Minutes of the Dairy Industry Advisory Committee
Teleconference, Friday, February 11, 2011

A seventh public meeting of the Dairy Industry Advisory Committee (DIAC) was held by teleconference on Friday, February 11, 2011.

Committee members present included the following:

Name	State	Business
Andrew Novakovic, Chairman	NY	Cornell University
Erick Coolidge	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
Randy Romanski	WI	(formerly) Wisconsin Department of Agriculture, Trade and Consumer Protection
Robert Schupper	PA	Giant Food Stores
Manuel (Ray) Souza	CA	Mel-Delin Dairy
Patricia Stroup	CA	Nestle
Sue Taylor	CO	Leprino Foods Company, Inc.
Edward Welch	MN	Associated Milk Producers Inc.
James (Ricky) 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

Call to order and welcome, 1:05 PM

Solomon Whitfield, Designated Federal Official, called the meeting to order. A roll call verified that all persons on the committee and officers from USDA were in attendance.

Brandon Willis explained that there would not be a final vote on the report during this meeting. He announced that the next teleconference will be held on March 3, 2011, at 1:00 PM Eastern Standard Time.

Review of Final Report Recommendations

Andrew Novakovic asked for each committee member to discuss any concerns regarding the final draft report. He explained that any committee votes during the call would be conducted by roll call, with the exception of the vote to adjourn.

Paul Bourbeau noted the importance of margins given that milk prices and input prices have been increasing. He expressed concern about the lengthy discussion about herd health recommendation in the report.

Jay Bryant believed that the report did a good job of identifying the important issues and making points where differences of opinion exist.

Erick Coolidge stated that it has been a privilege to serve on the committee and that he was impressed with the committee's commitment, even when discussions became intense.

Timothy den Dulk agreed with Mr. Bryant and Mr. Coolidge and he thanked the committee writers for their efforts.

Deborah Erb expressed appreciation for the committee's hard work. She voiced concern that some committee members were looking at draft reports that had different pagination making it difficult to follow the discussion.

James Goodman echoed Ms. Erb's concern. He noted that he had emailed a paragraph to Dr. Novakovic that morning that he thought would be added, but he does not see the paragraph in his version of the report.

James Krahn stated that he believes that the document is a culmination of many peoples' thoughts and ideas and that it has the potential to assist the industry.

Edward Maltby indicated that the committee work was a good process and that he has learned much from it.

Randy Romanski stated that being on the committee was a rewarding experience. He agreed that the section concerning animal health issues is too long. He believes that the discussion of the growth management recommendation was been improved but would like a couple of sentences added explaining the concern of establishing a growth management program that allows natural growth and access to the market. For the ethanol discussion, he asked that some language be added expressing the viewpoints in support of the bio fuel industry.

Robert Schupper stated that he is fearful that with commodity prices increasing, people will have a false sense of security and that they will need to be reminded about the previous state of the industry.

Manuel (Ray) Souza stated that he believes that producer groups are interested in the report and that the committee has done a good job.

Patricia Stroup said that serving on the committee has been both interesting and productive. She was of the opinion that the report is well balanced. She pointed out a sentence in the report stating, "The committee believes that some type of Federal safety net continues to be warranted." She would like to replace "warranted" with "pragmatic."

Sue Taylor said that Dr. Novakovic did a good job achieving balance in the most recent version of the report. She raised three issues:

- In the first sentence of the first paragraph in the discussion following Recommendation 13, Ms. Taylor felt strongly that "product differentiation" should be removed.
- She believes that the report may be in error in stating that there is a 10-month insurance period for the LGM-Dairy program. A USDA fact sheet refers to an 11-month period.
- In the fourth paragraph of the discussion of Market News, Research and Promotion Programs, the first sentence indicates that individual plant farm pay price reporting is required under Federal Milk Marketing Orders (FMMOs), not to provide general market reports of prices. It is her understanding that the individual plant farm pay price reporting is for the purpose of calculating the mail box price and that it is not used for audit purposes. She would like for USDA Agricultural Marketing Service to check into this.

Edward Welch took exception with the first sentence of the second paragraph following Recommendation 9 stating, "Even supporters of the concept within the Committee disagree on a specific plan or implementation." His concern was that specific plans had not been sufficiently discussed or member's opinions polled to properly reach the conclusion implied by the sentence.

