



Testimony of Pennsylvania Farm Bureau
Before the Pennsylvania Milk Marketing Board
Regarding Dairy Market Conditions

Public Hearings Held Pursuant to PMMB Bulletins No. 1542 and 1543
in Response to Petition for Hearing Filed April 5, 2018
by the Pennsylvania Department of Agriculture

Presented by John J. Bell
Senior Government Affairs Counsel
Pennsylvania Farm Bureau

May 16, 2018

Good morning. I am John Bell and I am Senior Government Affairs Counsel for Pennsylvania Farm Bureau. I am offering this testimony on behalf of Farm Bureau and the more than 62,000 farm and rural families who comprise our membership.

We appreciate the opportunity to offer comments in response to the April 5 Petition by the Pennsylvania Department of Agriculture that requested the opportunity for public input on policy matters pertaining to dairy marketing and what would, or should, be the role of this Board relative to the current dairy marketing situation in Pennsylvania, which many have aptly characterized as a “dairy crisis.”

The displacement of dairy farmers from their normal source of marketing milk is a serious human, as well as economic problem for affected farm families. The potential consequences to those farm families affected can go well beyond than a loss of a job and a source of income. Notwithstanding that loss of market, the family must continue to incur significant daily costs, just in trying to maintain the existing livestock, crops, equipment and land quality that provide value to the farm’s equity. They run the risk of losing that farm and their

home if they have taken on significant debt in managing recent losses from their dairy operations. And they must do so under a heavy mental and emotional cloud of determining which farm and business management strategy will provide the “best” short-term and long-term outcome, among options that may not very promising financially.

This is not the first public forum that has been held on the issue of Pennsylvania’s current dairy situation. On March 23, Farm Bureau representatives testified before a committee of concerned House members chaired by Rep. Frank Ryan, to consider the current problems and potential solutions for Pennsylvania’s dairy industry, in the wake of recent displacements of Pennsylvania dairy farmers to their markets and serious and prolonged low milk prices that our dairy farmers have experienced. I won’t go through the entire testimony that was presented at that hearing. And I would encourage the Board to listen to the segments presented from those commenting from Farm Bureau. Several major themes emerged from the comments we offered:

1. The current economic situation for Pennsylvania's dairy industry is critical and threatens to cause widespread and extensive economic consequences, including extensive exodus of dairy farmers from milk production.

2. Those factors contributing to the problems that Pennsylvania dairy farmers are facing go well beyond Pennsylvania's ability to exclusively control and manage, but include major regional, national and even international contributors. Short of direct financial assistance to each individual Pennsylvania farmer to make up for the extensive losses he or she incurred over these past three years, Pennsylvania has little meaningful ability on its own to reverse those contributors to the current dairy crisis, whether by legislative means or by means of agencies such as this Board or the Department of Agriculture.

3. State regulation of minimum milk pricing alone will not inhibit the substantial pressure that large-volume, regional and national purchasers of milk continue to place on dairy profitability. These purchasers expect their "sellers" to make serious concessions in

price. And regardless of the type of state milk price regulation in place, they will continue to use market forces to command low prices for purchased milk.

4. The strategy traditionally employed by farmers during periods of low producer price to just produce more milk to cash flow their farms no longer seems economically palatable. Such a strategy seems to aggravate an already serious supply-demand imbalance.

In its Petition, the Department of Agriculture offered several recommendations for change in statutory or regulatory policy, including:

- Increasing the period of notice that purchasing dealers or raw milk must give to producers before discontinuation of milk purchases.
- Increased licensing and regulation of retail sellers of fluid milk to ensure more accurate, detailed and transparent accounting where the milk being sold to Pennsylvania consumers by each retailer is being sourced and how much is being obtained from the various sources.

- Changes in laws governing where title is obtained for purposes of determining minimum producer prices, to discourage recognition of artificial handling practices recently established primarily to avoid payment of over-order premiums to Pennsylvania producer.

These are all positive changes, and I believe would be supported in Farm Bureau policy. But they will likely do little to address the broader and more influential regional, national and international factors causing the acute economic problems that Pennsylvania's dairy farmers currently face.

Let me offer two comments about Pennsylvania's over-order premium. The first pertains to the Board's action last December to substantially reduce the level of over-order premium to \$0.75 per hundredweight. It is never easy to look at a reduction in producer price as positive action for dairy farmers. But it was readily apparent from the economic forces at work in markets surrounding Pennsylvania that the premium level was drastically out-of-balance with premiums being paid voluntarily in surrounding markets, and the level of premium imbalance was putting Pennsylvania producer milk at serious risk of

being displaced with milk produced out-of-state. The Board made the humanly difficult but economically prudent decision to bring the premium level back to levels that would help sustain the use and procurement of Pennsylvania milk in local markets.

The second comment pertains to the “stranded premium” – that portion of consumers’ producer premium payment that does not get returned back to the producer. This is the feature of Pennsylvania’s minimum pricing system that seems to incense producers the most. Producers generally feel there has not been sufficient transparency in tracing or accounting of dollars that result from the stranded premium, identifying the primary beneficiaries of stranded premiums being paid by consumers and the relative amounts each beneficiary is receiving, or identification of the particular methods employed by the stranded premium beneficiaries to prevent those consumer dollars to flow back to the producers. We would encourage the Board and Board staff to put in place protocols that would provide greater transparency of who is benefited and what are the proportionate shares of stranded premium revenues received among beneficiaries, and would

discourage creation of stranded premiums of Pennsylvania-produced ultimately marketed to Pennsylvania consumers through milk artificial handling measures by milk wholesalers and retailers.

There is certainly more that could be discussed than what I have stated so far. But I will stop here. Thank you for the opportunity to testify today. I will try to answer any questions you may have, regarding my comments or other related matters.