



COMMONWEALTH OF PENNSYLVANIA
MILK MARKETING BOARD

Official General
Order No. A-905

Posted: September 9, 1999
Effective: October 1, 1999

OVER-ORDER PREMIUM

NOW, this 9th day of September 1999, the Commonwealth of Pennsylvania, Milk Marketing Board (Board) adopts and 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 October 1, 1999.

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

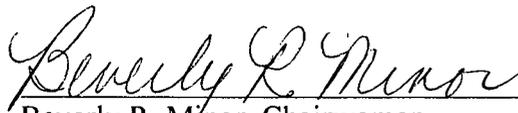
(a) In all milk marketing areas the calculation of the Class I price for milk produced, processed, and sold in Pennsylvania will include an over-order premium of \$.40 per hundredweight.

(b) Milk dealers shall show by line item on their monthly statements to independent producers and cooperatives the specific amount of the over-order premium being paid.

SECTION III

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

PENNSYLVANIA MILK MARKETING BOARD



Beverly R. Minor, Chairwoman

J. Robert Derry, Consumer Member



Luke F. Brubaker, Member

FINDINGS OF FACT AND CONCLUSIONS OF LAW

OVER-ORDER PREMIUM HEARING

August 3, 1999

FINDINGS OF FACT

1. On August 3, 1999, the Pennsylvania Milk Marketing Board (Board) convened a hearing for all milk marketing areas to receive evidence concerning whether the over-order premium established by Official General Order (OGO) A-901 should be continued, adjusted, or allowed to expire as scheduled at midnight on September 30, 1999.
2. Notice of the hearing was published at 29 *Pennsylvania Bulletin* 3044 on June 12, 1999, and was mailed to those on the Board's interested persons list by means of Bulletin No. 1279, dated June 3, 1999. (PMMB Exhibits 1 and 2)
3. At the conclusion of the hearing, the parties agreed to waive briefs on the issue of whether the Board should establish an over-order premium of \$.40 per hundredweight for September 1999. The Board issued such an order, designated OGO A-904, on August 13, 1999. (N.T. 172 - 73, Board records)
4. Factors that should be considered in establishing the level of an over-order premium include the relationship between cost of production and the prices dairy farmers receive, milk supply and demand, the reserve supply of milk in Pennsylvania and surrounding areas, and premium levels outside Pennsylvania. (N.T. 62 - 63)
5. According to the Pennsylvania Agricultural Statistics Service (PASS), the average cost of production for Pennsylvania producers for the 12-month period ending March 31, 1999, was \$13.26 per hundredweight, 7.2% less than production costs for the previous year. For the 12-month period ending June 30, 1999, PASS reports an average cost of \$13.24 per hundredweight, 4.8% less than production costs a year ago. No decrease in cost of production is foreseen in the near future. (N. T. 18, 64 - 65, Exhibits PFB 2 and LOL 1)
6. The cost of purchased feed per hundredweight, which has been as high as 40% of cost of production, was at the 20 - 30% level for April, May, and June 1999. For example, average prices for common dairy feeds in eastern and central Pennsylvania for the week ending July 26, 1999, included No. 2 corn at \$2.43 a bushel, compared with \$2.66 a bushel a year ago; No. 1 soybeans (a reliable proxy cost for the cost of soybean

meal, a feed ingredient for dairy cattle) at \$4.30 a bushel, compared with \$6.13 a year ago; and ear corn at \$71.39 a ton, compared with \$76.86 a year ago. Except for hay, the price of dairy feeds has decreased as well over the last two years. The expected bumper harvest in corn and soybeans, combined with large carryover stocks and the soft export market, forecasts that prices of these two feeds will hold steady or drop into the year 2000. (N.T. 66, 68 - 71, Exhibit LOL 2)

