



Dairy Farmers of America

Written Testimony Submitted By:

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On Behalf of:

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To The:

**Pennsylvania House of Representatives
Agricultural Policy Hearing Highlighting Milk Pricing
Berlin Community Building, Berlin Pennsylvania
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Good morning, Chairman Saylor and members of the Committee. Thank-you for conducting this important milk pricing policy hearing and for giving me the opportunity to enter testimony into the record on behalf of Dairy Farmers of America's 1,100 Pennsylvania members.

My name is Tom Croner. I own and operate a 200 cow dairy and crop farm with my son here in the Berlin area. Our family is proud to have called this community home since 1780. With that kind of history behind me, it's easy to see why I have a real interest in protecting and preserving this region's great agricultural heritage. I currently serve as secretary/treasurer of DFA's Board of Directors and chairman for the Mideast Area Council. I also serve as chairman of the board for the Pennsylvania Dairy Promotion Program, am on the board of the Mid-Atlantic Dairy Association and am treasurer of the Penwest Conference of the United Church of Christ.

Dairy Farmers of America is the country's largest farmer-owned and operated dairy cooperative. Our core business is to market members' milk, pay them a competitive price, provide value and demonstrate leadership in the dairy industry. Nationally, our 18,000 member-owners, supply fluid bottling plants and manufacturing plants that produce a complete line of dairy products for consumers in the United States and around the world. Here in western Pennsylvania, DFA's Global Dairy Products Group operates an Italian cheese plant in New Wilmington and a cheese shred/wrap plant in West Middlesex. In 2008, DFA members in Pennsylvania earned \$1.2 billion from their milk sales. These sales resulted in a positive impact of \$3.2 billion to the state's economy.

2009 was a financial nightmare for most Pennsylvania dairy farmers. As the U.S. and global economy stumbled, consumers at home and abroad cut back on their consumption of dairy products. What had been a healthy export market for dairy products took a turn for the worse. Even as consumption declined, overall U.S. milk production continued to increase. The net effect was a build-up of unsold inventories of dairy products which triggered a severe drop in the mail box price dairy farmers received for their milk. To make matters worse, the cost of feed, fuel, fertilizer, and other inputs on the farm continued to increase as our total farm income fell.

Just how bad was it? I think just a couple of statistics will be enough to answer that. Here in western Pennsylvania, we are a part of Federal Milk Marketing Order No. 33 and it is the Order's regulations and calculations that ultimately determine what the basic price for milk will be each

month. For January 2008, the average, or statistical uniform price, for milk received by producers in Order 33 was \$20.25 per hundredweight. By January 2009, that average price fell to \$13.22 per hundredweight and remained in that vicinity for most of the year. That's a drop of over \$7.00 per hundredweight or roughly 35%! Stop and think about that for a minute. How would you and your family cope if your business or personal income fell by 35% for a year and daily expenses kept on rising? Consider the fact that the actual cost to produce a hundred pounds of milk in this region is around \$17.00 - \$19.00. That means dairy farmers lost money, \$4.00 - \$6.00 per hundredweight, every time they shipped their milk to market. That's why we call it a "dairy crisis."

How did producers cope? Well, mostly by tightening their belts, depleting their savings and the equity in their operations, delaying paying their bills, borrowing more capital, and praying. Some went out of the dairy business altogether. During 2009, 136 DFA Mideast Area members producing 11 million pounds of milk a month decided to exit the dairy business. That is an extremely troubling trend for the dairy industry, processors, consumers and our state's economy.

We are just now beginning to experience better prices and are hopeful that 2010 will be a better year. Those of us who managed to survive thus far may be breathing a little easier, but it will be many years before we can rebuild our equity and undo the damage this past year's market conditions did to us, our families and our farms. Most of us certainly cannot afford to go through another year like 2009.

The roots of this dairy crisis were national and international in scope and so must be the solutions to the problem. To avoid another 2009, we must undergo a fundamental restructuring of this nation's dairy marketing system. Only a comprehensive plan that addresses our Federal Milk Marketing Order system, regional supply and demand differences, milk production growth management, price-risk management strategies, and imports and exports in the world market will ultimately be successful.

