



Commonwealth of Pennsylvania
Milk Marketing Board
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Official General
Order No. A-935

Posted: December 21, 2005
Effective: January 1, 2006

OVER-ORDER PREMIUM

NOW, this 21st day of December 2005, 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 January 1, 2006, and will expire at 12:00 midnight on June 30, 2006.

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 shall include an over-order premium of \$1.55 per hundredweight effective 12:01 a.m. on January 1, 2006, through midnight on June 30, 2006.

(b) 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 over-order premium being paid.

SECTION III

All parts of Official General Order A-893 not inconsistent with this order shall continue in effect.

PENNSYLVANIA MILK MARKETING BOARD

Boyd E. Wolff, Chairman

Luke F. Brubaker, Member

Barbara A. Grumbine, Consumer Member

Date: December 21, 2005

**FINDINGS OF FACT AND CONCLUSIONS OF LAW
OVER-ORDER PREMIUM HEARING
DECEMBER 7, 2005**

FINDINGS OF FACT

1. On December 7, 2005, the Pennsylvania Milk Marketing Board (Board) convened a hearing for all milk marketing areas to receive testimony and evidence concerning the level and duration of the over-order premium.
2. Notice of the hearing was published at 35 Pennsylvania Bulletin 5894 on October 21, 2005, and was mailed to those who have requested notice of Board hearings by means of Bulletin No. 1389, dated October 12, 2005.
3. At the end of the hearing, a briefing schedule was set. Principal briefs were due on December 16, 2005, and reply briefs were due on December 19, 2005.
4. The interested parties stipulated that, for purposes of the December 7, 2005, hearing the cost of milk production in Pennsylvania in October 2005 was \$17.61 per hundredweight.
5. Charles Seidel, a dairy farmer from Berks County, testified on behalf of Pennsylvania State Grange. Mr. Seidel recommended that the Board maintain the over-order premium at \$1.55 per hundredweight for six months. Mr. Seidel noted that the Grange's recommended over-order premium was in addition to the fuel adjustment to the over-order premium previously instituted by the Board. Mr. Seidel testified that his dairy operation had not changed much during the previous six months. His feed costs had increased because of the dry summer in Berks County, but he also testified that not all parts of Pennsylvania had been as dry. Mr. Seidel also testified that, with the exception of fuel, most of his other costs had remained relatively constant. Mr. Seidel further testified that his milk check had not changed significantly either. Mr. Seidel also noted that although milk production in Pennsylvania had increased over the previous year, Pennsylvania still seemed to remain in a milk deficit situation, with room for further production growth without threatening the industry.
6. Dennis Schad testified as an expert in agricultural economics and dairy marketing on behalf of Northeast Milk Marketing Agency, Dairylea Cooperative Inc., Dairy Farmers of America, Inc., Land O'Lakes, Inc., Maryland and Virginia Milk Producers Cooperative Association, Inc., and Dairy Marketing Services, LLC. Mr. Schad recommended that the Board maintain the over-order premium at \$1.55 per hundredweight for six months and that the fuel adjustment provided for in Official General Order A-927 also continue as a separate adjustment to the over-order premium.
7. Mr. Schad testified that milk prices had decreased from their 2004 highs and expenses had increased during the first ten months of 2005. He noted that weather conditions in Pennsylvania had caused uneven quality and yields in field crops. However, Mr. Schad testified that corn and soybean prices had dropped during the previous two months and

