



COMMONWEALTH OF PENNSYLVANIA
MILK MARKETING BOARD

Official General
Order No. A-895

Posted: October 21, 1997
Effective: November 1, 1997

OVER-ORDER PREMIUM

AMENDMENT TO OFFICIAL GENERAL ORDER NO. A-893

NOW, this 21st day of October 1997, the Commonwealth of Pennsylvania, Milk Marketing Board issues this official general order pursuant to the authority conferred by the Milk Marketing Law, 31 P.S. §§ 700j-101 - 700j-1204. This order will become effective at 12:01 a.m. on November 1, 1997.

SECTION I

The attached Findings of Fact and Conclusions of Law are incorporated herein by this reference as though fully set forth in this order.

SECTION II

(a) Section II(a) of Official General Order No. A-893 is amended by increasing the over-order premium to \$1.20 per hundredweight effective November 1, 1997, and continuing through April 30, 1998. The premium will revert to \$.50 per hundredweight on May 1, 1998.

(b) Section II(a) of Official General Order No. A-894 is superseded by this order.

SECTION III

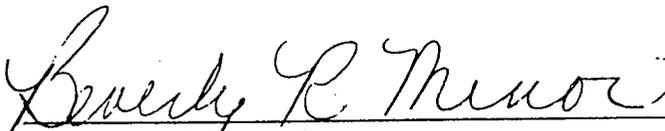
The following provisions set forth in, respectively, Section II(b) of Official General Order No. A-894 and Section II of Official General Order No. A-894 (Supplemental) continue in effect:

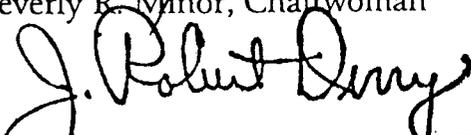
1. Beginning August 1, 1997, milk dealers shall show by line item on their monthly statements to independent producers and cooperatives the specific amount of the Pennsylvania Milk Marketing Board's mandated over-order premium being paid.
2. The over-order premium shall continue to apply only to Class I milk produced, processed, and sold in Pennsylvania.

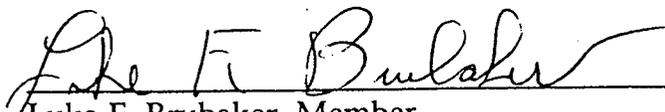
SECTION IV

All parts of Official General Order No. A-893 not inconsistent with Sections II and III of this order continue in effect.

PENNSYLVANIA MILK MARKETING BOARD


Beverly R. Minor, Chairwoman


J. Robert Derry, Consumer Member


Luke F. Brubaker, Member

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FINDINGS OF FACT AND CONCLUSIONS OF LAW

OVER-ORDER PREMIUM HEARING OCTOBER 10, 1997

I. FINDINGS OF FACT

1. On October 10, 1997, the Pennsylvania Milk Marketing Board (hereafter "the Board") convened an emergency hearing in response to applications filed under section 801 of the Milk Marketing Law (hereafter "the Law"), 31 P.S. § 700j-801. Applicants Pennsylvania Department of Agriculture, Pennsylvania State Grange, and Pennsylvania Farm Bureau requested the hearing to present evidence concerning whether the current over-order premium of \$.80 per hundredweight established by Official General Order (hereafter "OGO") No. A-894 should be increased based on changed circumstances that are causing severe economic stress for Pennsylvania's dairy farmers: (PMMB Exhibits 1A - 1C)

2. Notice of the hearing was sent to everyone on the Board's interested persons list by means of Bulletin No. 1261, dated September 15, 1997, and was published at 27 Pennsylvania Bulletin 4983 on September 27, 1997. In addition, the Board inserted legal notices in seven newspapers serving the various milk marketing areas¹ and provided information about the hearing to twenty other newspapers for their discretionary coverage. (PMMB Exhibits 2A and B, 3A - G, and 5)

