

SENATE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

April 5, 1999 Hearing Room 50

4:30 p.m. Tapes 86 - 89

MEMBERS PRESENT: Sen. Gary George, Chair

Sen. Thomas Wilde, Vice-Chair

Sen. Tony Corcoran

Sen. Joan Dukes

Sen. Bill Fisher

Sen. Marylin Shannon

MEMBER EXCUSED: Sen. Ted Ferrioli

STAFF PRESENT: Brad Harper, Administrator

Kristal Hatton-Nease, Administrative Support

MEASURES HEARD: SB 129 Public Hearing

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
TAPE 86, A		
005	Chair George	Convenes meeting at 4:33 p.m. Opens public hearing on SB 129.
<u>SB 129 PUBLIC HEARING</u>		
010	Brad Harper	Committee Administrator. Explains SB 129 makes Oregon a participant in an interstate compact regulating dairy products upon adoption by either Idaho or Washington and approval by the United States Congress.
022	Dave Nelson	Oregon Dairy Farmers Association (ODFA). Says the ODFA is in support of SB

		129. Introduces Dan Smith and Jim Krahn.
034	Dan Smith	Former Administrator, Northeast Dairy Compact. Submits [EXHIBIT A] and testifies in support of SB 129. Says he assisted in the development and drafting of the legislative text of the Northeast Interstate Dairy Compact in 1988, as counsel to the Vermont House and Senate Agricultural Committees.
084	Smith	Says it is not his intent to advocate for the adoption of SB 129, but to tell members of the committee New England's experience in establishing the Northeast Dairy Compact. Explains the Northeast Dairy Compact is a state-sponsored, legal and formal device to address the public interest issue of the problem of inadequate dairy farm prices in the northeast milkshed.
134	Smith	Describes experiences of the Northeast Dairy Compact. Says the centerpiece of milk market regulation in the United States is the Agricultural Marketing Agreement Act (AMAA) of 1937. Adds the AMAA established a national program for setting minimum farm prices through the adoption of "milk marketing orders."
184	Smith	Discusses the constitutional foundation for the dairy compact. Says that since the 1930s, milk has increasingly been marketed without regard to state boundaries and that the Supreme Court has whittled away at the authority of states to regulate milk prices.
234	Smith	Comments on the Oregon milk market. States Article 1, Section 10, clause 3 of the U.S. Constitution authorizes states to enter into interstate compacts, with the consent of Congress, and to regulate the interstate commerce between or among the compacting states specifically designated in the compact. Says Oregon's Columbia River Salmon Compact is an example of the function of the Interstate Compact Clause.
284	Smith	Explains the mechanics of the compacts operation. Suggests the compact commission's pricing authority complements the existing federal milk marketing program. Adds the commission may use its regulatory power to remove harmful fluctuations in the federal pricing structure and/or to raise the marketplace's regulated floor price above the federal minimum, as necessary.
334	Smith	States the commission's price regulation established a flat floor price of \$16.94 for the New England market and says the regulation is only effective when the Market Order One Class I price drops below the commission's \$16.94. Adds the compact price regulation is administered in a similar manner, as occurs under the federal program.
384	Smith	Says that within the Northeast Dairy Compact there is an ongoing dialogue. Comments on two recent litigation cases involving the Northeast Dairy Compact. One case, <i>IDFA v. Secretary Glickman</i> , challenged the condition of consent requiring the Secretary of Agriculture to make the finding of compelling public interest before the compact commission could be established. Explains the other case, <i>In re Crowley et al.</i> , claimed the conditions of the consent imposed by Congress limited the compact commission's ability to impose compensatory payments and thereby precluding the commission from regulating milk imported

