



Commonwealth of Pennsylvania
Milk Marketing Board
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Official General
Order No. A-986

Posted: September 17, 2014
Effective October 1, 2014

OVER-ORDER PREMIUM

NOW, this 17th day of September 2014, 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 October 1, 2014, and will expire at 12:00 midnight on March 31, 2015.

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 \$1.60 per hundredweight effective 12:01 a.m. on October 1, 2014, through midnight on March 31, 2015.

(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

Luke F. Brubaker, Chairman

Lynda J. Bowman, Consumer Member

James A. Van Blarcom, Member

Date: September 17, 2014

FINDINGS OF FACT AND CONCLUSIONS OF LAW
OVER-ORDER PREMIUM HEARING
September 3, 2014

FINDINGS OF FACT

1. On September 3, 2014, the Pennsylvania Milk Marketing Board (“Board”) held 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 44 Pennsylvania Bulletin 4628 on July 19, 2014, and was mailed to those who have requested mailed notice of Board hearings by means of Bulletin No. 1505, dated July 7, 2014.
3. Michael Evanish testified on behalf of the Pennsylvania Farm Bureau as an expert in dairy farm accounting and business analysis. Mr. Evanish testified that the over-order premium should be set at \$1.60/hundredweight for six months.
4. Mr. Evanish is manager of MSC Business Services (“MSC”). Among the services provided by MSC are business analysis and business consultations, which include developing budgets and making cost of production projections. To provide clients with insight on the relative health of their dairy operations, MSC analyzes and calculates annual averages of cost and income for several categories of dairy farms. Mr. Evanish testified that for the six-year period of 2008 through 2013, the net margin realized on MSC-client dairy farms averaged \$0.06 per hundredweight per year. Mr. Evanish noted that beginning in 2008, the percentage of income devoted to purchased feed costs was six to seven percent above the percentage of income that farmers previously had to devote to feed costs. He testified that the increasing trend in percentage of income needed for costs to purchase and produce animal feed continued to be a drain on dairy farm operations.
5. Mr. Evanish testified that based on the experience of MSC-client farms, the financial status of Pennsylvania’s dairy farmers has been very positive in recent months. Mr. Evanish also testified that MSC had not conducted a comprehensive analysis of MSC-client farms for 2014, but that a preliminary analysis indicated that MSC-client dairy farms would likely average a level of net profit for the first six months of 2014 significantly above the 2013 level. However, Mr. Evanish further testified that the financial status of Pennsylvania dairy farms was not robust, especially for those that incurred significant debt in 2009-2010. He testified that recent gains have allowed farmers to catch up on accounts payable and other debts, but that the downward trend in dairy futures markets, a significant reduction in cow culling, and strengthening of the dollar on world markets raised serious concerns about the future sustainability of current producer prices.
6. Richard Ebert testified on behalf of the Pennsylvania Farm Bureau. Mr. Ebert operates a dairy farm in Westmoreland County with his brother. Mr. Ebert is also Vice President

of Pennsylvania Farm Bureau and Chairman of the Pennsylvania Farm Bureau Dairy Committee. Mr. Ebert recommended that the over-order premium be set at \$1.60 per hundredweight for six months.

7. Mr. Ebert testified that over the past several years Pennsylvania's dairy industry has experienced high levels of volatility, with spikes in input costs, extremely low milk prices, and very high feed costs. He testified that income margins have been very positive recently, with increases in milk prices and some relief from extreme feed prices, but that managing Pennsylvania dairy farms continues to be financially challenging.
8. Mr. Ebert testified that improvements in price and income that dairy farmers have experienced in recent months don't tell the whole story. He testified that Pennsylvania dairy farmers have been facing years of volatility and that input costs continue to be high. He also testified that other costs, such as farm and health insurance, continue to climb. Mr. Ebert testified that many dairy farmers are still struggling to recover from the economic conditions of the last five plus years.
9. Matthew Espenshade testified on behalf of the Pennsylvania State Grange. Mr. Espenshade is a seventh generation dairy farmer in Lancaster County. Mr. Espenshade requested that the premium be set at \$1.60 per hundredweight. Mr. Espenshade testified that in 2014 milk prices had reached levels seldom seen in the past. He further testified, however, that as a farm that must purchase all of its energy and protein concentrates, shifts in the grain markets can have dramatic impacts on his farm's profitability. Mr. Espenshade also testified that fuel and energy costs continue to be a challenge, with current energy consumption being higher than in 2013.
10. Dennis Schad testified on behalf of the Pennsylvania Association of Dairy Cooperatives ("PADC") as an expert in agricultural economics. PADC members include Dairy Farmers of America, Inc., Dairy Marketing Services, LLC, Lanco Dairy Farms Co-Op, Inc., Land O'Lakes, Inc., and Maryland and Virginia Milk Producers' Cooperative Association, Inc. PADC recommended that the over-order premium be set at \$1.60 per hundredweight.
11. Mr. Schad testified that the prospect of an excellent harvest had a depressing effect on the futures prices for corn and soybeans. Mr. Schad also testified that milk prices began a steady ascent during the end of 2013 through the first quarter of 2014, before beginning to decline in the second quarter of 2014, while remaining at historically high levels. Mr. Schad further testified that futures markets for the end of 2014 and into 2015, while projecting lower grain prices, also projected drastically lower milk prices. Mr. Schad testified that income over feed costs was forecasted to decline into 2015.
12. Dean Ellinwood testified on behalf of PADC as an expert in raw milk marketing, procurement from producers, and sales to handlers. Mr. Ellinwood testified that farm milk production is adequate to meet the current milk demand in the Northeast and Mid-Atlantic. He testified that the northeast marketplace continues to evolve and that while

a few fluid processing and manufacturing plants located outside Pennsylvania have closed over the past 13 months, there has been a significant expansion of other milk processing and manufacturing plants. Mr. Ellinwood testified that the net effect of the closures, openings, and expansions would be an increase in milk requirements in the northeast.

13. Mr. Ellinwood testified that surrounding market over-order prices had not changed since the Board's last over-order premium hearing. He testified that the northeast marketplace will experience increased demand well into the future and that for Pennsylvania processors to be competitive with milk supplies for the Pennsylvania Preferred promotion it is critical that the over-order premium not be reduced.
14. The Board finds that the over-order premium should be \$1.60 for October 1, 2014, through March 31, 2015.

We rely on the credible, persuasive, and uncontradicted testimony of Mr. Evanish, Mr. Ebert, Mr. Espenshade, Mr. Schad, and Mr. Ellinwood in establishing the over-order premium level at \$1.60 per hundredweight.

CONCLUSIONS OF LAW

1. The September 3, 2014, 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

Luke F. Brubaker, Chairman

Lynda J. Bowman, Consumer Member

James A. Van Blarcom, Member

Date: September 17, 2014

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