3. For the twelve months ending June 1997, the average cost of producing milk in Pennsylvania was \$15.47 per hundredweight, a record high representing an increase of 8.2% over the same period a year ago. During the same twelve months, the average Pennsylvania producer was losing \$.33 for every hundredweight of milk produced. The current rate of cost increase, based on a comparison of the weighted average cost of production for the second quarter of 1996 and 1997, is 3.9%. (N.T. 38, 227 - 28, PFB Exhibit 6)

4. The cool spring and summer drought had a negative effect on crop production, especially on forage crops used to feed dairy cattle. The Pennsylvania Agricultural Statistics Service (PASS) estimates that the state's 1997 corn-for-grain crop will be 25.3% below last year's harvest; alfalfa and all-hay crops are estimated to be reduced by, respectively, 12% and 18.4%. The actual yield of corn for grain is

¹ No proof of publication was received in response to the legal notice sent to the Philadelphia Daily News (Milk Marketing Area No. 1). (PMMB Exhibit 4)

expected to be down 34 bushels per acre from last year, with hay yield per acre down .52 tons and alfalfa hay yield per acre down .62 tons. (N.T. 85 - 86, 230 - 31, PFU Exhibit 2)

5. The United States Department of Agriculture's Drought Impact Analysis estimates that corn and alfalfa production statewide will be significantly affected by the summer drought, with alfalfa production per acre reduced by 32%, representing a loss of over \$90 million. Average corn grain production per acre is expected to be 39% below normal statewide; estimated corn silage production losses are valued at \$29.5 million. (N.T. 41 - 44, PFB Exhibit 9)

6. Dairy feed costs are among the most expensive elements of dairy farm operation, accounting for about a quarter of the cost of producing milk. Low to no feed reserves are expected this winter, with hay shortages supplemented by drought-stunted corn silage. The heavier reliance on purchased hay and corn will result in higher than normal total purchased feed costs despite expected declines in soybean supplement prices. (N.T. 41, 92, 228)

7. Milk Marketing, Inc. (MMI) is a cooperative comprised of over 7000 dairy farmers in twelve states who produce approximately six billion pounds of milk annually. About 1800 members of MMI farm in Pennsylvania, producing approximately 1.2 billion pounds of milk a year. MMI's members have experienced a number of conditions affecting their cost of production, including high grain costs, unusual weather conditions, breeding problems, low cull cow prices, high somatic cell counts, low feed nutrient values, hay shortages, high feed supplement costs, and extremely low calf prices. Moreover, they are still feeling the effects of circumstances that occurred over a year ago: low milk production, all-time record high feed costs, low milk component tests, large dairy commodity inventories, and the crash of the Basic Formula Price (BFP). (N.T. 195b, 195d - 195f)

8. Increased costs of production have been coupled with decreased returns to dairy farmers. PASS estimates that the average wholesale price received by Pennsylvania dairy farmers for the first six months of 1997 was \$13.88 per hundredweight, \$.78 per hundredweight below the 1996 average for the same period. Producer milk prices for the second half of 1997 have consistently lagged behind 1996 prices. Based on the magnitude of differences in monthly producer prices during 1996 and 1997, farm prices in 1997 for all Pennsylvania producers can be expected to fall 12% below 1996 levels. (N.T. 231 - 34)

9. Producer prices, measured by federal order blend prices, are expected to peak with October's milk. Although prices are likely to improve during 1998, relative to 1997 prices, estimates of the Basic Formula Price for the first four months of 1998 anticipate a lower average milk price than for the same period in 1997. Thus producer prices from November 1997 to April 1998, as set by federal orders, are expected to be lower than last year's prices. (N.T. 234, 245 - 46)

10. The cost of production in June 1997 was \$15.20 per hundredweight, a difference of \$1.40 per hundredweight from the wholesale milk price (which includes government assessments and deductions) of \$13.80 per hundredweight. The wholesale milk price for September 1997 was \$13.40 per hundredweight, a decrease of \$3.50 from the September 1996 price. The widened margin between cost of production and wholesale milk price is expected to continue for the next six to seven months. (N.T. 86 - 88, PFU Exhibit 3)

