Geographic - because of the working landscape, quaint villages, and we have a plan for the future.

Secretary Hooker

- Legislators still meeting...probably for another month
- Crops are in
- Detect a palpable difference in amount of phone calls and complaining now that prices have come up some
- Still no budget for NY...2 months over-due. 9 billion dollars budget short-fall
- Tasked with 3 full volumes of law...governor is anticipating lay-offs. Down @ 80 positions over next 2 years.
- Environmental monies diverted to NY parks (about 5% of their budget)
- Detect an anti-cooperative sentiment in NY lately...this is dangerous, we are at a low point in trust...including policy makers...note of caution
- Facing a situation of losing an institution of knowledge...need to be mindful of that...5 NY people have left or moved on. Early retirement program will be offered too
- Animal welfare continues to be an issue
- Disease control in livestock has been a huge challenge...the dairy industry is a leader in this (hobby farmers tend to be higher risk)
- Dr. Kathryn Boor named Dean of CALS for Cornell. Great news...grew up on a dairy farm, has done a lot of outstanding research
- Dairy is not one of the high risk food safety issues...dairy producers and manufacturers do a very good job
- Remind folks that dairy is local too. Think differently about what local is...different populations and areas, food needs to move to consumers. World can not be fed out of the back of a pick-up truck.
- Feels half of NY farms can continue through anything. Worried about the other half. Look at adequacy of pricing and de-coupling of Class I pricing.
- Some modeling is important. What do these policies look like in 5 years?

8:30 A.M. Dairy policy legislation updates

Discussion

Bob Gray

Feels the NEDLT forum is one of the best. Brings a lot of views from all sides together.

Challenges our thinking. Hopes we continue this strong effort. Some of the recommendations that come out of here can really be implemented.

Colin Peterson has been holding hearings all over the country. He has changed his mind on some of the issues. Peterson was convinced crop insurance programs need to be main emphasis. Also felt Acre program was not working well. Permanent disaster program (supplemental insurance) has not worked well. He has come around on dairy to supporting the concept of supply management. He is acutely aware of what has been going on in the dairy industry. Worried that production agriculture is not given the focus it should be. Local push is going to turn rural areas into bedroom communities. Every farm bill since 1990 has always been a year or two late. 2012 farm bill probably will not be signed until 2013. But Peterson hopes to

accelerate this process. He plans to do mark up of the Farm Bill in 2011. If “we” in the dairy industry are ready to go, we will certainly be in that mix. Probably take a full year to do that mark-up with the hearings. Senator Lincoln will probably not hold any hearings because she has to fight for her political life...all time will be spent on that. If she loses who is next in line? Legislative calendar - less than 40 days left. Food Safety bill pending in senate. Child Nutrition act in the works - school lunch program, WIC, very important for dairy. Appropriations bill. On the senate side - supreme court nominee. Two out there lurking - Energy Climate legislation, Immigration reform (will not do this year) however Ag Jobs bill might have a window of opportunity. Movement to get more money to FSA for farm operating loans. Hope to also move some American cheese out of inventory (to food banks and food pantries). Sanders would like to see a supply management piece move right away. National milk plan not supportive of supply management. How much authority given to the Federal government in these plans?

9:00 A.M. Flooring Class I Proposal Information Bob Wellington
HANDOUT

- Class I utilization averages 40-45%
- Class I prices have a lot of volatility = opportunity, right now follow Class III and IV very closely.
- What would be the reasoning to put a floor on Class I milk? What are costs of producing milk in different regions (New York, PA, VT, ME). USDA costs range \$23 - \$28 from 2006 - 2009. ME not included in the average prices because they are substantially higher.
- Northeast costs for milk production are higher than national averages but not substantially higher.
- From 2006-2009 Average costs of producing milk \$25.58, Average blend price = \$16.27 in Northeast. LOST \$9.31 per cwt.
- Agricultural Marketing Agreement Act - milk orders are in this.
- Proposal: Floor Class I Price Mover at \$15/cwt (over 4 year period, half the time above \$15 and half the time below)
 - Class I Price mover under Federal milk orders - they look at manufacturing costs of milk. Uses the higher of the manufacturing prices which are the Class III and Class IV prices. (20-25% of the time the Class IV sets the price) value @ 20-25 cents/cwt. Problem is processors can't hedge Class III prices
 - 2007 & 2008 the Class I mover was \$18
 - 2006 would have given us \$1.45 extra/cwt, 2009 would have given us \$1.54/cwt (if had \$15 Class I Mover). This is the equivalent of \$18 Class I Boston price.
 - Impact will vary by the Federal Order (Orders with high Class I utilizations) not so much of an impact in Upper Midwest = lots of controversy
 - Talk with other regions and processors for some trade offs
- Other Proposals:
 - Automatic adjuster to Class I price mover (index of feed costs)
 - Increase Class I differentials
 - Automatic adjuster to Class I differentials (index of fuel costs)
- Procedure and Timing for a Federal Order Hearing
 - If they agree to a proposal for hearing the clock starts ticking (have 13 months)
- Talking to other areas of country about this
- Problem in Northeast, our production is up despite 2009 - because farmers are doing what is best for themselves...make more milk with higher prices...now getting into better feeds
- Discussion:

