

--DRAFT PENDING SUB-COMMITTEE APPROVAL--

**WISCONSIN DAIRY TASK FORCE 2.0
SUB-COMMITTEE ON PRICE VOLATILITY AND PROFITABILITY
MINUTES**

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February 6, 2019

The Price Volatility and Profitability sub-committee of the Wisconsin Dairy Task Force 2.0 met on Wednesday, February 6, 2019 beginning at 12:30 p.m. at the Wisconsin Department of Agriculture, Trade and Consumer Protection, 2811 Agriculture Drive, Madison, WI 53708.

Call to Order

Chair Michael DeLong called the meeting to order at 12:43 p.m.

Members Present

Members present included: Darin Von Ruden, Ryan Klussendorf, Tom Crosby, Don Hamm, Rene Johnson and Michael DeLong. Kevin Bernhardt (Resource Person) and Dan Pearson joined by phone. DATCP staff Ashley Andre also attended.

Minutes

Approve minutes of last meeting

Chair DeLong asked for a motion to approve the minutes. Darin Von Ruden made a motion. Ryan Klussendorf seconded. The minutes were approved unanimously.

Resume work on tasks identified in charging document

Chair DeLong reviewed the charge for the group. He welcomed two members of the public, Dick Blysmas and Tom Olson.

Mr. Blysmas grew up in Wisconsin and represents the National Farmers Organization. He provided a summary of a two tiered structured dairy pricing program proposal. He shared a document and PowerPoint. He started his presentation on the slide titled, Supply. He showed a steady increase in production due to more cows, more milk per cow, and better milk per cow. He pointed out the decrease in farm numbers across the country and the shift in farm size. The question he poses, do we need supply controls or a structure change?

Mr. Blysmas shared that he believes a possibility is a two tier pricing proposal. He explained that the current system recognizes the different values of milk based on how they are used. He asks why we can't base the system on the cost to produce. Mr. Blysmas reviewed an example of pricing using the current system and the proposed two tier system. The price does not change the

price to consumers. He believes execution would not be difficult. It is simply reallocating money that is already there. The proposal works to even the margin between herd sizes.

In the proposal, there would need to be significant changes to the Federal Order. All milk would need to be pooled all the time. Depooling could not be allowed. Even Grade B milk would need to be pooled. There could be no areas that are unregulated for milk. This proposal would require an act of Congress to implement.

Tom Olson noted his own experience in the dairy industry and asked one question about pricing. Mr. Blysmas responded that the component structure stays the same. Mr. Olson asked about the negative PPD. Mr. Blysmas confirmed it would apply to everyone. Everyone would need to be in the pool to make it work.

Mr. Pearson asked a question about if there is any control on production. Mr. Blysmas said there is no direct supply control, but indirectly there will be some controls due to pricing. He believes it limits the growth on very large farms. He is working to level the playing field.

Mr. Klussendorf asked Mr. Blysmas how realistic this is to be implemented. Is there feedback from Congress or other milk cooperators? He responded it can be done, but he believes there will be large producers and processors who would not support it.

Mr. Pearson asked how it would impact organic farmers. Mr. Blysmas said that it shouldn't change the organic advantage. Mr. Von Ruden agreed that it really shouldn't change the way organic farmers are paid.

Mr. Von Ruden asked a question; since there is not a supply mechanism, would it be better to have a three tier system. Should there be another limit above 4,000 cows to limit very large expansions? Mr. Blysmas explained that he tried to keep it as simple as possible at this point. Keeping small farms has social, financial, and economic value.

Mr. Crosby mentioned that as farms get bigger, they'll get less tier one incentive. Mr. Von Ruden thinks that we may want to increase to a \$5 or \$6 advantage. Mr. Blysmas explained they are using a cost value adjustment. The proposal is designed to even the playing field.

Mr. Hamm mentioned that proposals need to be sellable to all sizes of farms.

Ms. Johnson asked a question about where the \$4 or \$6 advantage is coming from. Mr. Blysmas responded that the \$4 comes from the pool; money already generated selling milk. It hasn't changed the income of the Federal Order at all. The processors pay the same price for the milk. It changes how the farmer is paid. Mr. Blysmas pointed out the large amount of cheese currently in stocks. Mr. Hamm noted that volume premiums have been given in the past. This is the opposite; it is adjusting for cost of production.