Dairy Farmers of America is working closely with the National Milk Producers Federation, other dairy cooperatives, marketing groups, farm organizations, and industry stakeholders to develop a national dialogue and craft a consensus plan that incorporates the best of all proposals and leads

to workable legislation and industry programs. The issues to be considered are big, they are complex and there are no quick fixes. However, we cannot afford to fail in our work.

That said, what can you - as state legislators - do to help see Pennsylvania's dairy farmers through these difficult times? I would respectfully ask that you take the following actions swiftly and as a matter of the highest priority:

- 1) **Revise Provisions of The Pennsylvania Milk Marketing Law and Regulations To Permit Partial Pooling of Class I Premiums To All Pennsylvania Producers**
- 2) **Direct The Pennsylvania Milk Marketing Board to Explore New Methods For Expanding Premiums Collected and Distributed To All Pennsylvania Producers**
- 3) **Restructure/Reform The Pennsylvania Milk Marketing Board (PMMB)**
- 4) **Remove Barriers To Safe, Efficient Milk Transportation**
- 5) **Fully Fund Pennsylvania Dairy Organizations and Programs**
- 6) **Encourage Pennsylvania's Congressional Delegation To Support Constructive, Comprehensive National Dairy Legislation**

1) Revise Provisions of the Pennsylvania Milk Marketing Law and Regulations to Permit Partial Pooling of Class I Premiums to All Pennsylvania Producers

Pennsylvania is one of a small number of states having a law in place regulating the sale of milk. That puts us well ahead of neighboring states who are considering similar laws to aid their dairy producers. Unfortunately, it is extremely inequitable in the way in which it collects and distributes premiums on milk sold for Class I (fluid) use, providing significant benefit to some Pennsylvania producers and absolutely no benefit at all to others.

The PMMB collects a premium on milk sold for Class I (fluid) use. To be eligible, the milk must be produced, processed, and sold within Pennsylvania. Currently approximately 15-20% of the state's fluid milk receives this premium while 40-45% of milk produced in the state actually goes to Class I (fluid) use. DFA members in western Pennsylvania whose milk goes into our Italian cheese plant at New Wilmington have never been eligible for that premium. This has placed DFA and its predecessor cooperative, Milk Marketing Inc. at a substantial competitive disadvantage with the fluid bottling plants in the region. These plants use the PMMB premium

to their fullest advantage to recruit desirable Pennsylvania producers to supply their plant while at the same time energetically soliciting out-of-state producers to avoid paying more PMMB premiums on their fluid sales. This situation has been a particularly sore point for many of us here in western Pennsylvania for decades. Unfortunately, the PMMB has always turned a deaf ear to our repeated requests for relief.

We strongly support revising the provisions of the Pennsylvania Milk Marketing Law and Regulations to permit partial pooling of Class I premiums to all Pennsylvania producers. We recognize that sharing a portion of the PMMB Class I premium among all of the state's producers will not, in itself, generate more dollars in the marketplace or provide the added income all producers need so desperately. However, we strongly believe that it is an important first step in turning the state milk marketing law into a responsive tool that works for all Pennsylvania dairy farmers, rather than a privileged few producers and processors.

2) Direct the Pennsylvania Milk Marketing Board to Explore New Methods for Expanding Premiums Collected and Distributed To All Pennsylvania Producers

Trying times call for creativity, cooperation, and innovation. To date, the PMMB has fallen short on all of those qualities when it comes to exploring new ways to generate more premium income for the state's dairy farmers. Business as usual has been good enough for them.

We commend Governor Rendell and the Pennsylvania Department of Agriculture for their repeated efforts over the last four years to get the PMMB to look beyond our state borders, think "outside the box" and search for new avenues within the framework of the Milk Marketing Law to generate additional premium dollars. Regrettably, they have been no more successful with their petitions than we in the western part of the state have been on the Class I premium pooling issue. We recognize that there may be legal challenges and roadblocks to collecting premiums beyond our borders, but that must not stop the PMMB for using all tools at their disposal and energetically looking at all options available to them.

