

**BEFORE THE PENNSYLVANIA MILK BOARD**

**OVER-ORDER PREMIUM HEARING**

**All Milk Marketing Areas**

**Bulletin No. 1639**

**May 1, 2024**

**Surrebuttal Testimony of Dairy Farmers of America, Inc.**

**Presented by Drew Frommelt**

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My name is Drew Frommelt, and I am the Dairy Economics and Analysis Manager for the Northeast Area of Dairy Farmers of America, Inc. (“DFA”). Dairy Farmers of America is a milk marketing cooperative with more than 10,000 farmer-owners, of which 1,028 are in Pennsylvania. DFA also owns and operates ten milk processing plants in the Commonwealth.

Thank you for the opportunity to present our surrebuttal testimony. We are in support of maintaining the over-order premium at the \$1.00 per hundredweight level for the next six months and continuing the current fuel adjuster premium. Mr. Espenshade’s testimony demonstrated just some of the many challenges facing dairy farmers today, including both increased costs and stagnating milk checks. Any reduction in the over-order premium would lead directly to a decline in monthly revenues for any Pennsylvania farmer who is paid out the premium. Mr. Painter suggests reducing the over-order premium to zero. While we share some of the same concerns over the recent trends in the Pennsylvania dairy industry, such as moving from the 5<sup>th</sup> largest to the 8<sup>th</sup> largest milk-producing state, and the continued closures of smaller dairy farms, moving the premium from \$1.00 per hundredweight to \$0.00 per hundredweight would only exacerbate these trends and potentially lead to shocks in the marketplace which would result in disorderly marketing.

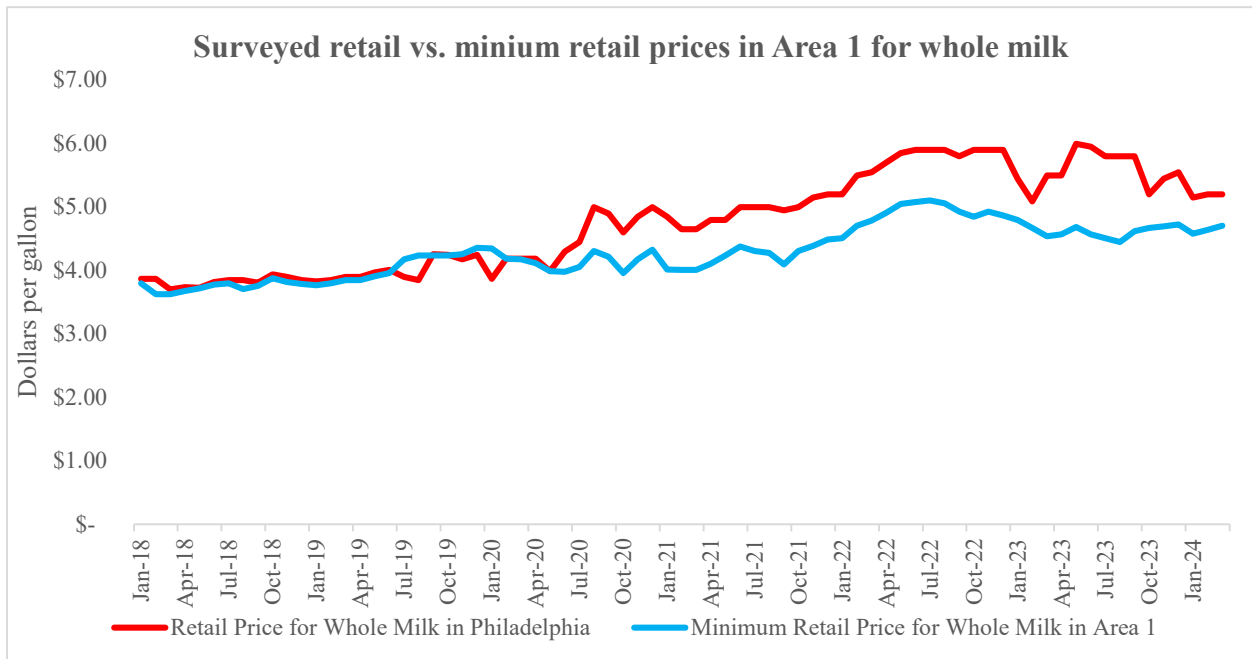
Federal Order 1 blend prices averaged \$24.76 per hundredweight in 2022, \$19.81 per hundredweight in 2023, and through March of 2024 have averaged \$19.53 per hundredweight, at the Philadelphia County, Pennsylvania zone. Increased cheese inventories and decreased global exports of U.S. cheese and whey have led to abnormally low Class III prices, which have decreased the calculated blend price. This loss in value from blend prices over the past two years underscores the importance of maintaining the over-order premium at \$1.00 per hundredweight, as it provides an additional revenue source for farmers to supplement these losses.

