

Public Meeting - 8/18/2016
Nevada Dairy Commission

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STATE OF NEVADA

DEPARTMENT OF AGRICULTURE

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NOTICE OF PUBLIC MEETING
OF THE NEVADA DAIRY COMMISSION

TRANSCRIPT OF PROCEEDINGS

August 18, 2016

Sparks, Nevada

Reported by: Karen Bryson
Certified Court Reporter #120

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APPEARANCES

CHRISTOPHER COOK, Chairman
TROY CROWTHER, Commission Member (via videoconference)
JOHN COLLIER, Commission Member
LYNN HETTRICK, Deputy Director/Department of Agriculture

ALSO PRESENT:

DENNIS BELCOURT, Deputy Attorney General
YONG INOUE
AL TRACE
KIMBERLY WHITFIELD (via videoconference)
ERICA RYAN (via videoconference)
MARTIN ESTEVAO (via videoconference)

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1 SPARKS, NEVADA, THURSDAY, AUGUST 18, 2016, 1:00 P.M.
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3 CHAIRMAN COOK: Well, let us convene the August
4 meeting of the Nevada State Dairy Commission.

5 Mr. Hettrick, would you do the formality,
6 please.

7 MR. HETTRICK: Yes, sir, Mr. Chairman.

8 This is the time and place set for the
9 regularly scheduled meeting of the Nevada State Dairy
10 Commission for the month of August 2016. This meeting has
11 been scheduled and noticed in compliance with pertinent
12 statutes including the open meeting law.

13 A copy of the agenda has been handed to the
14 court reporter with the request that it be a part of the
15 official transcript of these proceedings.

16 My name is Lynn Hettrick, Deputy Director for
17 the Department of Agriculture. Present today are
18 Mr. Christopher Cook, chairman of the commission; Mr. Troy
19 Crowther, member of the commission; Mr. John Collier,
20 member of the commission.

21 Those who present statements or evidence to the
22 commission during this meeting are requested to first be
23 acknowledged by the chairman, and to identify themselves
24 for the record.

25 First item on the agenda, Mr. Chairman, is

1 public comment and discussion.

2 CHAIRMAN COOK: Okay. Bear in mind that we
3 have a second public comment section near the end of the
4 meeting, so if anybody would like to say anything, they
5 can jump in now or we can hold it until later on.

6 Seeing nothing, let's proceed to the next item,
7 please.

8 MR. HETTRICK: Item number two on the agenda
9 for possible action, license application of peddler
10 distributor license for Coca-Cola Refreshments, One
11 Coca-Cola Plaza, Atlanta, Georgia. I think it's Meshach
12 Rhoades is listed as the contact.

13 The applicant seeks a license to distribute
14 fluid milk and fluid cream in the northern and southern
15 Nevada marketing areas.

16 The applicant's prices and costs have been
17 reviewed by members of the Dairy Commission staff, and are
18 in compliance with this agency's laws and regulations.

19 The applicant will be responsible for the
20 assessments.

21 CHAIRMAN COOK: Okay. Thank you.

22 Do we have anybody representing this applicant
23 present?

24 MS. INOUYE: Martin?

25 MR. HETTRICK: Las Vegas you do.

1 CHAIRMAN COOK: Oh. Thank you. Welcome for
2 being here.

3 MR. ESTEVAO: Thank you so much. Thank you so
4 much for your time, and I'll be as brief as possible.

5 COMMISSION CROWTHER: Could you state your name
6 for the reporter?

7 MR. ESTEVAO: Of course. My name is Martin
8 Estevao. I'm an attorney with the law firm of Armstrong,
9 Teasdale.

10 You just mentioned my colleague, Meshach
11 Rhoades, who appeared before the commission about three
12 years ago, I believe, in connection with the Coca-Cola
13 Company's milk distributor license application for the
14 Fairlife products.

15 And now we're here today, Coca-Cola
16 Refreshments USA, Inc., is actually one hundred percent
17 wholly-owned subsidiary of the Coca Cola Company, but it
18 is a separate corporate entity.

19 And pursuant to Nevada statutes and
20 regulations, we would require a separate license to
21 distribute the YUP! milk products, which are actually very
22 similar to the Fairlife product.

23 And if the commission has any questions or
24 concerns about the products themselves, the distribution
25 model, or anything of that nature, I'm happy to assist.