7. Drought conditions in Pennsylvania have resulted in pasture conditions and the majority of the corn crop being rated poor or very poor as of the week ending July 25, 1999. Notwithstanding the expected stability in feed prices, cost of production will probably increase in upcoming months inasmuch as dairy farmers will be purchasing more feeds. That is, the same number of dollars would be going to produce fewer hundredweights of milk. (N.T. 71 - 72, 82 - 84, 90 - 91)
8. PASS reports that the average wholesale price received by Pennsylvania dairy farmers for the 12-month period March 1998 - February 1999 was \$16.29 per hundredweight, which was 14.3% above the average price for the same time period a year ago. For the period June 1998 - May 1999, PASS reports an average wholesale price of \$16.13 per hundredweight, an increase of 11.6% over the price for the same time period a year ago. (Exhibits PFB 2 and LOL 1)
9. Notwithstanding the pending discontinuance of a federally announced basic formula price (BFP) each month, BFP milk futures prices reported by the Chicago Mercantile Exchange (CME) offer the best predictions of milk prices for the remainder of 1999 and early 2000. Settling prices reported by the CME for August 2, 1999, are above \$16.00 for August - October, drop to an average of about \$14.00 for the winter months, and drop again to about \$12.00 going into spring. The prices projected for the near future are more accurate reflections of the market than prices projected for the far future. Projections for the near future show prices above predicted levels of cost of production. (N.T. 17, 73 - 75, 100, 118 - 19, 121 - 22, Exhibit LOL 3)
10. PASS reports only a slight increase in total milk production in Pennsylvania for 1998, as compared with 1997, notwithstanding an average increase of nearly \$2.00 in annual milk prices during 1998. Also according to PASS, production for the first quarter of 1999 was down 1% from the comparable period in 1998. *Dairy Profit Weekly* reports a 0.5% decrease in production for April 1999, compared with April 1998, whereas May 1999 production showed an increase of 2.2%. (N.T. 20 - 21, PFB Exhibits 2, 8, and 9)

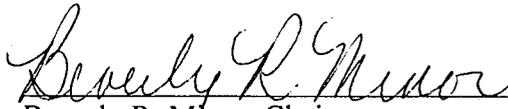
11. The National Agricultural Statistics Service (NASS) also reports that Pennsylvania milk production in May 1999 showed a 2.2% increase over production in May 1998; comparable statistics for New York show production growth of 2.9%. NASS comparisons for June 1999 and June 1998 show production growth of 2.7% in Pennsylvania and 3% in New York. Internal statistics compiled by Land O'Lakes Cooperative track the NASS statistics very closely. Statistics from both sources indicate that there will be an adequate supply of milk in the future. (N.T. 76 - 78, Exhibit LOL 4)
12. During July 1999, when the Board-mandated over-order premium was \$1.81, premiums in New York and New Jersey were at the \$.40 to \$.50 level. A significant difference between the Pennsylvania premium and what the market will bear in surrounding states has the effect of attracting out-of-state milk into the Commonwealth. (N.T. 80, 106)
13. An over-order premium of \$.40 per hundredweight would respond appropriately to the factors of cost of production, prices received by dairy farmers, drought conditions, supply and demand, and marketing conditions in surrounding states. (N.T. 84, 127, 156 - 58)

CONCLUSIONS OF LAW

1. The August 3, 1999, hearing on the over-order premium was held pursuant to authority granted the Board in sections 801 and 803 of the Milk Marketing Law (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. Inasmuch as section 801 of the Law allows the Board to convene price hearings on its own motion or upon application in writing, it is not necessary to set a termination date for the attached order.
4. All parts of Official General Order No. A-893 not inconsistent with the attached order will continue in effect.
5. In accordance with Official General Order No. A-894, milk dealers shall continue to show by line item on their monthly statements to independent producers and cooperatives the specific amount of the over-order premium being paid.
6. In accordance with Official General Order No. A-894 (Supplemental), the over-order premium will continue to apply only to Class I milk produced, processed, and sold in Pennsylvania.

7. In adopting the attached order, the Board has considered the entire record and concludes that the order is supported by a preponderance of credible evidence and is reasonable and appropriate under sections 801 and 803 of the Law.
8. The attached order may be amended pursuant to the procedures set out in section 801 of the Law.

PENNSYLVANIA MILK MARKETING BOARD


Beverly R. Minor, Chairwoman

J. Robert Derry, Consumer Member


Luke F. Brubaker, Member

Dated: September 9, 1999

IF YOU WISH TO RECEIVE THIS INFORMATION IN AN ALTERNATE FORMAT,
PLEASE CALL 717-787-4194 OR 1-800-654-5984 (PA RELAY SERVICE FOR TDD
USERS).