		into the region.
434	Smith	Notes the price regulation of the Northeast Dairy Compact exempts the Women, Infant, and Children (WIC) program and school lunch/breakfast programs. Says one lesson he has learned thought the establishment of the Northeast Dairy Compact is that the more people included in discussion, the better.
TAPE 87, A		
050	Jim Krahn	Program Manager, ODFA. Submits [EXHIBIT B] and testifies in support of SB 129. Says many factors have contributed to the loss of dairy farms in Oregon over the past ten years. Adds these factors have put increasing financial demands on Oregon dairy producers. Says the Northeast Compact took effect in July of 1997 and that the 1998 Agricultural Appropriations Act directed the Office of Management and Budget (OMB) to study the effects of the Northeast Dairy Compact on federal food and nutrition programs.
105	Krahn	<p>Says the OMB study brought forward four main points:</p> <ol style="list-style-type: none"> 1. New England retail milk prices were 5 cents per gallon lower on the average than national retail milk prices, following the first six months of operation of the Northeast Dairy Compact. 2. The Northeast Dairy Compact has not added any costs to federal nutrition programs such as WIC and school lunch and breakfast programs. 3. The Northeast Dairy Compact was economically beneficial to dairy producers and that it increased their income from milk sales by about 6 percent. 4. There were no adverse affects for dairy farmers outside the compact region and the study noted that some dairy producers outside the region actually received increased financial benefits through the sale of their milk into New England.
155	Krahn	Says SB 129 is supported by the dairy producers of both Oregon and Washington. States three major milk processors (Tillamook County Creamery, Farmers Creamery Cooperative, and Darigold Farms that buy and process Oregon milk and sell the resulting products in the Oregon market support SB 129.
170	Steven McCoid	President, Oregon Grocery Industry Association (OGIA). Submits [EXHIBIT C] and testifies in opposition to SB 129. Says SB 129 should be rejected because large dairy farmers would benefit more than small family farms, it will impose new, regressive taxes, undercut welfare reform and nutrition programs, and decrease the consumption of calcium-rich milk.
220	McCoid	States higher compact prices will stimulate milk production and depress demand for milk in the compact region. Points out the 1997-98 New England milk powder surplus drove down U.S. prices and forced government purchases of the excess production, thus affecting all dairy farmers outside the compact.

270	McCoid	Discusses what will happen if Oregon joins a Dairy Compact. Says the price impacts on fluid milk sale will be as retail prices increases, volume sales will decline. Explains dairy compacts do not protect small farms. Points out that during the first year of the compact, dairy farms in New England declined at a 25 percent faster rate than the average rate of decline during the previous two year period.
320	McCoid	Explains the potential costs of a dairy compact to low-income, child, and elderly nutrition programs in Oregon. Says school lunch/breakfast and WIC programs were exempted from the Northeast Dairy Compact, but only for the 1998-99 school year.
370	McCoid	Comments on who would benefit if Oregon joins a Dairy Compact. Says there would be a loss of independent retail establishments. Adds that large farms, those with over 500 dairy cows, will receive a windfall while small farms, those with 499 dairy cows or less, will receive next to nothing.
420	McCoid	Says small farms have barely benefited from the Northeast Dairy Compact. States that since the compact began in July 1997, New England farms with less than 50 cows have received an annual average of only \$2,700 per farm. Says that is not enough money to prevent small farms from leaving the dairy business.
TAPE 86, B		
020	McCoid	Reads an article that was published in the Business Journal in March, 1999 (page 10 of [exhibit C]). Urges committee to oppose SB 129. Says the compact would not solve problems experienced by small family dairy farms.
070	McCoid	Says the real issue is why one industry should be allowed to set their prices at the expense of Oregon's consumers. Says the committee must decide if the rights of 3.2 million Oregonians to high quality and affordably priced milk should be waived to assist the profits of 390+ dairy farmers.
107	Sen. Shannon	Asks how she knows whether she is buying class A or class B milk.
110	McCoid	Answers he would defer that question to others in the room.
115	Sen. Corcoran	Comments there is competing data between OGIA and ODFA. Says the ODFA testified there was an increase in retail price following the first six months of the Northeast Dairy Compact. Asks if McCoid has any information on that.
122	McCoid	Responds he does not know, but will try to find out and will get back to Sen. Corcoran.
127	Sen. Corcoran	Comments the big area of dispute is that dairy farmers claim the Northeast Dairy Compact has not added any cost to federal nutrition programs. Says McCoid asserts the dairy compact undercuts welfare reform and nutrition programs by increasing the cost and decreasing consumption.