- Q - Southeast Orders differentials changed @ year ago. It has returned the costs that has already been paid. In one order, the differentials were feathered as got toward outer edges..or else would cause market disruption. Still caused some plants to go outside of order (packaged and processed).
- Q - Cornell run a model on differentials?
- Other risks of going to a hearing they will ask for other proposals...could go back to first differentials USDA wanted which lowers Northeast differentials, could include getting rid of the “higher of”.
- Risk from processor stand point with “automatic adjusters” cannot hedge futures contracts
- Is it counter-intuitive to raise Class I prices when demand is going down for Class I? Is the whole system backwards to what consumers are demanding? Class III and Class IV? Would this send a signal to producers to keep over-producing?
 - Outcome desired is to keep minimum price up, provide a safety net on the strengths we have in the Northeast, and enhance farmer income

9:30 A.M. Break

9:45 A.M. Group discussion: Review P.O. Agreement Discussion / Decision Diane Bothfeld

- Possible next NEDLT meeting coordinate with Dairylea meeting - after Columbus day weekend Monday Oct 11, 12, 13, 2010.
- Without recommendations from National Milk and Stephenson, NEDLT can't really come away today with solid recommendation.
- How to finance next NEDLT meeting?
- Need a fluid plan in place when we leave here today of how we are going to proceed going forward.
- Strategy to move forward together..producer...processor...retailer, across the value chain.
- Some general feelings that the NEDLT agenda was way off on the policy side...some think it will not stay together if NEDLT's main focus is policy. NEDLT should not devote the whole agenda to policy. Stay with original mission. Some may not come back to future NEDLT meetings. Feels the group has gone so far off track...train been hi-jacked. Dairy industry is more than just dairy farmers...it's truck drivers, seed dealers, bankers, etc. We all need to make a profit to survive as a whole. Transportation issues, environmental issues, immigration issues, energy issues. Where are the farmers on the board? Feels they will not support supply management. Not all the stakeholders are in the room. This meeting is turning into ground hog day. Not just as simple as farm prices. Have to stop beating on the same tom-tom. Have to have Retailers in the room. Have to get them to the table.
- Originally NEDLT came together to create collaboration. Requires value across all segments of the value chain. Need to understand the purpose of the leadership team? Is it a dairy farmer leadership team or truly a value chain leadership team. Need to clarify the mission statement to keep everyone involved and participatory.
- Current Vision and Mission Statements:

Vision Statement: The NEDLT will be a driving force for a vibrant, growing dairy industry through dynamic regional stakeholder collaboration.

Mission Statement: NEDLT will drive the dairy industry in the Northeast to achieve growth and enhance profitability.

- What do the secretaries and commissioners of agriculture want from this group? Should hear from all segments. What do you need to do your jobs better. Strength is we have fairly good representation and experts. Are we becoming more of a lobbying committee?

- Secretary Allbee - feels NEDLT's purpose is to collaborate all segments of the value chain. Takes all segments of the economy to strengthen the dairy industry. Feel mission is still real and valued.
- Secretary Reading - Benefit of NEDLT is blended view (VT's thinking, NY's thinking, processor thinking, etc.). Gives him a broader perspective. Do not leave here today with everything just out on the table. Have a plan. Want to get back to the point of what state dairy leaders need.
- Deputy Commissioner Jerry Cosgrove - information and exchange is extremely useful. There is a natural tension because buyers and sellers are in the same room. All the state secretaries and commissioners have been to the meetings. Will not apologize for focusing to help producers. Gets 4-5 calls a week from family farms that are struggling and suffering. Also help processors when they get calls from them.
- If we had Stephenson report might be in a different place right now. Industry needs a 21st century model that includes all segments of the value chain. But do not throw out the baby with the bath water. We have an opportunity right now with Farm Bill coming.
- Need to give our input into national issues such as supply management. The northeast has the largest consumer market. We do not want to lose that to anyone else. Producers want to know where industry is heading. Our responsibility is to answer this. If we don't have these discussions someone else will make the decisions for us.

11:00 A.M. Next Steps / Action items / Summary

- 1) Executive committee needs to discuss our history of where we have been and where we should go. Look at historical invite list. Meeting attendance has gotten smaller. Do we have the right representation? In the beginning there was a state delegation from secretaries/commissioners of ag.
- 2) Think about our areas for discussion - hauling, financing, retail/promotion, animal welfare, dairy is a political position, raw milk (NY re-writing milk sanitation standards), (Organic Valley will not pick up milk from producers who are selling raw milk), somatic cell counts to be consistent with PMO = 750,000. Invite Kathryn to address/speak. What is right the number for the region? EU has suggested 400,000. Invite NY senator about NY hauling bills to discuss issue instead of taking a position.
- 3) Set the future direction for the NEDLT - Each state would review their involvement, MOU, delegates, topics and stakeholder present
- 4) Strategic plan subcommittee formed to re-group and review NEDLT going forward

The Strategic Planning Group includes:

- 1) Executive Committee
- 2) State Representatives
- 3) Following volunteers
 - a. Andy Young
 - b. Leon Berthiaume
 - c. Allen O'Hare
 - d. Doug Shelmidine
 - e. Alan Bair
 - f. John Rutherford

11:45 A.M. Adjourn