

--DRAFT PENDING SUB-COMMITTEE APPROVAL--

**WISCONSIN DAIRY TASK FORCE 2.0
SUB-COMMITTEE ON MARKETS
MINUTES**

--DRAFT PENDING SUB-COMMITTEE APPROVAL--

January 4, 2019

The Markets sub-committee of the Wisconsin Dairy Task Force 2.0 met on Friday, January 4, 2019 beginning at 10:00 a.m. at the MacKenzie Center Badger Den, W7303 County Highway CS, Poynette, WI 53955.

Call to Order

Dairy Task Force 2.0 Chair Mark Stephenson called the meeting to order at 10:03 a.m.

Members Present

Dave Daniels, Chad Vincent, Tom Crosby, Brody Stapel, Elizabeth Wells and Ted Galloway were present.

Jeff Schwager joined by phone. Rob Byrne and Patty Edelburg were unable to attend.

Krista Knigge, the sub-committee's resource person, and Ashley Andre, DATCP staff, were also present.

Minutes

Approve minutes of last meeting

Minutes were emailed to all members. Chair Stephenson asked members to review minutes and asked for any questions.

The Chair asked for clarification on 'farm life lines.' Tom Crosby explained that he thought it was a topic that Elizabeth Wells had brought up about a direct payment to farmers in Maine.

Tom Crosby moved to approve the minutes. Brody Stapel seconded. All members approved the minutes unanimously.

Resume work on tasks identified in charging document

Chair Stephenson reviewed that at the last meeting, the group generated some possible solutions, which can be found on the last page of the meeting minutes from October 30. He explained that today some of these solutions could be further developed into recommendations while others may not warrant additional action. In most cases, recommendations can be concise, possibly only

a few sentences. The group should decide at what level solutions need to be implemented, at the individual, state, or federal level.

The first topic was market volatility pricing, including dairy component utilization optimization. Ted Galloway explained his viewpoint that a two-class pricing system may offer more stability long-term. One class could be for fluid, consumer milk while the other could be everything else, possibly a manufacturing class.

The Chair asked Mr. Galloway if other products could be included in the two-class system. He said they could.

Mr. Galloway pointed out that if plants are using powder, it is likely not coming from the Midwest. Powder really allowed states like California to grow in size and strength since powder could more easily be shipped in the marketplace.

He also used the example that when kids only had the option of skim milk, they wouldn't drink any milk. Mr. Galloway shared that he thought dairy sales and consumption could increase with higher quality products made with fluid milk instead of powder.

Mr. Crosby said that he thinks we need more time to study the issue. Jen Walsh pointed out that we need to ensure there are not unintended consequences to switching to a two-class system.

Dave Daniels pointed out that risk management programs in the Farm Bill are based on a four-class system. If there is a two-class system, we have to consider how those programs may change.

Chad Vincent asked if this is something we could execute in Wisconsin. It is not. Mr. Galloway stressed that this would be something that organizations would have to advocate on a federal level. The Chair explained that the Federal Order hearings are coming up.

Mr. Vincent said this is a topic that would need more scrutiny and thought. Ms. Wells agreed the issue needs more attention and additional people to weigh in.

The Chair explained that are two ways the class change could happen. One is through a Federal Order hearing. The other option is to promote the idea with elected officials and have them put it into the next Farm Bill.

Mr. Stapel asked if people who use powder would push back. Mr. Galloway explained that people could still use fluid milk or powder, but why would people bring in powder when there was fluid milk available in their backyard. The idea would be that more fluid milk would be consumed and better products would be made. Less milk would be dried. Mr. Stapel pointed out that this is a federal issue and wondered if others, such as California, would push back. The group agreed this two-class system would need support from numerous states, especially from the Midwest and East, if it were to go forward.

The Chair will work to draft a recommendation that is not too prescriptive but encourages the two-class system to be further looked into. The recommendation could highlight the importance of broadening the upcoming federal hearings and consider how many classes may be best. The sub-committee can edit and consider the recommendation at a teleconference.

The sub-committee took a break at 10:43 a.m. and reconvened at 10:56 a.m.

The next topic was exports, including market access and product development. Chair Stephenson asked Krista Knigge if she wanted to share anything before they started the discussion.

Ms. Knigge said that the agency has been reviewing dairy processor grants. The agency has \$200,000 to distribute and received \$400,000 in proposals. She is confident that if there was more money to distribute, they would receive even more proposals. These grants offer an opportunity to fund innovation for dairy processors. There is a good appetite for innovation, and financial support helps them get going.