He was also concerned about the amount of discussion devoted to supply management plans of other countries and historical plans, emphasizing that the Committee did not endorse a quota plan. He believes that the Costa-Sanders plan should be mentioned in the report, pointing out the Specter-Casey plan is mentioned in a footnote.

James (Ricky) Williams stated that it has been an honor to be on the committee. He believed that the tone of the report outlining the opposition's views of a growth management plan was too negative. He expressed objection to the second sentence of the first paragraph in the section "Concerns About a Mandatory, National Growth Management Plan" stating, "For some, it is simply the case that a federally mandated effort to intervene in the individual production decisions of a farm business is unappealing or unacceptable in any case."

Robert Wills stated that serving on the committee has been a great experience and that the committee's diversity was an asset. He was of the opinion that the report does not make a clear argument that profitability in the dairy industry is too low on average or that volatility is universally too great. He believes this lack of clarity makes some of the recommendations, particularly margin insurance and growth management, appear unjustified. Mr. Wills said that he would like to change his vote on the discontinuation of the Dairy Product Price Support Program (DPPSP) and the Dairy Export Incentive Program (DEIP). He does not believe Congress would approve a growth management plan and then the industry could be left with only a margin insurance program that could result in greater volatility and lower price levels.

Dr. Novakovic thanked the members for sharing their thoughts. He asked the committee to focus their remaining time on issues concerning their growth management recommendation, the footnote about the Specter-Casey bill, and discussion of the Milk Income Loss Contract program. He said that the writers will address concerns about the length of the animal health discussion.

There was considerable debate among committee members about balance of discussion in the growth management section. Some members were in favor of reducing the discussion about historical supply management plans and plans of other countries while other members felt that this information was important to include. While some members wanted to delete the reference to disagreement among committee members about the specifics of a program, other members felt that this was important to include. Some members expressed the opinion that there needs to be more discussion about whether or not it is possible to have growth management that allows for new producers to enter and allows producers to expand production.

Dr. Novakovic pointed out that the section labeled Merits of Growth Management Plans is approximately twice as long as the section labeled Concerns about a Mandatory, National Growth Management Plan. He read the fourth paragraph of the Merits of Growth Management Plans section. That paragraph explains that the proponents have meaningful intentions in

promoting “growth management” rather than “supply management.” The following paragraphs explain what those intentions are. Dr. Novakovic read from the sixth paragraph under the same section to elaborate on the meaning of growth management. That paragraph states that growth management is to allow for natural long-term production growth, growth in domestic and world demand, the natural exit of existing producers, and enable new producers to enter the industry.

There was further debate among members on the clarity of the growth management recommendation with some members stating that the proponents of growth management were not clear on the specific type of program they desired. Some committee members said that the recommendation of growth management was left vague so that the recommendation would pass. Dr. Novakovic stated that they could not speculate on the outcome of a vote for a more detailed growth management recommendation. Mr. Souza requested that the main themes of the growth management recommendation that the proponents seemed to agree upon be highlighted in the final report.

Ms. Erb and Dr. Novakovic discussed the fifth sentence of the second paragraph following Recommendation 9 stating, “Even supporters of the concept within the Committee disagree on a specific plan or implementation.” They agreed that the sentence be changed to “Even supporters of the concept within the Committee did not agree on a specific plan or implementation.”

Mr. Romanski noted that the text was more balanced than the previous draft and also stated that a similar paragraph to the sixth paragraph under the section “Merits of Growth Management Plan” could be rewritten and listed under the section “Concerns about a Mandatory, National Growth Management Plan.”

Further comments addressed whether or not it was possible to have a growth management plan that allows for new producers to enter and allows producers to expand production. Proponents of a growth management plan stated they wanted a long-term program that started and stopped based on the needs in dairy markets. Some committee members expressed doubts that a program as described would actually function in this manner and have no effects on growth during non-crisis times, no added barriers to new entry, and no effects on world trade. Some committee members also stated that the actual effects of the described program are unknown. Dr. Novakovic read the second paragraph under the section “Concerns About a Mandatory, National Growth Management Plan” stating, “Other critics have concerns that a federal program would be very difficult to run efficiently and effectively.” He noted that this section does not elaborate on the concerns just stated by some of the committee members. Dr. Novakovic stated that the report could include some of the discussion on the doubts of the feasibility of the described growth management program. The committee agreed that language could be added to provide committee members more comfort with the growth management section.