1 And that's why I'm here for, so.

2 CHAIRMAN COOK: Okay. Please have a seat and
3 relax.

4 MR. ESTEVAO: It's the lawyer in me.

5 CHAIRMAN COOK: Yeah. No, this isn't a
6 courtroom, so.

7 COMMISSION CROWTHER: Get his name spelled for
8 the record?

9 MR. HETTRICK: Yes, please.

10 MR. ESTEVAO: It is E-s-t-e-v-a-o. First name
11 Martin, M-a-r-t-i-n.

12 CHAIRMAN COOK: So effectively this is a whole
13 other license application because it's a different
14 corporate entity?

15 Mr. ESTEVAO: That is correct.

16 CHAIRMAN COOK: Than the one that applied a
17 couple years ago?

18 MR. ESTEVAO: That is correct. Even though it
19 is still a one hundred percent wholly-owned subsidiary.

20 CHAIRMAN COOK: And it is a similar product? A
21 dairy-based product?

22 MR. ESTEVAO: It is, yes, sir. It's a little
23 bit different in terms of market -- target market. With
24 these products again called YUP! Y-U-P, exclamation point,
25 Coca-Cola Refreshments is really targeting teenager,

1 college-age kids, trying to make milk fun again. So
2 that's where we're headed. And much different
3 distribution model.

4 These products are mostly appearing in your
5 typical convenience stores, gas stations, mom and pop
6 shops, and food service on school locations.

7 CHAIRMAN COOK: As I recall, the previous
8 product had an energy drink connection or tie-in or
9 marketing scheme? I don't remember exactly what it was,
10 but is that something similar with the YUP! product?

11 MR. ESTEVAO: No. It's -- it's a little bit
12 different. And Fairlife products, both the 52 ounce and
13 11.5 ounce were not necessarily geared toward that protein
14 shake crowd.

15 It is marketed as protein enhanced, not
16 enhanced, meaning that protein is added to the product,
17 but the filtration method for the product essentially
18 allows the manufacturer to separate those individual
19 components of the milk and then reconstitute in different
20 ratios.

21 And so you get a little bit higher protein and
22 filter out the sugar, take out the lactose as well. So
23 for this YUP! product, it is also lactose-free. It is
24 aseptically processed and packaged, so no refrigeration
25 required prior to opening.

1 And in that respect, it is very similar to the
2 11.5-ounce Fairlife bottles which are likewise aseptically
3 processed and packaged.

4 CHAIRMAN COOK: Looking at a facsimile of the
5 YUP! label, I see it's -- Fairlife is packaging for you?

6 MR. ESTEVAO: Yes.

7 CHAIRMAN COOK: And do you -- can you pin down
8 the source of the milk? Is it --

9 MR. ESTEVAO: It's the same source for the
10 Fairlife products as well. It's sourced from a
11 cooperative called Select Farmers -- Select Milk
12 Producers? Sorry. And one of the flagship operations
13 that the manufacturer of the co-op is extremely proud of
14 is called Fair Oaks in Indiana.

15 The milk is also sourced from other related
16 co-ops, but across the board, just very proud of the
17 operations in general, and the treatment of the cows.

18 CHAIRMAN COOK: Okay. And it's -- the one
19 facility is servicing the entire country?

20 MR. ESTEVAO: One facility, meaning one dairy
21 herd or dairy --

22 CHAIRMAN COOK: No, no, in terms of the
23 packaging of the --

24 MR. ESTEVAO: Oh, yes, yes. It's one single
25 operation. That's in Coopersville, Michigan.

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1 CHAIRMAN COOK: Okay. Okay. Well, I have no
2 further questions.

3 Troy?

4 COMMISSION CROWTHER: No, no further questions.

5 We -- we actually learned something about this
6 in our -- up at the IAMCA dairy convention up in Canada.
7 We learned a little bit about these products, so.

8 CHAIRMAN COOK: Okay.

9 COMMISSION CROWTHER: It is interesting.

10 CHAIRMAN COOK: John, any questions?

11 COMMISSIONER COLLIER: I have none. Huh-uh.

12 CHAIRMAN COOK: Okay. Any questions or
13 comments from staff? Anybody in the audience that's not
14 from staff?

15 Okay. Seeing none, I will entertain a motion.

16 COMMISSIONER COLLIER: Mr. Chairman, I move
17 that we accept the peddler distributor application for
18 Coca-Cola Refreshments out of Atlanta, Georgia, who is
19 seeking a license to distribute fluid milk and fluid cream
20 in the northern and southern Nevada marketing areas.