Ms. Knigge also shared that DATCP continues to explore new markets and seek new buyers. She gave the example of the reverse buyers mission this past August, how some sales have already occurred and there are ongoing conversations that will likely lead to future sales. This event encourages collaboration in the industry and fosters good relationships. She emphasized the importance of the Center for Dairy Research (CDR) in working to meet the needs of customers around the world. The Chair asked if more is needed to make these efforts more successful.

Mr. Vincent added that the reverse buyers mission is a good model that should be continued. He stressed, though, that the most important part is ensuring CDR has the capability and capacity it needs. Buyers identify products we don't make. It would be beneficial to send people from CDR to other markets to learn what they desire and then work with manufacturers here at home to make it happen. He hopes that some of the funds from the Dairy Innovation Hub will be able to benefit CDR for the benefit of the state and national dairy industry.

Ms. Walsh pointed out that generally we know what buyers are interested in before they come but it may not be quite right. Mr. Vincent agreed that with more dedicated resources than they have today, they could work to make the cheese the world wants.

Ms. Knigge shared that Wisconsin has a great opportunity to coordinate with the U.S. Dairy Export Council (USDEC) on their initiative to build U.S. dairy export volume 5% while lifting the value of the products we are selling as a country. Wisconsin is known for its specialty cheeses so while USDEC cannot promote an individual state, Wisconsin is well-positioned to meet this initiative. Ms. Knigge shared that we can do more to partner with USDEC.

Ms. Knigge asked the Chair to clarify about the recommendations. They do not need to include specific dollar amounts.

Mr. Vincent shared another idea that we could use a model similar to the Irish where we make one or two types of cheese, and these one or two cheeses are made at various plants under a Wisconsin brand name. An example of this is Kerrygold.

Ms. Wells emphasized the importance of partnerships to drive the idea forward.

Chair Stephenson added that there was mention of the need for regional dairy product and business innovation initiatives in the Farm Bill. This was something that was proposed by U.S. Senator Tammy Baldwin. There may be an opportunity to utilize the structure and resources in Wisconsin to be one of those centers.

Mr. Vincent shared that he thought this idea would take more work into what CDR may need to provide additional product innovation and export resources.

When considering growing exports, it is a challenge Wisconsin is not by a coast. Our strength is in our capabilities and innovation that Wisconsin has. While we cannot compete with cheddar on the west coast, we can make cheeses that others don't.

Mr. Vincent and Ms. Knigge will work with CDR's Dr. John Lucey on a possible recommendation that the sub-committee can edit and consider at an upcoming teleconference.

Mr. Vincent cited the challenge of showing how program work directly benefits the farmer. Ms. Knigge pointed out that it is very difficult to track the amount of Wisconsin dairy exported. The Chair agreed that you'd really have to survey every plant.

Ms. Wells brought up the point if there should be a recommendation put forward by the sub-committee that does not allow milk buyers to take away a farmer's milk market suddenly for a reason besides not meeting quality, safety or policy parameters.

Mr. Vincent questioned how we get a more reasonable notice time. The notice time would also need to apply to farmers and processors alike.

Ms. Wells shared that Organic Valley's cooperative has a six-month notice period if either side is going to end the relationship with the other for a business or efficiency reason.

Mr. Stapel pointed out the issue of 'orphan farms or routes' that have difficulty being picked up. The Chair asked if milk buyers swapped loads. Ms. Wells pointed out that cooperatives are limited in their ability to do that, but it does happen.

Mr. Galloway and Mr. Vincent shared that this is a complicated issue, and we want to be sure that any recommendation we make in this regard doesn't put Wisconsin at a disadvantage.

Ms. Wells shared that Pennsylvania may have an example to look at.

Chair Stephenson shared that in his experience, many farmers do not have current contracts or know what their contract states in terms of notice needed. Mr. Vincent noted that Dairy Farmers of Wisconsin could do an educational campaign, as well as others that send things out to farmers, with recommendations that producers and milk buyers have current contracts and are aware of terms.

Mr. Daniels asked if the inspector could ask farmers to see their contract when they come to the farm regularly. Mr. Stapel pointed out that many times farmers do not talk to their inspector.

Ms. Wells stated that she would draft a recommendation for the sub-committee to edit and consider at the upcoming teleconference call.

Ms. Knigge brought up an issue that farms currently cannot ship milk to multiple buyers. This came up recently with farmers wanting to ship A2 milk separately for a niche, value-added market, and they could not. For those that process their own milk, they are allowed to sell their excess to a milk buyer besides themselves. It is believed this rule, included in ATCP 65, was put on the books when milk buyers didn't want competition for their milk on a farm.