Mr. Bourbeau proceeded to read the third paragraph under the section "Concerns About a Mandatory National Growth Management Plan," which states, "Other concerns relate to potential disruptions in commercial markets, either domestically or abroad. A fundamental characteristic of any growth management plan is that it would activate or bite more deeply when milk prices are low or heading down. It is precisely at such moments when the U.S. has enjoyed significant export opportunities." Mr. Bourbeau stated that this paragraph contradicted what the Committee previously heard concerning prices in 2008 and 2009. Mr. Bourbeau was of the opinion that high prices in 2008 were caused by high exports and that the price collapse in 2009 was caused by low exports. Dr. Novakovic explained to Mr. Bourbeau that it depends on whether exports are demand driven or supply driven. He stated that when he wrote that sentence he was thinking of a supply driven opportunity to export. Dr. Novakovic agreed that effects of exports on prices are not as clear as he stated in paragraph three of the section "Concerns About a Mandatory National Growth Management Plan" and that the paragraph should be rewritten.

Mr. Wills restated his desire to change his vote on Recommendation 6. Dr. Novakovic stated that if he was in the majority, Mr. Wills could call for a revote and that anyone could second the reconsideration. Dr. Novakovic suggested that he could craft language for the report under the "Best Use of Funds" section that would state if the Secretary takes only sections of each report and not the whole report that the dairy industry may have even larger problems in the future. Mr. Wills asked Dr. Novakovic if an econometric model run could be performed that substituted only a margin insurance plan for DPPSP and DEIP. Dr. Novakovic stated that he could ask Dr. Chuck Nicholson to perform such an analysis. Mr. Wills feared that programs could be problematic if they block market signals. Ms. Erb stated that she would also be interested in seeing the results.

Mr. Bourbeau asked the committee if they were comfortable with the discussion about animal health issues and the percentage of corn crop being used for ethanol production. Dr. Novakovic stated that they already have a plan to reduce the animal health discussion. Several committee members expressed their approval of the discussion about the percentage of corn crop used for ethanol production.

Ms. Taylor mentioned a concern about the third paragraph under Recommendation 17. This paragraph discusses restricting protein and calcium used to fortify dairy products to protein and calcium derived from dairy sources. The paragraph also discusses this requirement only being applied to dairy products with a FDA Standard of Identity (SOI). Ms. Taylor feared that restricting sources of protein and particularly calcium to protein and calcium only derived from dairy sources could potentially cause the dairy industry to forego dairy demand opportunities. She feared that these requirements being applied to the SOI of dairy products would cause some dairy products to move outside the SOI. Other committee members felt that having as many dairy products as possible being fortified by products derived from dairy sources would have a

positive impact on the dairy industry. Ms. Taylor asked if SOI allowed for products to be fortified. If the SOI do not allow for fortification, then applying a rule about fortification to only products in the SOI would cause no changes to current SOI products . Ms. Coale stated that the USDA would supply the committee with clarification.

Ms. Erb requested that the seventh paragraph under Recommendation 23 become the first paragraph under Recommendation 23.

Mr. Wills questioned Ms. Taylor's earlier statement about having product differentiation removed from the first sentence of the first paragraph in the discussion following Recommendation 13. Mr. Wills believed that product differentiation is a source of market power. Ms. Taylor responded that she does not want the report to indicate that the committee discourages product differentiation since product differentiation is a means for the dairy industry to expand demand. Ms. Taylor also stated that any entity that used product differentiation to gain undue market power would be a subject for the Department of Justice (DOJ) to consider. She pointed out that many entities use product differentiation without gaining undue market power. Mr. Wills requested that there still be language acknowledging that product differentiation is a source of market power in some cases. Ms. Taylor stated that she felt so strongly that product differentiation should be removed for the first sentence of the first paragraph under Recommendation 13 and that she would vote against the entire report if the current wording remained. Mr. Novakovic indicated that an effort would be made to improve the language in this section, addressing both the concerns of Ms. Taylor and Mr. Wills.

Final comments were made. Many committee members agreed that the report was lengthy and should be reduced in size. Ms. Taylor also commented that she had some broader remarks on the report that did not require lengthy discussion and that she would send those comments to the committee over email.

Adjournment, 2:47 PM