136	McCoid	Replies that after the first year of the Northeast Dairy Compact, the compact commission exempted the school lunch/breakfast and WIC programs from price hike for the 1998-99 school year. Says SB 129 does not provide for such exemptions.
147	Sen. Corcoran	Comments the committee could construct amendments to exempt such programs.
149	McCoid	Responds the committee could do that.
152	Sen. Fisher	Asks why was there an increase in price and a huge increase in volume of milk in January.
157	McCoid	Responds he is not sure the graph shows that. Says there was a decrease in volume, in comparison with the preceding four months.
163	Sen. Fisher	Asks if the drops and raises are cumulative.
170	McCoid	Says the graph is comparing month-to-month so it is not cumulative. Adds it is distinct for each month.
177	Sen. Fisher	Says that with the exception of March 1998, January 1999 showed a large increase in volume.
182	McCoid	Replies he does not think so. Says the graph shows a drop in volume from January 1998.
195	Sen. Fisher	Says he would like more information on the general trend of milk consumption. Expresses concern about the graphs.
231	Chair George	Asks if McCoid would get detailed month-to-month numbers for the committee.
233	McCoid	Says he will get those figures to the committee.
235	Sen. Dukes	Asks if McCoid would do his own version of the USDA graph.
243	McCoid	Responds he will try. Says he does not know whether retailers keep that kind of information. Says he will ask them.
255	Sen. Dukes	Asks how McCoid knows the graph is not accurate.
260	McCoid	Responds the average was taken off only three stores, one of which was a convenience store. Says this is not an accurate gauge of retail price but, rather, of shelf price.

276	Sen. Dukes	Comments the numbers do not seem that far off to her.
285	Sen. Corcoran	Comments he is familiar with milk prices and that the figures listed do seem high. Says it is very hard to average the price.
300	Sen. Fisher	Comments he can see both sides of the arguments. Explains he has experience in the milk industry.
326	Chair George	Asks what price per gallon is paid for milk in the school lunch program.
330	McCoid	Responds he does not know, but can find out.
334	Phil Ward	Director, Oregon Department of Agriculture (ODA). Submits [EXHIBIT D] and testifies in support of SB 129. Says the department believes the region needs a stable supply of milk and the dairy industry needs a mechanism to even out the broad swings in prices paid to farmers. Gives background on dairy production in Oregon. Says the industry provides 5,000 jobs and has an economic impact of \$700 million annually on the state's economy.
384	Ward	Comments in recent years there have been increased demands on Oregon's dairy industry. Says the dairy industry could benefit by a stabilization of milk prices.
396	Sen. Dukes	Asks if the State Agricultural board supports SB 129.
400	Ward	Says David Timms is in the committee room. Asks him if the board has taken a position.
405	David Timms	State Agricultural Board. Replies the board has not taken an official position, but that he (Timms) supports the legislation.
TAPE 87, B		
020	Kevan Fenderson	Governmental Affairs Division, Albertson's. Testifies in opposition to SB 129. Says the food-marketing institute, of which Albertson's is a member, has provided an analysis of the price spread series in regards to pork products.
043	Sen. Dukes	Says several years ago, there were more instances where a gallon of milk was sold for less than \$2. Comments that stores put milk on sale with no substantive decreases in price.
057	Fenderson	Expresses concern that retailers will not be part of the dairy compact. Says Albertson's agrees with OGIA. Says the dairy compact, if approved, will increase retail milk prices for consumers.