11. York Farm Credit--one of four Agricultural Credit Associations in Pennsylvania that together are the single largest source of credit to dairy farmers in the Commonwealth--has seen a significant increase this year in operating loans advanced to its dairy clients, notwithstanding the fact that these clients tend to be above average in terms of profitability and financial condition. Operating loans delivered from January to September 1997 exceeded those delivered in the same period during 1995 by 122% and during 1996 by 190%. These loans are typically used to compensate for seasonal demands placed on cash flow by extraordinary expenses such as crop planting costs and forward purchasing of feed inventories. Revolving line of credit loan balances studied for 30 clients reveal an average operating debt increase of \$16,359.47 per farm in 1997, as compared with 1996. (N.T. 145 - 51, Brogdon Exhibits A and B)

12. An indicator of the appropriate level of over-order premium is the level of in-state sales by Pennsylvania milk dealers. If Class I sales in the Middle Atlantic region are static or rising and Pennsylvania dealers are losing in-state Class I sales, a too-high premium may be enhancing the attraction of out-of-state milk. During the first seven months of 1997, in-state sales by Pennsylvania dealers increased by 1.2%, whereas sales into Pennsylvania by out-of-state dealers decreased by 4.5%. (N.T. 239 - 240)

13. Since the Board increased the over-order premium to \$.80 in November 1996, local over-order premiums outside Pennsylvania have remained constant. (N.T. 242 - 43)

14. An over-order premium of \$1.20 per hundredweight implemented from November 1, 1997, through April 30, 1998, is an appropriate response to the disparity between producer income and cost of production. A premium at that level will generate an adequate return to Pennsylvania producers while maintaining a reasonable alignment between Pennsylvania Class I prices and competitive market prices. (N.T. 36, 196, 246)

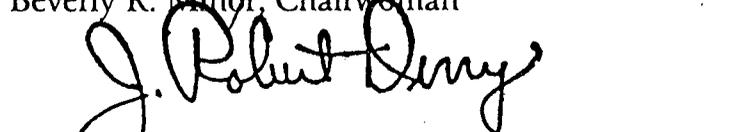
II. CONCLUSIONS OF LAW

1. The October 10, 1997, hearing on the over-order premium was held pursuant to authority granted the Board in sections 801 and 803 of the Law, 31 P.S. §§ 700j-801 and 700j-803.
2. The hearing was held following adequate notice, and all interested persons were given a reasonable opportunity to be heard. (Finding of Fact 2)
3. A preponderance of the evidence establishes the following:
 - a. Pennsylvania dairy farmers are experiencing severe economic stress owing to pronounced disparities between the cost of production and returns to producers. These disparities are attributable principally to the deleterious effects of weather on feed crops and on depressed prices for milk.
 - b. In-state Class I sales by Pennsylvania dealers have increased, and competitive conditions in border states are favorable.
 - c. An increase of \$.40 in the current over-order premium of \$.80 per hundredweight, to be effective from November 1, 1997, through April 30, 1998, will ameliorate the economic stress referenced above without jeopardizing Pennsylvania's ability to compete with neighboring states.
4. Reversion of the over-order premium to \$.50 per hundredweight on May 1, 1998, as set forth in Section II(a) of OGO A-894, is unaffected by the October 10, 1997, hearing and continues to be valid.
5. Section II(b) of OGO A-894 and Section II of OGO A-894 (Supplemental) are unaffected by the October 10, 1997, hearing and continue to be valid.

6. Adoption of the attached order is supported by the record and is reasonable and proper under sections 801 and 803 of the Law, subject to any revisions the Board may deem appropriate in accordance with the procedures set out in the Law.

PENNSYLVANIA MILK MARKETING BOARD


Beverly R. Minor, Chairwoman


J. Robert Derry, Consumer Member


Luke F. Brubaker, Member

Dated: October 21, 1997