21 COMMISSION CROWTHER: Second.

22 CHAIRMAN COOK: Having a second and -- a motion
23 and a second and no dissenting votes, the motion carries,
24 and the license is granted.

25 Thank you for being here.

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1 MR. ESTEVAO: Thank you very much, Commission.

2 MR. HETTRICK: All right. Next, Mr. Chairman,
3 on item -- agenda item number two, second peddler
4 distributor license application from McDonald Wholesale
5 Company. They're out of West Sacramento, California.
6 Gary Thomsen is the contact.

7 The applicant seeks a license to distribute
8 fluid milk and fluid cream and mixes in the northern
9 Nevada marketing area.

10 The prices and costs have been reviewed by
11 members of the Dairy Commission staff and are in
12 compliance with this agency's laws and regulations.

13 The applicant will be responsible for the
14 assessments.

15 CHAIRMAN COOK: And do we have anyone
16 representing this applicant present?

17 MR. HETTRICK: I don't believe so.

18 CHAIRMAN COOK: Probably not.

19 Okay. Anything else you can add to this?

20 MR. HETTRICK: Nothing unusual about this. It
21 is -- Producers Dairy is the name of the milk. And it
22 looks like they're probably going to be supplying to Dutch
23 Bros Coffee because some of the brands, the products are
24 actually branded Dutch Bros? So I presume they've got
25 some kind of contractual arrangement with Dutch Bros, and

1 that's why they're interested.

2 CHAIRMAN COOK: Do we have a Dutch Bros in
3 northern Nevada?

4 MR. HETTRICK: Yeah, I think there are.

5 MS. INOUYE: Carson.

6 MR. HETTRICK: Yeah, Carson's got one, yeah,
7 and maybe they're going to expand, I don't know. And
8 maybe they can market it as Dutch Bros and Markets, I
9 don't know. But that appears to have some tie as to why
10 they're bringing the product.

11 CHAIRMAN COOK: Okay.

12 MR. HETTRICK: But that's all I have.

13 CHAIRMAN COOK: But that product isn't a
14 McDonald's corporate entity?

15 MR. HETTRICK: No. No, no. No. It's a
16 distributing company from producers -- Producers Dairy is
17 the manufacturer. It's not -- it's not McDonald's.

18 CHAIRMAN COOK: Using McDonald's to do the --

19 MR. HETTRICK: Actually I think it's McDonald
20 Wholesale.

21 CHAIRMAN COOK: So it's not Mickey D's, the
22 hamburger --

23 MR. HETTRICK: No. And I -- and when I look at
24 the list of officers that I have, it says they're out of
25 Eugene, Oregon.

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1 CHAIRMAN COOK: Okay.

2 MR. HETTRICK: So, yeah.

3 CHAIRMAN COOK: That must be confusing.

4 MR. HETTRICK: Yeah, I'm sure.

5 CHAIRMAN COOK: All right. I have no further
6 questions.

7 Troy, do you have any questions?

8 COMMISSION CROWTHER: No.

9 CHAIRMAN COOK: John?

10 COMMISSIONER COLLIER: No, I have none.

11 CHAIRMAN COOK: Okay. Seeing -- oh, any
12 questions or comments from staff or members of the
13 audience?

14 Seeing none, I'll entertain a motion.

15 COMMISSION CROWTHER: Mr. Chairman, I'll make a
16 motion that we approve the peddler distributor license
17 application by McDonald Wholesale Company, Inc., out of
18 West Sacramento, California, to distribute fluid milk,
19 fluid cream, and mixes in northern Nevada marketing area.

20 COMMISSIONER COLLIER: I'll second that,
21 Mr. Chairman.

22 CHAIRMAN COOK: Having a motion and a second,
23 and no dissenting votes, motion is carried. And the
24 license is granted.

25 MR. HETTRICK: Next, Mr. Chairman, is item

1 number three on the agenda for possible action is approval
2 of the minutes from the July 21, 2016, Dairy Commission
3 meeting.

4 I have listed, Mr. Chairman, four very minor
5 changes for just corrections, and appropriate motion would
6 be to approve the minutes with the corrections noted.

7 CHAIRMAN COOK: Okay. I'll entertain a motion
8 from one of the other commissioners.

9 COMMISSIONER COLLIER: Mr. Chairman, I move
10 that we accept the minutes from our July 21st, 2016, Dairy
11 Commission meeting with the corrections that are so noted
12 in our booklet here.