087	Sen. Corcoran	Asks if Albertsonsí stores have computers to inventory items going through checkouts.
091	Fenderson	Responds Albertsonsí checkout terminals are points of sale systems.
095	Sen. Corcoran	Asks if someone would need to present a coupon for a two for one milk sale at Albertsonís.
100	Fenderson	Responds Albertsonís does not use a membership card. Adds that a coupon may or may not be required.
107	Sen. Corcoran	Asks if Albertsonís could produce information on the total amount of milk sold over a one-year period.
115	Fenderson	Says he can find that out if the committee would like him to.
122	Sen. Corcoran	Comments that would be helpful in the committeeís deliberations. Comments on the need to try to get certain facts straight. Adds the information does not need to be elaborate.
134	Fenderson	Replies he is new to the retail industry. Says retailers suffer by absorbing the fluctuating costs.
161	Chair George	Asks if Fenderson can show a relationship between price increases and the decrease in volume. Says that may answer Sen. Fisher previous question.
167	Sen. Fisher	Points out the price to milk farmers has remained relatively flat. Gives example of a pharmaceutical company pricing.
191	Kent Cris	Category Manager, Fred Meyer Inc. Gives credentials. Testifies in opposition to SB 129. Says a higher cost in retail does not allow retailers to promote milk products on an ongoing basis. Adds when prices are favorable retailers promote milk. Says the results of the dairy compact will encourage retailers to move away from promotional opportunities to providing customers with milk specials.
235	Jim Head	Clackamas Facility Plant Manager, Safeway, Inc. Testifies in opposition to SB 129. Gives credentials and information on Safeway, Inc. Says Safeway, Inc. has two milk producing plants in Oregon. Questions the ODA testimony heard earlier.
277	Chair George	Asks if the main concern is that the price might effect competitiveness in other markets.
283	Head	Replies his concern is that class one milk products have been the vehicle to carry everything else. Says a dairy compact is not needed to ensure high quality local

		supply of milk. States only one-third of milk produced in Oregon is used for beverage milk. Says a compact is not needed to ensure Oregon and Washington dairy farmers fair return. States the compact would impose taxes on milk consumers. Points out the Northeast Dairy Compact cost New England consumers \$47 million more dollars in higher milk prices.
333	Head	Adds dairy compacts undermine the free enterprise system. Urges opposition to SB 129.
340	Sen. Corcoran	Asks if Head is saying it is appropriate for dairies to go out of business for the sake of the free enterprise system, even if dairies have higher environmental restrictions.
346	Head	Replies the dairies do not have higher restrictions than he does in his plant.
347	Sen. Corcoran	Asks if Head thinks Oregon dairies have higher restrictions than other states.
349	Head	Says he does not know that.
354	Sen. Corcoran	Asks if the alter of free enterprise is so big that Oregon can sacrifice Oregon dairymen to make sure stores receive the lowest price possible.
359	Head	Says that is not the question.
362	Fenderson	Says he does not think that is the case. Says stores are trying to communicate that, should the Oregon Legislature approve SB 129, consumers would have higher milk prices.
382	Chair George	Comments if stores will maintain their margin of profit so the price will go up to the consumer if SB 129 is approved.
384	Fenderson	Replies they will.
398	Head	Comments fluid milk is the choice of consumers.
401	Sen. Fisher	Asks if that is as purchased or sold.
404	Head	Says it is up charged on the 100-weight as sold to a processing plant from the producer.
TAPE 88, A		
015	Sen. Fisher	Comments he does not understand the classes and grades of milk..

