



CENTER FOR
DairyEXCELLENCE

**Testimony for Pennsylvania Milk Marketing Board
Submitted by the Center for Dairy Excellence
For July 2, 2018, Hearing**

The Center for Dairy Excellence is a non-profit public:private partnership organization that serves Pennsylvania's dairy industry. Part of our role is being a resource and source of support to Pennsylvania's dairy farm families. Pennsylvania is home to more than 6,500 dairy farms, making our state the second largest state in terms of dairy farms. The average herd size in Pennsylvania is 80 cows, compared to a national average of 230 cows.

Recently, the Center worked with Pennsylvania Department of Agriculture to conduct a study of Pennsylvania's dairy industry. That study included a survey of Pennsylvania dairy farms, conducted in June 2017. Based on the results of that survey, the average dairy farm supports 1.25 households and derives 85 percent of their income from milk receipts. Based on our estimates, approximately 35 – 40 percent of Pennsylvania dairy farms are independent producers shipping their milk directly to a processing plant, while the remaining 60 – 65 percent are members of a milk marketing cooperative.

Those farms shipping milk directly to a processor have benefited from a slightly higher pay price than those who are members of a cooperative because they typically have a higher portion of their milk going to Class I and they often qualify for more of the Over-Order Premium paid through the Pennsylvania Milk Marketing Board. However, these farms also have more risks in losing their market with no annual contract or ownership stake in their milk market. While no market is guaranteed, cooperative members benefit from an annual contract with an expectation that it is the cooperative's job to market their milk. The processor is not obligated to market the milk from the independent producer. If they lose a sales contract and no longer need the supply, a processor can let a farm go without any obligation, except what is required through the Pennsylvania Milk Marketing Law.

The law currently states that a processor is only obligated to give 28 days of notice to a dairy farm in situations when they no longer need the milk. With many of Pennsylvania's dairy farms having no other source of income besides the dairy, losing their milk market would cripple their business and devastate their family. Historically, most of Pennsylvania benefited from ample milk markets. When one processor let go of a farm, another processor or marketing cooperative had room for additional supply and was willing to pick them up. In the current situation of oversupply, though, that is no longer the case. Milk markets are not readily available and finding a new home for milk takes a great deal of researching, networking and time.

The situation that occurred earlier this spring provides a framework for how lengthy and painstaking of a process it is for farms to find new milk markets in this current environment. When Dean Foods notified the 42 farms earlier this spring that they no longer needed their milk, the company provided a 90-day window for farms to develop a plan and find a new milk market. In this instance, the 90-day window provided enough time for many of the farms to find new markets and make the transition. A 28-day window would have made the process nearly impossible.

The company sent out its notice on February 28. However, the notice took about a week to arrive in farm mailboxes. The letters were sent as certified mail, so if farmers were not available to sign for their letter, the letters went back to the post office for a future delivery. A few of the farms did not receive their letters until

two weeks after they were sent because no one was there to sign for it when the mail person arrived. In the case of a 28-day window, the time the farms would have had would have been cut in half by this delay.

Once the farms received their letters, many of them immediately began calling other milk markets to find out if they would be able to take them. The center did try to assist in helping the farms find markets, particularly in the western part of the state, by calling processors and cooperatives on behalf of the farms. Once other suppliers found out about the situation, several of them wanted to help but they needed time to inventory their producer base and their customer base to see if they could take additional milk without causing balancing issues within their own supply. In some cases, the processors even looked into additional marketing opportunities for the new milk. None of this would have been possible within a 28-day window.

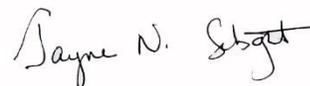
Once the processors and cooperatives decided whether they could take any additional milk, they then had to visit the farms, learn more about the operations, observe the farmsteads and evaluate the farm's milk quality data. Again, this took time, often involving multiple visits and conversations with the farms. In some cases, particularly in the west, a visit to one farm resulted in a referral to another, and the process occurred over several weeks. A couple of the processors took the initiative to share information about the farms they didn't have room for with other processors and cooperatives, trying to find as many of them a home as possible. All of this took time that would not have been available within a 28-day period.

In eastern Pennsylvania, a subset of the farms let go by Dean's came together to develop a plan to collectively market their milk as truckloads instead of as individuals. They attracted a cooperative from outside the area that saw the opportunity to move the milk to a customer outside the region. Since the cooperative wasn't currently in the southeast region of the state, picking up those farms involved creating a new bulk tank unit and identifying systems for inspections and other regulatory matters. All of this took time to research and develop.

With all of the farms, a transition to a new market involved an inspection and quality testing process that took time to get through. Those farms that decided to exit because of the situation took time to weigh their options and make a well-thought-out decision based on what was best for them. In the case of a 28-day window, what would have resulted would have been fire sales without any planning or strategy into what was best for the farm or for the family.

The dairy study conducted last year demonstrated that dairy is a huge economic driver for the Commonwealth, generating nearly \$15 billion in economic revenue annually and supporting 52,000 jobs. The farms that comprise the industry are the backbone of Pennsylvania's rural communities. When these businesses exit, the ripple effect on the industry infrastructure and the community businesses serving that farm is significant. Fortunately, the situation that occurred this spring had a fairly positive outcome. Although a few of the farms exited the industry, many of them were able to transition to a new market. The outcome would not have been as positive if there was only a 28-day window provided.

Respectful Submitted,



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