13 COMMISSION CROWTHER: Second.

14 CHAIRMAN COOK: Okay. Having a motion and a
15 second, no dissenting votes, motion carries. And the
16 minutes are adopted.

17 MR. HETTRICK: All right. Next, Mr. Chairman,
18 is the staff report.

19 In your packets you should all have received
20 copies of the various pricing and -- information about
21 pricing in the west primarily that you may be interested
22 in perusing.

23 The last of the sheets is the one that you
24 typically get, and it shows the current pricing, which has
25 gone up a little bit, which is nice. We're glad to see it

1 overall. It's good for the producers. Beyond that
2 nothing unique or special about the pricing. Sixteen
3 thirty-seven in the north, and I think 16.47 in the south.

4 Beyond that I don't really have much for the
5 staff report today. Beyond also telling you that Kimberly
6 went and tried to do a financial statement for us this --
7 for this meeting, but our computer system in the Las Vegas
8 office is balking and she was unable to print it off. We
9 can tell you that there's nothing unique or special.
10 We're in about the same boat we've been all along, so.

11 CHAIRMAN COOK: The reserves trending up or
12 down?

13 MR. HETTRICK: Slightly. Yeah, slightly. I
14 think we're holding steady -- about steady right now, so.
15 But without the actual numbers in hand for the close of
16 the month, we don't know. But it's close. And we've been
17 holding pretty good. So I don't think we have any issues
18 of concern there.

19 CHAIRMAN COOK: Okay.

20 COMMISSION CROWTHER: I have a question.

21 I'm just looking at these price announcements.
22 And look at the second page, we're up to \$18.12. That's
23 about a three dollar and 50 cent jump in three months.

24 Is that -- any particular reason for that? I
25 mean, that's great for our farmers. Is that -- is there a

1 particular reason that you know of?

2 MR. HETTRICK: I don't know.

3 MR. TRACE: Al Trace, Dairy Farmers of America.

4 I would say, Troy, that that price isn't --
5 that's the class one price? That's not -- that's pooled
6 out and blended out. The farmers aren't receiving that
7 price. The farmers are getting roughly around \$14 a
8 hundred right now.

9 So that would be specific to class one. Why it
10 took that jump, I don't know. But I just don't want to be
11 misleading to think that that's the mailbox price to the
12 producer.

13 MR. HETTRICK: Sure.

14 CHAIRMAN COOK: We'd like to say it's because
15 Coca-Cola's buying a lot of milk.

16 COMMISSIONER COLLIER: They're buying it back
17 in the Midwest.

18 MR. TRACE: We appreciate that, too, though.
19 That's good for the industry.

20 MR. HETTRICK: Yeah, it's good for the industry
21 in the long run, so.

22 The -- and, Al, you correct me, or, clarify,
23 but the pricing is generally based on commodity pricing,
24 and they have some formula they work off? And they use
25 advanced pricing somehow, which is what this is.

1 These show advanced minimums. And it's
2 calculated off feed prices, commodity prices, and other
3 things to develop these. And then, of course, demand
4 plays as well, so.

5 MR. TRACE: Right.

6 MR. HETTRICK: And I think typical of what
7 happens in the summertime, milk production goes down
8 because the cows get a bit stressed from the heat. And
9 demand is about the same.

10 And so what we see is an increase on demand
11 side, and then commodities vary. Depends on whether
12 they're buying out of storage or whatever as to the
13 impact. So there's so much a ways into these it's very
14 difficult to give you a specific reason why it's doing
15 that.

16 COMMISSION CROWTHER: I'm just -- it looks --
17 the September is where it takes the big jump. I'm
18 wondering if it has to do with school coming back in
19 session and more school milk being purchased? Or if
20 that's a factor.

21 MR. TRACE: Well, I think, Troy, you could be
22 onto something. I think a little bit of that would have
23 to do with school starting back up, but I -- speaking of
24 pricing, if I may now? Can I --

25 CHAIRMAN COOK: Sure.

1 MR. TRACE: On July 28th -- I just need to read
2 something -- 61 senators and congressmen sent Senator
3 Vilsack a letter to express their concern about the
4 troubling economics that the dairy producers are
5 experiencing, not just in Nevada or the west -- more so in
6 the west -- but pretty much around the country.