Chair DeLong welcomed Tom Olson to share his proposal for self-regulation. Mr. Olson is from the Dairy Pricing Association. Reblends and market adjustments are allowed by cooperatives and milk handlers. Privates have to pay the minimums each month, which puts them at a

disadvantage. He notes that his proposal would need to be implemented at the Federal level. The state could be the auditor, since they are already checking that farmers are paid properly.

Mr. Olson noted that all milk would need to be pooled in the Federal Order of where it was produced in his proposal. He also proposed that all milk handlers have the authority to balance their milk supply by disposing an equal percentage of milk on all their farms. They would require at least seven days prior to this action.

Mr. Olson reviewed his self-regulation proposal that seeks to eliminate all undercutting in the marketplace by milk handlers. He explained how farmers will only supply the market with milk that is needed. Excess milk will not leave the farm.

Ms. Johnson asked how farmers would dispose of that much milk. Mr. Olson said it would have to be disposed of in a sanitary manner such as manure pits or land spread. Farms that fill tankers will have more to dispose of than small producers, but they have manure pits. He mentioned that milk is a good fertilizer.

Mr. Hamm asked Mr. Olson if you are looking at this plant to plant or nationwide. Mr. Crosby mentioned if looking at supply, it has to be at a national level. It cannot be Wisconsin on its own. Mr. Pearson shared that he is a member of a cooperative that has farmers and sells products across the country. He notes that supply management, even at the cooperative level, is hard to make fair.

Chair DeLong thanked Mr. Blysmas and Mr. Olson for their comments.

Discussion

Chair DeLong revisited what was discussed at the previous meeting and if there any areas we want to move forward on. One issue we heard about was two tier pricing, and one was on the Federal Order. Which additional direction do we want to expand?

He asked for any more comments on the supply management side. Mr. Von Ruden noted that Land O Lakes and Dairy Farmers of America are doing this in other parts of the country. There are also some in the upper Midwest who are managing their supply are their own. He had heard that DFA was investigating a national supply management system, but there isn't information yet.

Chair DeLong mentioned that at the previous sub-committee, demand issues were mentioned. Ashley Andre confirmed that the Consumer Confidence and Perception and Markets sub-committees were discussing those issues.

Mr. Hamm proposed a recommendation urging farmers to utilize existing risk management and marketing tools available. Mr. Crosby and Chair DeLong agreed that the Farm Bill made significant improvements to these programs. Chair DeLong, Ms. Johnson, and Mr. Hamm will draft a recommendation encouraging farmers to utilize existing risk management and marketing tools available.

Ms. Johnson brought up an issue from the previous meeting of a state system or area/region compact. Mr. Von Ruden wondered if we should look back at the NE Dairy Compact to remind ourselves of its pricing structure. Mr. Von Ruden will share information with the group about the NE Dairy Compact.

Mr. Hamm asked about timing and next steps of the Task Force 2.0. Ms. Andre reviewed that each sub-committee will hold teleconferences in February to discuss recommendations. The full Task Force 2.0 will consider those recommendations at the March 15 meeting.

Mr. Von Ruden mentioned how there are still many questions about the Federal Order. Mr. DeLong agreed that it is challenging to recommend change when it is not properly understood.

Mr. Blysmas noted that his proposal is to level the playing field and make our production more reactive to low markets. It would make people consider before expanding. He added that it would need to be refined over time. Mr. Pearson added that he liked the concept but would need to learn more about it.

Chair DeLong noted that at the end of the day, we want a strong dairy industry, thriving communities, and opportunities for the next generation.

Mr. Pearson asked what the Dairy Pricing Association does. Mr. Olson is the President. Mr. Olson explained that members pay money in to buy dairy products and give them to people in need.

Ms. Andre shared the discussion about the Federal Order from the Markets sub-committee. Ted Galloway discussed a two-tier system as well, with one tier for fluid milk and one for all other products. Chair Mark Stephenson was going to draft a general recommendation on the need for the Federal Order to be evaluated in upcoming hearings and changes considered.

Mr. Crosby asked if it was possible for Task Force 2.0 members to receive a presentation on milk pricing and the Federal Order as background. Ms. Johnson agreed that this would be beneficial. Ms. Andre will follow-up with Chair Stephenson to schedule a webinar for all Dairy Task Force 2.0 members on milk pricing and the Federal Order. Mr. Crosby will draft a recommendation that it is important for all farmers to understand how their milk is priced and that UW-Extension and the Center for Dairy Profitability should hold educational seminars regionally to help educate the industry.