025	Don Moisan	Dairy Farmer, McMinnville. Gives credentials. Testifies in support of SB 129. Comments on the USDA graph. Says the price farmers are paid for milk products has not changed much since 1991, even though retail prices have increased. Says large dairy farms, as well as small ones, have gone out of business because of this.
075	Moisan	Says the loss of such dairies is not good for our area. Comments the Willamette Valley area has unusually high feed and land costs. Says the dairy industry has made a lot of progress in environmental compliance. Adds the compact would benefit the people of Oregon.
114	Sen. Fisher	Asks how long it takes to bring a calf to production age.
124	Moisan	Replies 16 to 24 months.
135	Sen. Fisher	Asks if there is a two-year time lag.
137	Moisan	Responds there is. Says dairy operations normally have consistent milk production on a yearly basis. Says animals are a long term investment.
153	Sen. Fisher	Comments there is federal help on the way to dairy farmers. Asks Moisan to describe what the help will do.
160	Moisan	Understands there was farm aid a package that allocated \$200 million to dairy industry. Says the producers will go into FFA produce their production history. Adds, from that, a formula will be used to determine how each farmer will be paid. Says there is a \$5000 maximum per year.
179	Sen. Fisher	Asks if that is a definite \$5000.
186	Moisan	Believes FFA estimated an average size of herd. Says this ensures large producers would not get the bulk of the money.
192	Sen. Wilde	Comments on the effects of large price fluctuations on dairy farms. Says this is similar to the orchard industry in the Hood River Valley. Says there is a great deal of uncertainty in the orchard industry, as in the dairy industry. Comments dairies are asking for a great deal in this compact.
225	Moisan	Responds part of the reason the compact is needed is because of environmental compliance costs. Says Oregon citizens would welcome opportunity. Says such a compact would protect a valuable industry in the state of Oregon.
250	Sandi Twigg	Dairy Farmer, and Director, Darigold Farm Board. Gives background information on her dairy farm. Submits [EXHIBIT E] and explains class one milk is fluid milk. Says SB 129 would not affect other classes of milk products. States Darigold Farms supports SB 129. Reads the average cost per 100-weight milk her farm sold each year since 1990.

300	Twigg	Says her dairy farm in Hillsboro has spent over \$200,000 to upgrade facilities to environmental standards. Says she is looking at moving her dairy farm to a drier area of Oregon. Says she wonders if she can continue farming in Oregon at all. Says the environmental costs to dairy farms are enormous. Comments the agricultural industry in Oregon is a diverse industry and should be retained.
364	Sen. Fisher	Asks if milk is as heavy as water.
365	Twigg	Answers water is heavier.
368	Sen. Fisher	Asks if 100-wieght means 100 pounds of milk.
370	Twigg	Says farmers get paid per hundred pounds of milk.
377	Sen. Fisher	Asks if Twigg will furnish the committee with the prices her farm was paid for 100-weight milk.
389	Sen. Wilde	Realizes there are environmental costs to dairy farmers. Asks if Twigg knows how prices compare with prices in Idaho and surrounding states.
399	Twigg	Says a lot of her expense is in handling rainwater.
TAPE 89, A		
012	Dan Banson	Dairy Farmer. Gives background information on his farm. Testifies in support of SB 129. Says such a dairy compact would stabilize prices. Adds dairy farmers do not have a lot of places to cut expenses. Adds dairy farming takes more labor than it used to.
041	Chair George	Asks how much the improvements in the McMinnville dairy plant cost.
044	Banson	Responds approximately \$1.5 million dollars.
047	Tim Emerson	Dairy Farmer, Tillamook County. Says SB 129 would ensure his farm could put in environmentally sound facilities. Comments he is looking at placing a plant outside Oregon. Comments on the importance of dairy plants in Tillamook county. Says he is impressed that Oregon Trout is in support of SB 129. Reads a letter in support of SB 129 from Harold Shields of the Tillamook Creamery Association.
097	Emerson	Comments Oregon dairies are struggling for survival. Urges support of SB 129.
119	Sen. Fisher	Asks if there is the possibility to spread costs over all classes of milk.