7 I said earlier, Troy, for everyone, in northern
8 Nevada and in California right now the dairy producers are
9 averaging about fourteen fifty per hundred weight. Maybe
10 15 when you get some premiums, quality premiums, and such
11 on top of that. The cost of production is somewhere
12 around \$20. So they're really -- they're really in dire
13 straights.

14 This letter sent to Secretary Vilsack urged him
15 to do something, quote, unquote. On Friday of -- last
16 Friday, the 15th, the National Milk Producers Federation,
17 which is the lobbying arm, if you will, for the -- for the
18 dairy industry, the producers in the country and the major
19 cooperatives also sent a letter to Secretary Vilsack
20 asking for relief for the nation's dairy farmers.

21 And they -- they asked him to consider
22 purchasing a hundred to 150 million dollars worth of
23 cheese. They can use -- which I don't know what it is, a
24 section 32 program, and, you know, it just -- I won't read
25 this in depth.

1 It just goes on to say dairy producers across
2 the country are really hurting. If they could, you know,
3 authorize this purchase of this amount of cheese and
4 distribute it to the -- to the nonprofit food banks, is
5 what they are asking, it would help. Some.

6 But bottom line it would -- across the country
7 it'd put an average of 16 cents per hundred weight into
8 each producer's milk check, which isn't huge, but I got to
9 tell you, the family farms across the country, 16 cents is
10 16 cents right now.

11 So in our crystal ball -- which I don't know if
12 ours is right or not -- but, you know, we're -- we don't
13 think there's going to be any real price recovery to the
14 producer community until at least third or fourth quarter
15 2017. So that -- it's tough right now for these guys.

16 So no point to any of that. Just saying that,
17 you know, it's -- it's tough out there for the producers.
18 And -- and to our point, to Nevada specifically, it makes
19 it hard to -- because we still need a few more cows here.
20 And people aren't in a real big hurry to relocate.

21 I probably said it every time and every month
22 here, the term, what I call survival mode, you know. And
23 they don't have an appetite to think about relocating
24 anywhere. They're just trying to make it through to the
25 following month.

1 COMMISSIONER COLLIER: What -- Al, what are
2 the -- what are the -- what is the USDA, do they still
3 have the commodities program where they buy milk and
4 cheese products and distribute that through their --

5 MR. TRACE: No, kind of went away. It's
6 definitely a few years ago. And this kind of is reverting
7 back to that?

8 COMMISSIONER COLLIER: That's what it sounds
9 like.

10 MR. TRACE: Yeah, yeah. So I don't know how
11 much traction it'll get because it was kind of a big
12 to-do, I guess is the word I want to use, when it went
13 away, so.

14 COMMISSIONER COLLIER: Because there was a --
15 as I recall, there was a lot of product bought.

16 MR. TRACE: Yeah.

17 COMMISSIONER COLLIER: I mean, when I was in
18 the nonprofit world we got hamburger for our camp and we
19 got powdered milk. We got wheat. We got barley. We got
20 cheese. I mean, it was -- you know, you just fill out
21 your forms and give them your quantities and you pretty
22 much got what you asked for.

23 MR. TRACE: Right. Right.

24 COMMISSIONER COLLIER: And it was free.

25 MR. TRACE: Yeah, yeah.

1 COMMISSIONER COLLIER: So.

2 MR. TRACE: Well, we'll see where this goes.
3 That's all I have to say.

4 CHAIRMAN COOK: And no discussions of herd
5 reductions going on?

6 MR. TRACE: No. I mean, we have farmers just
7 exiting the business. I mean, not reducing just because
8 of the economics that I just spoke of? I mean, quite
9 honestly, you know, our western area council, we -- we're
10 concerned about being able to provide the milk to our
11 customers that we need just because we're having --

12 CHAIRMAN COOK: So it's not necessarily an
13 over-supply issue?

14 MR. TRACE: I think it is. It's supply and
15 demand. I mean, it's -- we're in a world market anymore.
16 Maybe in the old days Nevada would compete in California,
17 but, I mean, now we're competing on a world market. So,
18 you know, it's basically over-supply. You know, there's
19 too much.

20 But I think I said before, dairy producers
21 always make too much milk when their prices are bad like
22 they are now, they make more milk for cash flow. And when
23 the prices are good, they make more milk to pay down debt,
24 or maybe to stock some away for when the prices are down.
25 So it is an over-supply situation.