The Chair asked the group if this is a current regulation that stifles some innovation in the market. Mr. Crosby thought this was an issue that was possibly brought up a couple years ago. Mr. Vincent said that with A2, this could definitely be an issue going forward. Ms. Wells shared that their cooperative does not allow their farmers to split their herd because of the additional challenges with claims and costs.

Mr. Galloway suggested that it may be beneficial to get information from DATCP's legal counsel. Ms. Knigge will gather additional information from DATCP and industry and share it at the upcoming teleconference. Mr. Galloway will get an opinion from some of his counterparts at Farm First, NFO, Foremost and Agropur.

Lunch

The group broke for lunch at 12:00 p.m. and reconvened at 12:25 p.m.

Minutes

Set a conference call

The sub-committee chose two possible dates for an upcoming conference call: February 11 from 1:00 to 3:00 or February 14 from 9:00 to 11:00. It will be confirmed by email.

Resume work on tasks identified in charging document

The Chair introduced the third topic, transportation.

Mr. Vincent pointed out issues with getting products to the coasts from Wisconsin. The need to consolidate, have warehouse space and find a distributor can be barriers to entry.

Mr. Galloway pointed out the challenges of some markets, such as transportation logistics in New York City. He added that due to the federal drive time laws, accidents or bad weather can make traveling through areas like Chicago very difficult.

Mr. Galloway shared that orphan routes sound like they are a big problem. Mr. Stapel mentioned the need for producers to be aware of the changing dynamic in the industry. The Chair shared

how in some areas of the state, such as Ashland and Bayfield counties, there are very few options for milk buyers. Mr. Crosby pointed out the issue of increasing hauling charges for farmers.

Mr. Vincent asked if there was anything we could address as a sub-committee. Mr. Stapel thought possibly some outreach could be done to farmers.

Ms. Wells pointed out that there are different transportation issues, such as logs, weights and axles. Mr. Stapel pointed out that these have been and will be further discussed in the Regulatory Certainty sub-committee. The Chair added that they discussed in that sub-committee issues such as seasonal hours and differences of whether you are hauling to a fluid milk or manufacturing facility.

Mr. Crosby shared that he wished there could be some collaboration amongst states for consistency on these issues. Ms. Wells agreed that Wisconsin is put at a disadvantage if there are lower weight limits.

Ms. Walsh put the question out of how big of an issue orphan routes are. Ms. Wells shared an example that they rely on pools of milk in an area as a foundation route. There is a large emphasis on if you can't make this work together, we won't have a route. It's done on a gentlemen's agreement but stressed the interdependence on each other.

Mr. Stapel stressed that it falls on each farmer's lap to ensure quality is as good as it can be to prevent losing access to a milk route. This may not be an issue that we can make a recommendation on.

Mr. Vincent shared that he hopes we could address the issue of getting processed products to a coast. This is a major issue for small cheesemakers who cannot fill a truck. Ms. Knigge agreed with exports that container loads need to be filled. Ms. Wells asked who could facilitate the consolidation or share the cold storage.

Mr. Galloway shared an example that the paper industry previously formed a consolidation organization that sold items that were not full truck loads. Could something similar be developed to aggregate specialty cheeses by an organization? Ms. Wells asked if there was some sort of tool that could be offered, possibly something other industries have done to share information?

Mr. Vincent emphasized that on the west coast demand is there, but the access is not.

Chair Stephenson mentioned that he believes there is consolidation of product at the country's southern border for this purpose.

Mr. Stapel shared that an area like Sheboygan County has so much cheese storage.

Mr. Daniels asked if an organization like USDEC has this type of service? Ms. Walsh shared that they are looking into consolidated shipping and lessons they learn could be transferable.

Chair Stephenson asked if there is an organization that already exists that could do this or if a new one would need to be formed. Mr. Galloway said that there would be value for someone who knows the regulations, could facilitate and charge a fee.

Mr. Stapel offered to reach out to some contacts for information on what exists or could possibly be done. This information and a possible recommendation could be considered at the upcoming teleconference.

Chair Stephenson will share with Mr. Stapel information about the train that runs from Washington to New York that stops in Chicago. It could be a low cost shipping option.

The final topic was market access, which some of the things underneath it have already been covered.

Mr. Daniels brought up that the Dairy Innovation Hub that was passed is very important. He stressed that if the Farm Bill mentioned that there should be at least three centers for regional dairy product and business innovation initiatives across the country, we would definitely want to be one of them in Wisconsin.