Ms. Johnson said that she liked Mr. Blysmas's presentation. Mr. Hamm noted that it is the opposite of volume premiums that were offered for years. He said that it comes down to the question if we value smaller farms in our rural communities. We need to address that. We don't want to limit growth or offend any producers, but if we don't do something, something will be handed to us as an industry by larger processors and larger farmers. The decision will be made for us. We need to leave opportunity and options for all sizes.

Mr. Crosby noted that he does not like quotas when it can limit families when an additional family member comes into the operation. Ms. Johnson added that a quota adds an additional capital expense when someone is entering the industry.

Mr. Hamm asked the group if we could do a recommendation about improving the country's quality standards. Could we at least get to EU standards? How do we justify high cell counts with the tools we have available today? Mr. Von Ruden added that when people go shopping for a car, they go to a place with quality. When people want milk, they also want a quality farm. Mr. Klussendorf asked if we add in some of the former California standards. Mr. Hamm noted that quality standards are part of the image issue with dairy farms. Mr. Hamm will draft a recommendation about the need to increase our country's quality standards.

Set a conference call

The sub-committee chose to have their conference call on Tuesday, February 26, 2019 at 10:00 a.m. Materials will be due to Ms. Andre the week before, February 19.

Continue discussion

The group again discussed Mr. Blysmas's proposal. Ms. Johnson asked him about his next step. Mr. Blysmas noted that he is trying to gain support. Mr. Hamm noted that large farms will likely lobby against it. Mr. Crosby noted that we may be at a point in the industry when we need to decide if there will be dairy in our county or not going forward. He noted that while some farms may have the equity to hold on a little longer, some may be losing hope and in turn, going out now.

Break

The group took a break at 2:59 p.m. and reconvened at 3:06 p.m.

Continue discussion

Chair DeLong asked for any other discussion. He brought up the issue of fluid milk consumption declining. We need to increase milk consumption in schools. If we start milk consumption early, it becomes a way of life. Ms. Andre noted that it was something that was discussed in the Consumer Perception and Confidence sub-committee, but a specific recommendation was not drafted.

Chair DeLong doesn't want fluid milk consumption to be a lost cause. Mr. Klussendorf added that Dairy Farmers of Wisconsin spends much of its advertising on cheese, since we are a cheese producing state. Chair DeLong will draft a recommendation about the need to increase demand for milk by increasing fluid milk consumption in schools.

Mr. Klussendorf brought up the idea of the price gap. How do we get more money back to the farmer? Chair DeLong noted how consumers will only pay so much, but no one knows what that is. Mr. Klussendorf noted that many farmers do not know their cost of production. Chair DeLong asked if the price gap may be addressed by a change in the Federal Order. Mr. Klussendorf will consider if a recommendation can be drafted to address the price gap.

Mr. Hamm noted an example in the lumber industry about an oversupply of southern yellow pine and the low price many are receiving.

Ms. Johnson pointed out that we need to think about what we can recommend that will have the biggest impact, the quickest. While we don't want to make rash decisions, we need to pick the biggest things to work on that can make the biggest impact. While the Dairy Innovation Hub has many great benefits, it does not mean an immediate bump in price. Chair DeLong agreed that there needs to be stages of what can be done over time for the dairy industry.

Identify next steps

Chair DeLong asked Ms. Andre to review the topics for the upcoming teleconference:

- Chair DeLong, Ms. Johnson, and Mr. Hamm will draft a recommendation encouraging farmers to utilize existing risk management and marketing tools available.
- Mr. Von Ruden will share information with the group about the NE Dairy Compact.
- Ms. Andre will follow-up with Chair Stephenson to schedule a webinar for all Dairy Task Force 2.0 members on milk pricing and the Federal Order.
- Mr. Crosby will draft a recommendation that it is important for all farmers to understand how their milk is priced and that UW-Extension and the Center for Dairy Profitability should hold educational seminars regionally to help educate the industry.
- Mr. Hamm will draft a recommendation about the need to increase our country's quality standards.
- Chair DeLong will draft a recommendation about the need to increase demand for milk by increasing fluid milk consumption in schools.
- Mr. Klussendorf will consider if a recommendation can be drafted to address the price gap.

Adjournment

The sub-committee adjourned at 3:23 p.m.

Minutes drafted by Ashley Andre.