1 And -- but there's no talk of herd reductions,
2 any programs or plans. It's just people, families and
3 family farms, are just exiting the business because they
4 can't make a go, or the bank's telling them that --

5 CHAIRMAN COOK: Those cows typically don't get
6 pulled out of production. They go to somebody else.

7 MR. TRACE: Somebody else. You know, depending
8 on the price, you know, some of them are culled. I mean,
9 there's still a fair amount of cull cows going on across
10 the country. More so in the west, you know.

11 MR. HETTRICK: I saw something the other day,
12 Al, maybe you can comment on, I don't remember which
13 publication it was in, but I read a publication that
14 indicated that there were dairy producers that were
15 collecting money on the new insurance --

16 MR. TRACE: The margin protection plan.

17 MR. HETTRICK: Margin protection plan. But it
18 was a small percentage.

19 MR. TRACE: It's a real small percentage. And
20 it's in the process of being overhauled now, and in -- I
21 can't -- I don't know enough about it to get in the weeds.
22 It's really a complicated program --

23 MR. HETTRICK: Oh, I know.

24 MR. TRACE: -- but it really -- it didn't -- it
25 didn't satisfy what it was supposed to, you know. It was

1 over-sold, I guess, you know. And it was supposed to
2 be -- you know, it really was an insurance program.

3 It wasn't supposed to, you know, be the savior,
4 if you will, but it still didn't work. So it's back on
5 the drawing board.

6 MR. HETTRICK: Tiny percentage of people who
7 got to take advantage of it or bought it far enough
8 down -- and I'm not sure that was -- in fact, I think the
9 article said that even those who bought it down to where
10 they're getting money aren't getting back what they put
11 into it, so --

12 MR. TRACE: You could participate I think for a
13 hundred dollars a year at the four-dollar level. But they
14 get pennies on that, you know.

15 MR. HETTRICK: It's nothing.

16 MR. TRACE: It wasn't nothing. Because, like I
17 say, I mean, pennies help, but these guys are really --
18 they need dollars right now, you know. And it's just
19 tough times for dairy producers, you know. Doom and
20 gloom.

21 But on the upside -- and I'll stop here -- we
22 got lots -- we got water in northern Nevada, so.

23 CHAIRMAN COOK: For now.

24 MR. TRACE: For now. For now.

25 COMMISSIONER COLLIER: Thank the good lord.

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1 MR. TRACE: Yeah. Thank you.

2 CHAIRMAN COOK: Okay.

3 MR. TRACE: One more comment.

4 I want to say, too, though I do know that the
5 source for the YUP! milk, Mike McCloskey, and the group?
6 I've been on his farm. Does a class act. They're --
7 they're -- it's a good milk co-op. We work with them.
8 Good people.

9 COMMISSION CROWTHER: Interesting guy.

10 MR. TRACE: Yeah.

11 CHAIRMAN COOK: Okay. All right.

12 MR. HETTRICK: Mr. Chairman, number five on the
13 agenda is consideration of other matters, which I think we
14 just accomplished.

15 CHAIRMAN COOK: Oh. Well, I'd like to hear
16 from Troy and John about the IMCA meeting, what they came
17 back with.

18 COMMISSIONER COLLIER: I was -- I was very
19 impressed again this year. This is my second year of
20 attending the meeting, and I was very impressed with it.

21 The things that we're talking about here with
22 the over-production of milk, compensate for, you know, the
23 loss of the dollars, was prevalent not only here in the
24 United States but also in Canada to some degree.

25 Canada's a little bit different than -- because

1 they have -- they have more farmer involvement in their
2 boards, and they're really quite a -- quite an
3 organization up there in Canada.

4 And I for one -- and I'm sure I -- Troy will
5 express the same sentiment -- I'm very appreciative to
6 have represented the State of Nevada at this conference.

7 It was a -- I think it was very worthwhile for
8 myself educationally to learn more about the dairy
9 industry, and -- and it was -- it was very informative.

10 The thing that it's -- it's not as well
11 represented as perhaps it could be. I think there's, what
12 was it, Troy? Nine providences in Canada? And there's
13 nine or ten states that belong to the thing here in the
14 U.S.?

15 And so there could be more states involved in
16 the U.S. in this particular association, I think it would
17 be more beneficial for the United States if there was more
18 people involved in it. And I know Troy -- Troy was -- he
19 probably could go more in detail about some of the
20 sessions and things, so.