- were expected to be moderate through the first half of 2006. Mr. Schad noted that prices for alfalfa had recently increased, though, and were at near year-high prices. Mr. Schad testified that throughout much of 2005, while the national milk-feed ratio had been above the three to one threshold signaling farmers to increase production, the Pennsylvania ratio had never reached that threshold. Mr. Schad explained that while Pennsylvania farmers had an all-milk price above the national average, they also incurred feed costs above the national norms.
8. Mr. Schad also testified that milk production in Pennsylvania had increased 4.8 percent over last year. However, 2005 marked the first year in the past five years that milk production had increased in Pennsylvania. Through October 2005 milk production in Pennsylvania was 570 million pounds lower than milk production during the first ten months of 2000.
 9. Mr. Schad testified regarding premiums in other markets. For distribution in Maryland and Delaware the Northeast Milk Marketing Agency has set the premium at \$1.55 per hundredweight plus a fuel adjustment. For distribution in southern New Jersey the premium continued at \$1.20 per hundredweight. The Dairy Cooperative Marketing Agency premium, net of credits, in the southeastern United States for December 2005 was \$1.61 per hundredweight plus a \$0.56 fuel adjustment. The Mideast Milk Marketing Agency announced a gross over-order price for November distribution in Ohio of \$1.90 per hundredweight, with a maximum credit for uniform receiving of \$0.35 per hundredweight.
 10. Mr. Schad also testified that milk prices were expected to decrease in 2006. The most optimistic United States Department of Agriculture (USDA) estimate was a five percent decline in the first quarter of 2006 and a nine percent decline in the second quarter. USDA's worst case estimate was a decline in the all milk price of nine percent in the first quarter and 14 percent in the second quarter. Mr. Schad further testified that Ken Bailey had forecast a decline in the Pennsylvania all milk price of eight percent for the first half of 2006.
 11. Amy Van Blarcom-Lackey testified on behalf of Pennsylvania Farm Bureau as an expert in dairy economics with particular focus on matters related to dairy price and cost. Ms. Van Blarcom-Lackey recommended that the over-order premium be continued at \$1.55 per hundredweight for six months and that the over-order premium fuel adjuster continue as a separate entity. Ms. Van Blarcom-Lackey projected that the average price to be paid to Pennsylvania producers for the first six months of 2006, not including over-order premiums, would be \$14.21 per hundredweight, which would be lower than the comparable period in 2005. Ms. Van Blarcom-Lackey testified that Pennsylvania producers would experience the lower price while also experiencing increasing production costs.
 12. Ms. Van Blarcom-Lackey testified that while milk production and milk output per cow were increasing, cow numbers were still not above 2004 levels. In addition, she testified that corn, soybean, and alfalfa yields were inconsistent and varied across the state due to

sporadic weather patterns. Therefore, some farmers may have had to supplement their forages with purchased feed, which often is an unplanned expense.

13. The Board finds that maintaining the over-order premium at \$1.55 per hundredweight for January 2006 through June 2006 is the best response to conditions in Pennsylvania at this time. The Board also finds that the over-order premium fuel adjuster provided for in OGO A-927 shall continue independent from this over-order premium decision.

The Board found the testimony of all the witnesses to be credible, and we believe that maintaining the over-order premium at \$1.55 per hundredweight for six months plus the fuel adjuster is the proper course to take at this time.

The Board continues to believe that it is important to provide an incentive for producers to remain in business in Pennsylvania and to increase production. While milk production has continued to increase, we believe it is important to keep in mind that the increase follows several years of production decreases, and Pennsylvania milk production has still not recovered to year 2000 levels. The Board desires to encourage the trend of increasing Pennsylvania milk production and believes that maintaining the premium at \$1.55 per hundredweight plus the fuel adjuster will do that.

The Board also believes that maintaining the over-order premium status quo will best provide a market for Pennsylvania-produced milk. Premium levels in surrounding markets have remained essentially unchanged and there is no indication that the market for Pennsylvania-produced milk is threatened if the over-order premium remains at \$1.55 per hundredweight plus the fuel adjuster.

CONCLUSIONS OF LAW

1. The December 7, 2005, hearing on the over-order premium was held pursuant to the authority granted to 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 parties were given a reasonable opportunity to be heard.
3. All parts of Official General Order No. A-893 not inconsistent with the attached order will continue in effect.
4. 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 Pennsylvania Milk Marketing Board's over-order premium being paid.
5. 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.
6. In adopting this order, the Board 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.
7. The attached order may be amended pursuant to the procedures set out in section 801 of the Law.

PENNSYLVANIA MILK MARKETING BOARD

Boyd E. Wolff, Chairman

Luke F. Brubaker, Member

Barbara A. Grumbine, Consumer Member

Date: December 21, 2005

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