123	Emerson	Says the problem with raising other product prices is that it would make it harder for processors to compete in other states. Oregon dairies are undercut by other states.
150	Ralph Duyck	Dairy Farmer and President, ODFA. Submits [EXHIBIT F] and testifies in support of SB 129. Addresses several issues raised by prior speakers. Says when he bought his dairy in 1965 there were 15 dairies on his road. Says now there is just one dairyóhis.
200	Duyck	Reads editorial from Capital Press.
260	Chair George	Gives personal experience of raising sugar beets.
271	Scott Ruby	Dairy Farmer, Fern Ridge Holstein Farms. Gives background on his familyís farm. Says he and his wife decided to go back to farming after having worked in the international arena making excellent money. Says he hopes he is here to stay.
321	Ruby	Explains why it is necessary to have stable budget. Comments on Egypt, Morocco, and Saudi Arabia, which are milk deficit countries. States Egypt and Morocco were able to set price stability and prices to consumers decreased and quality increased.
371	Ruby	Adds Saudi Arabia did not implement price stability and the quantity increased while price also increased. Urges committee to support SB 129.
390	Erhart Steinborn	Dairy Operator, Yamhill County. Testifies in support of SB 129. Explains dairies need the pricing stability set forth by the dairy compact.
TAPE 88, B		
015	John McCulley	Agriculture Cooperative Council. Testifies in support of SB 129. Gives information on the Agriculture Cooperative Council. Says SB 129 stabilizes the price of milk.
030	Jerome Rose	Woodburn Dairy Producer, and Oregon Dairy Farmers Association member. Testifies in support of SB 129. Comments on the free enterprise system. Explains dairy producers need to be able to market their goods in the world market.
062	George Marsh	Dairy Farmer, Washington County. Gives background on his dairy operation. Explains regulations dairies have been through the past 5 ñ 10 years are atrocious. Says his farm spends \$24,000 in his community each month.
083	Chair George	Says he sympathizes with the dairy farmers. Comments all areas of agriculture are under stress from regulations and other pressures.

089	Marsh	Comments he is amazed that Intel Corporation is asking for tax breaks to stay in Oregon. Points out dairies are not asking for tax breaks.
101	Chair George	Comments he is worried about what will happen with the agricultural industry if additional animals are listed on the Endangered Species Act.
115	Marsh	Comments there have been Environmental Protection Agency (EPA) inspections around the state and over \$50,000 in fines have been levied. Says farmers are wondering where the EPA will conduct inspections next.
124	Sen. Fisher	Says farmers pay \$1.63 per 100-weight for environmental concerns. Asks what the food costs are per 100-weight.
127	Marsh	Replies food is about sixty percent of dairy farm costs, at \$5-7 per 100-weight sold. Says his farm raises a lot of its own feed for animals.
136	Sen. Fisher	Asks how much labor costs per 100-weight.
137	Marsh	Says that depends on the size of the dairy operation. Says labor costs about 15 percent of the 100-weight sold.
144	Sen. Fisher	Comments labor costs are as much as environmental costs.
147	Marsh	Says he spent money in 1992 to comply with environmental standards and additional money in recent years.
160	Dan Lowrie	West Coast Bancorp. Gives credentials. Says he has financed dairies for the past 20 years. Says dairies continue to receive less money from the consumer dollar. Says dairy farmers have not received a fair return for their labor, equity, and management.
217	Chair George	Comments when he drives home, he passes deserted dairies. Asks if financial companies have had a lot of stranded costs from dairies closing.
224	Lowrie	Says his company has not experienced long losses.
229	Sen. Fisher	Asks if he has lost money from loan defaults.
231	Lowrie	Respond he has.
233	Sen. Fisher	Asks how liberal Lowrie has been in giving out loans.
237	Lowrie	Says he would continue to provide financing for producers he has financed over

		a period of years.
240		Staff submits [EXHIBIT G] on behalf of Pat McCormick and [EXHIBIT H] on behalf of Bob Eberhard.
243	Chair George	Adjourns meeting at 7:35 p.m.

Submitted By, Reviewed By,

Kristal Hatton-Nease, Brad Harper,
Administrative Support Administrator

EXHIBIT SUMMARY

A ñ SB 129, written testimony, Dan Smith, 8 pp.

B - SB 129, written testimony, Jim Krahn, 4 pp.

C - SB 129, written testimony, Steve McCoid, 10 pp.

D - SB 129, written testimony, Phil Ward, 1 p.

E - SB 129, written testimony, Sandi Twigg, 3 pp.

F - SB 129, written testimony, Ralph Duyck, 2 pp.

G - SB 129, written testimony, Pat McCormick, 2 pp.

H - SB 129, written testimony, Bob Eberhard, 1 p.