21 COMMISSION CROWTHER: Well, I -- you know, I
22 came away -- I guess if you want to sum things up,
23 thinking that it seems like what the presenters and
24 participants were saying, and even in some of the
25 discussions, you know, on the side during the social

1 times, that we're kind of in a transition right now in
2 that both from our -- from the market, from the consumers,
3 who are requiring more -- let me take a look at my notes
4 here -- requiring more transparency.

5 They're requiring -- they're looking for
6 more -- for a shorter distance between the processor and
7 the consumer. They want more, you know, local -- there's
8 a big push obviously to buy. That's not something new.

9 They are -- there's a real push for -- people
10 want to know that their milk is coming from a location
11 that is environmentally sustainable, that -- they want to
12 know more about their food in general. People are
13 interested in their food.

14 And they talked about the difference between,
15 say, our generation and the millennials, where a
16 millennial will sit down and start photographing their
17 food when you go out to eat.

18 And, you know, I -- I never did that. Of
19 course, I never carried a camera around in my pocket all
20 the time. But there is more interest in the food and
21 where it comes from, and transparency within the industry.

22 The other -- the other take-away I got was that
23 we need to be -- the dairy industry needs to be a little
24 bit quicker to react to trends, I guess. And they used as
25 an example the energy drink that -- the milk industry

1 was -- the dairy industry was a little slow to come on
2 board with that.

3 It was pretty much already filled by the time
4 the dairy industry came along. And now we're trying to
5 get into it stronger. Talked about innovations, about how
6 there needs to be additional innovations in the industry.

7 Let's see if I can -- oh. One of the other
8 examples of the -- you know, the slow to come to the table
9 was the -- used the sample, spreadable butter. You know,
10 margarine and the oils, the products, came to the table a
11 little sooner on that spreadable butter concept. And that
12 was just one example.

13 They did indicate that sometimes within our
14 industry government regulations make it more difficult to
15 react quickly to those trends. And that's something as
16 milk control agencies we need to perhaps examine.

17 Let's see. Anyway, it was -- like was said, it
18 was a very -- I thought it was very informative. Gave us
19 some ideas as far as the industry as a whole -- as a
20 whole, and including globally.

21 Talked about some of the mistakes that had been
22 made in -- in marketing to China. And we did have a
23 presentation by the indivi -- and I don't recall his
24 name -- the individual who was the chairman of those
25 hearings on the federal milk market? The federal order in

1 California?

2 COMMISSIONER COLLIER: Yeah, he was a
3 representative -- he was the USDA -- I think assistant
4 secretary for the USDA who was in charge of that for the
5 four months of hearing.

6 And it was interesting as we queried him
7 afterwards about how long it's going to take for them to
8 make the decision. I mean, we're looking at -- we're
9 looking probably -- what did he say -- the end of 2017?

10 COMMISSION CROWTHER: He said if it got -- if
11 it went -- if it was a smooth transition and the -- the
12 producers voted for it and everything vote -- everybody
13 voted for it, it wouldn't be until probably at least
14 January 2017 before they would be under that order.

15 MR. TRACE: Was that Chip English? Was that
16 the gentleman's name?

17 COMMISSIONER COLLIER: No. I have it written
18 down. It's in the -- he was one of the presenters. And I
19 can get that for you, but --

20 COMMISSION CROWTHER: You know, I'll see if I
21 can find my notes.

22 COMMISSIONER COLLIER: Yeah, he was -- he was
23 there last year and made a presen -- he was just starting
24 the hearings last year. And so they're finished with the
25 hearings now. They have to take it all through the layers

1 of the bureaucracy in the Department of Agriculture at the
2 federal level.

3 And it was -- I think he was kind of saying it
4 with his tongue in his cheek about how many different
5 levels there are that it has to go through and be stamped
6 off on and be approved in order for all this to be --
7 before it ever gets out here into the -- to affect our
8 farmers in Fallon or the people in California.

9 MR. TRACE: Right. And he made it clear this
10 is an election year. No decision will be made till after
11 November.

12 COMMISSIONER COLLIER: Right. Right.

13 COMMISSION CROWTHER: It was -- and I'll throw
14 in a plug for DFA. They did indicate that DFA is right on
15 the cutting edge of the -- what did they say -- they're
16 the ones managing the changes in the milk transportation
17 movement.

