

Pennsylvania Milk Marketing Board

Concept Paper for New Legislation

*Securing additional direct-to-farmer funds for Pennsylvania dairy farmers*

The PMMB has worked for a year to develop a mechanism for acquiring additional revenues from sales in order to provide Pennsylvania dairy farmers with extra revenue. We investigated a model currently used by Maine to determine its feasibility for use in the Commonwealth. Because Maine and Pennsylvania are very different in terms of population, numbers of dairy farmers and numbers of milk processors, we have determined that the Maine model would not work in Pennsylvania.

We developed five mathematical models, investigated their utility using current pricing available through a purchased dataset, and determined that three of those were worthy of further investigation. Each of the three final models was examined by looking at its advantages and disadvantages, overall financial impact on the consumer and the producer, and hypothesized support among various stakeholders in the dairy industry. Following a rigorous review, we have selected the following model for possible implementation in Pennsylvania:

*Maintain the Over-Order Premium and add a retail assessment on non-Class 1 dairy products.*

Using a small assessment of \$0.01/pint or \$0.05/lb., depending on the product, would generate in excess of \$14,000,000 of annual revenue as one example. Since this assessment would be collected at the retail level it would be much harder, or not advantageous, to develop schemes to avoid the assessment. Currently the OOP is only enforceable on class 1 milk that is produced, processed and sold in PA. Under the proposed scenario, if the product is sold in PA the assessment is collected no matter where the milk is produced, or the product is manufactured.

Overall non-class 1 dairy product demand is increasing, particularly cheese. A decline in Class 1 consumption has reduced the revenue benefit of the OOP to PA dairy farmers; therefore, assessing non-class 1 products has potential to generate increasing revenues over time while the OOP revenues may continue to decline.

There is no PMMB minimum retail price on non-Class 1 products. Even though retailers would be required to collect and submit the assessment they could establish their pricing strategies however they choose. Retailers on the PA border could price these products competitively with prices being offered by retailers in other states. Also, maintaining the over order premium as is for now maintains positive industry relations between milk dealers and farm groups. The OOP is an issue that there currently seems to be agreement on its benefits and its amount.

We know that our PA General Assembly members have vocalized support for MMB and the dairy industry. We hope you will work with us to support and advocate for this effort to directly benefit our Pennsylvania dairy farmers.