The Pennsylvania Milk Marketing Board recently posted a comprehensive report from Ken Bailey Dairy Consulting on the potential economic impact of eliminating Pennsylvania’s minimum milk pricing system. In the report, Dr. Bailey estimates the own-price elasticity of whole milk, reduced fat milk, and other fluid dairy products. Using these elasticity estimates, Dr. Bailey then constructs multiple scenarios to determine the effects of eliminating minimum milk pricing in Pennsylvania on fluid milk consumption, supply, retail sales value, and farm income. The result of simulating these scenarios found that with no minimum milk price set by the board,

fluid milk consumption would increase, and retail prices would decrease. However, according to Dr. Bailey, this would result in a reduction in retail sales value of \$63.2 million per year, on average, due to the inelastic own-price elasticity of each fluid milk product estimated and tested by him in each scenario. Further, the report showed that without a minimum milk price, the average loss in milk supply over the scenario time period of 2017-2021 would be 11.9 million pounds, and ultimately, an estimated loss of \$161 million for Pennsylvania dairy farmers.

While Mr. Painter is not moving to eliminate minimum prices set monthly by the board, a zero dollar over-order premium would have similar results to that of Dr. Bailey’s study, as the current over-order premium accounted for nearly 12 cents of the minimum retail price for a gallon of milk in Pennsylvania in March of 2024. Simply put, Pennsylvania dairy farms cannot afford any further level of losses, like the ones shown in Dr. Bailey’s study.

Price inflation for food products, including dairy products, has been a point of concern for the dairy industry and policymakers since the start of the COVID-19 pandemic. Some may argue that the over-order premium leads to a retail milk price that is too costly for Pennsylvania consumers. The data, however, shows a different story.



Sources: *USDA, Agricultural Marketing Service, Dairy Market News Weekly Report. Pennsylvania Milk Board monthly resale prices*

The figure<sup>1</sup> above plots both the monthly surveyed retail prices for whole milk in Philadelphia and the monthly minimum retail price for whole milk set by the board for Marketing Area 1.<sup>2</sup> Beginning in May of 2020, a trend emerges where the spread between the actual surveyed retail prices charged by Philadelphia retailers and the minimum retail price set for Area 1 widens. Since then, retailers have consistently charged a price for a gallon of whole milk well above the minimum retail price. Retailers are capturing the difference between the minimum retail prices and the higher prices charged to the consumer, while milk dealers and farmers do not receive any of this additional value generated at the retail level. Philadelphia retailers could set their retail prices for a gallon of whole milk at the minimum price they are legally allowed to charge each month, but this has not been the case since May of 2020. Rather, Philadelphia retail price data suggests the optimal price consumers have been willing to pay includes the over-order premium at the \$1.00 per hundredweight level, the additional wholesale and retail costs, the cooperative procurement charge, and the additional margin they set at the store. This further suggests that the current over-order premium and fuel adjuster program are not a burden on Philadelphia consumers; otherwise, retailers would be expected to reduce the price they charge for a gallon of whole milk.

Most stakeholders who have given their input for this over-order premium hearing, including DFA, the Pennsylvania Association of Milk Dealers, the Pennsylvania Association of Dairy Cooperatives, Pennsylvania Grange, the Pennsylvania Farm Bureau, and the Pennsylvania Department of Agriculture are in agreement, the over-order premium level should remain at \$1.00 for the next six months. Between the increased on-farm costs laid out by Mr. Espenshade, the recent trend in reduced blend prices, the supporting evidence laid out in Dr. Bailey's study, and the current trend in retail prices for fluid milk, it is evident that the \$1.00 per hundredweight over-order premium is essential in the near term.

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<sup>1</sup> This figure is similar to a graph used by Dr. Bailey in his report. However, I used data for the period of January 2018 to January 2024, while Dr. Bailey used data from January 2016 to September 2022.

<sup>2</sup> Philadelphia is in Marketing Area 1. The USDA Agricultural Marketing Service only reports surveyed retail milk prices in Philadelphia and Pittsburgh for the state of Pennsylvania, hence why Philadelphia was chosen as the reference city in the figure above.

DFA supports a solution to the flaws of the current over-order premium system that involves (1) collecting the premium on Class I products at the point of retail sale, and (2) having the Commonwealth of Pennsylvania distribute those premiums to all Pennsylvania dairy farmers in a fair and equitable manner. This solution would increase transparency and accountability while eliminating both inequality among dairy farmers and the possibility of stranded premiums that never find their way back to Pennsylvania's family dairy farms. However, in the meantime, DFA supports maintaining the \$1.00 per hundredweight premium and fuel adjuster for the next six months.