18 Apparently -- I don't know if that was in the
19 part where they were talking about alternative fuels and
20 transporting with that, or what part that was, but they
21 did say DFA is certainly leading the way in the U.S.

22 MR. TRACE: Well, that's nice to know. We do
23 something of that nature, Troy, in Colorado. We transport
24 our own raw milk there. And I think we are experimenting
25 with -- with something similar to what McCloskey does in

1 Indiana actually, with the natural gas and everything.

2 CHAIRMAN COOK: Troy, was there any discussions
3 about what's happening in the international markets?

4 COMMISSION CROWTHER: You know, I asked a
5 couple of times about the -- about China specifically.
6 And apparently at least one of the -- one of the
7 challenges is that -- that Australia got in there a little
8 bit ahead of us.

9 And they -- the -- you know, the Chinese right
10 now, I guess, prices are down quite a bit, and so we
11 don't -- there's not a lot of incentive to even market to
12 them right now.

13 But they did -- somebody made a comment that
14 the powdered milk is equivalent to gold for the Chinese.
15 And that -- one thing that we need to -- the U.S.-based
16 producers, we need to do is -- better is to market the USA
17 brand.

18 Because apparently when it -- when the USA
19 brand or when it says USA on it -- not even saying USA --
20 but, you know, just pictures of -- they -- I guess the
21 Chinese market, will buy it, you know, for bottles and
22 things, by the picture, the label that's on the container,
23 rather than what it actually says.

24 But the fact that there's so much distrust
25 among the Chinese consumers of their own products of, you

1 know, products from China, if -- something can -- they'll
2 pay more for something just because it says USA on it.
3 And they feel like they trust it more. And so that --
4 that USA brand is to really be put out there and used.

5 As far as in the foreseeable future, prices
6 rebounding and being able to send powder over there,
7 nobody had a good answer for that.

8 MR. TRACE: I -- I would say -- that's right.
9 We're thinking it's going to rebound similar to the
10 producer world fourth quarter 2017. But we don't know.
11 That's just a shot.

12 But, to your point, Troy, the people in the
13 know are saying that the powder market still is where you
14 need to be to align yourself for the future.

15 And I guess at that point, you know, we have
16 our small plant here in Fallon. We're building a new
17 plant in west Kansas that's identical, twice the size,
18 it's four million pounds a day.

19 Hilmar just over the -- over the hill here in
20 California has a plant already up and running similar to
21 Fallon. And there's a group of dairy producers that have
22 got together in California and they're -- actually got
23 bricks and mortar now and they're building a plant
24 similar.

25 So, you know, all these plants are in this

1 certain -- and they're all in the powder market -- and
2 when -- when the powder market does recover, we'll still
3 just be I'm told a drop in the bucket. We really won't be
4 competing with each other. You know, there's going to be
5 that much demand for it, so, you know.

6 COMMISSION CROWTHER: It was mentioned a few
7 times though about the idea that Australia really jumped
8 in ahead of us, so.

9 MR. TRACE: Yeah, they did. And they've had
10 more experience with that. You know, they've been out --
11 they've been the leader, if you fill, of the forefront.
12 We're playing catch-up. You know, we've --

13 CHAIRMAN COOK: Well, we have the disadvantage
14 of a strong dollar, too. That makes our prices less
15 competitive worldwide in currency terms.

16 MR. TRACE: And when it came to exporting,
17 particularly in the dairy business, we were never good at
18 it because we always just sent our excess and thought they
19 would like it just because it came from us. But, you
20 know, they have their own wants and needs and desires and
21 felt -- you know, we had to get better at that.

22 COMMISSIONER COLLIER: They had a -- they had
23 quite an emphasis on dietary needs for people. In fact,
24 they had a dietician who gave one of the best explanations
25 of what -- how you should eat and what you should eat that

1 I've ever heard.

2 And she was really, really excellent in her --
3 you know, all the different food products and the
4 quantities and the -- and this is I think more and more
5 and more the industry is looking at this aspect of it.
6 And that was -- I caught that from several people there,
7 so.

8 CHAIRMAN COOK: Okay. Well, thank you for that
9 report.

10 Anything else that --

11 MR. HETTRICK: Item number six on the agenda,
12 Mr. Chairman, is public comment and discussion.

13 CHAIRMAN COOK: Okay. Now's the chance for
14 public to comment.

15 Any comments that have not yet been made?

16 Seeing none, I think we're done. So let's
17 adjourn.

18 (Exhibit 1 marked.)

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