Chair Stephenson shared that he could provide more information on what was included in the Farm Bill. This likely would be something that would take time to be implemented. He cited that it states that the USDA Secretary, acting through the administration in the Agricultural Marketing Service, should have not less than three regional dairy product and business innovation initiatives. They should leverage resources and provide matching funds. Selection criteria would include a region with a history of dairy farming, presence of existing resources, research and density of dairy farms.

Mr. Daniels will work on a recommendation about how Wisconsin should be one of the regional dairy product and business innovation initiatives. It can be edited and considered in an upcoming teleconference.

Chair Stephenson asked Ms. Wells about the direct payments to farmers in Maine. She explained that they were put in place as a result of the rapid exit and trying to preserve as much dairy as they could. Mr. Stapel emphasized that we work in agriculture to stress that we are not subsidized. Ms. Wells mentioned that this may be something that is better discussed at the Dairy and Rural Community Vitality sub-committee meeting next week.

Ashley Andre shared notes from an online article about the Maine program. It was started in 2004 as a dairy stabilization program to provide a safety net when prices wobble. It gives payments from the state's general fund directly to Maine farmers when milk prices fall below the cost of production. According to the article, they paid out \$16.2 million in the past year.

Chair Stephenson pointed out that the cost of production varies greatly and that Maine is home to about 250 dairy farms. Mr. Crosby pointed out that while it is a significant investment by the state, it likely is not much different than what would be taken out of the economy if those farmers were gone. Ms. Wells shared that they would discuss this next week in the sub-

committee. The Chair supported that there is a multiplier for farms and plants on the economic impact in a region or state.

Mr. Stapel asked about the point, ‘promote Wisconsin products,’ from the minutes. Is it saying Dairy Farmers of Wisconsin isn’t doing enough? He understands that farmers are not the target audience they are trying to reach.

Mr. Daniels asked Mr. Vincent about the new Wisconsin label roll out. Mr. Vincent discussed the progress on the roll out to promote Wisconsin products and celebrating Wisconsin’s great farm tradition. The Chair pointed out that each farmer receives messages like this about how their checkoff dollars are spent differently. Mr. Vincent said that it is a challenge to share how their money is being invested and used most wisely. Recently they’ve been working with radio to do that with partners like the Farm Babe. For any marketing, they are mindful of cost per impression.

Mr. Crosby brought back the issue of the orphan route and how the impact is more than financial. If a farm is forced out of business, is there some education credits or something that can be provided to the farmer? Losing a farm can cause a lot of negative feelings, and it is a loss of their identity.

Ms. Knigge agreed that it is very emotional, and that the Farm Center works to assist through support and counseling vouchers. The agency has been discussing how life after farming looks like for these individuals. We want to retain the talent and skills in the state. Mr. Vincent pointed out the services available for employees when plants close. For example, aid, counselors and re-education. Ms. Wells agreed this is a topic that would need discussion next week.

Chair Stephenson asked if anyone else had anything additional to add.

Mr. Daniels asked about milk coming in from other states and the use of the Wisconsin label. Mr. Vincent agreed that milk does come in from other states, and they do the best they can through one-on-one conversations to be clear with processors about the label’s use. Some plants near the borders do use milk from out of state. If Dairy Farmers of Wisconsin learns a plant is bringing in milk for their own personal, financial gain, not simply because some of their farmers live just across the border in another state, they do not receive the extensive resources or help from DFW.

Chair Stephenson pointed out that states like Michigan do not want to send their milk here for such a low cost. They just do not have a more viable market option at this point.

Mr. Vincent shared that Wisconsin still does not make enough milk Wisconsin’s processing needs. The state needs to bring in milk. Mr. Crosby agreed that oversupply is not a state issue but a global issue.

Identify next steps

Chair Stephenson commended the group’s progress. He shared that the next step will be a teleconference. Ms. Andre gave an overview of the tentative agenda:

- Consider draft recommendation about considering a two-class system: Chair Stephenson
- Consider draft recommendation about the role CDR and USDEC can have in export market access/product development: Mr. Vincent and Ms. Knigge
- Consider draft recommendation about the importance of current contracts and understanding the terms: Ms. Wells
- Discuss information and a possible draft recommendation about changes needed to rules about selling milk to multiple buyers: Ms. Knigge
- Discuss information and a possible draft recommendation about consolidating warehouse resources and hauling: Mr. Stapel
 - The Chair will provide him information on the train opportunity.
- Consider draft recommendation on the need for Wisconsin to be one of the country's centers for regional dairy product and business innovation initiatives: Mr. Daniels
- Share information on Maine's direct payment program: Ms. Wells

Adjournment

The sub-committee adjourned at approximately 2:00 p.m.

Minutes drafted by Ashley Andre.

DRAFT