In testimony before the Pennsylvania Senate Agriculture and Rural Affairs Committee on December 9, 2009, then Acting Pennsylvania Department of Agriculture Secretary Redding eloquently pointed out that due to the way in which the PMMB wholesale and retail pricing is

currently structured, \$26,000,000 in premiums paid annually by Pennsylvania consumers for milk at retail is retained by processors as part of their gross margin and is never distributed to the state's dairy producers. This amount, referred to as an "assumed premium," because it is assumed to have been paid to producers, accounts for an incredible 60% of all premiums collected by the PMMB annually.

This assumed premium money urgently needs to find its way back to Pennsylvania dairy farmers. Processors have multiple opportunities and avenues to improve their margins. Indeed, nationwide, during this time of crisis for us, processors' bottom lines improved markedly at dairy farmers' expense from the lower prices paid for their raw milk. We as dairy farmers can't unilaterally raise the price of our products to cover our costs. It is unconscionable that processors benefit from both reduced input costs and the retained premiums that should have been paid to dairy producers in financial crisis.

Again, as state legislators, I urge you to direct the PMMB to find a way to get these assumed premiums back into the hands of producers where they rightfully belong. According to Secretary Redding, the PMMB has all the tools and authority it needs to make this happen at its disposal today without any statutory changes.

3) Restructure/Reform the Pennsylvania Milk Marketing Board (PMMB)

If the Pennsylvania Milk Marketing Law is to be a viable, responsive tool that serves the interest of all dairy stakeholders well, it must be administered by a Board and staff that are creative, innovative, flexible, empathetic, and responsive. Regrettably, the PMMB and its staff have earned the reputation over the years as one of the most intractable, domineering, inflexible arms of state government. I believe that we are overdue for a thorough review of how the Board is structured and functions.

It would be highly appropriate for the legislature to re-evaluate the number of members on the board, what constituencies they represent, how they are appointed, the length and number of terms they may serve, how they may be removed from office, and how they are compensated. Most importantly, an appointment to the PMMB must not equate to lifetime job security.

4) Remove Barriers to Safe, Efficient Milk Transportation

Pennsylvania dairy producers and their marketing organizations spend millions of dollars a year to transport their product to processing facilities. Anything that can be done legislatively to enable us to transport milk more efficiently and economically on Pennsylvania's highways will result in significant cost savings that go directly to dairy producers' bottom lines.

Federally, we are working for passage of H.R. 1799, the Safe and Efficient Transportation Act of 2009. Passage of the act would allow states to increase vehicle weight limits on their portions of the interstate highway system. I would ask that you encourage Pennsylvania's Congressional delegation to support this legislation and, if passed, that you support state legislation to increase allowable vehicle weight limits on Pennsylvania's interstate highways. Experience in surrounding states with higher vehicle weight limits has demonstrated that this can be done safely.

5) Fully Fund Pennsylvania Dairy Organizations and Programs

I would like to express my appreciation to all of you for the effort you have put into developing a workable state budget under the most difficult economic conditions imaginable. We in agriculture are grateful for the support you have given us over the years and understand that not all needs can be met in today's circumstances. Please know that Pennsylvania dairy producers do value and benefit from the work done on our behalf by the Pennsylvania Department of Agriculture, the Center for Dairy Excellence, the Extension Service and other state agricultural organizations. To the extent that you are able to fund their continuing work and research, you are helping us produce and market our product more efficiently and profitably.

6) Encourage Pennsylvania's Congressional Delegation to Support Constructive, Comprehensive National Dairy Legislation

In closing, I would simply ask that you continue to encourage Pennsylvania's Congressional delegation to continue to work closely with us to forge a constructive, comprehensive new national dairy policy. A number of pieces of dairy legislation have been introduced in Congress that are limited in their scope and were born out of frustration and the desire for immediate

action of any kind to provide some kind of relief for the terrible economic pain dairy producers have been feeling. Some contain elements that we can agree to and support. Others are the result of a lack of full understanding of origins of the current crisis and propose solutions that may have significant negative long-term consequences. None as yet comes close to being the far-ranging, comprehensive new policy our industry needs. Our consensus-building work is not yet done. Please continue to work alongside us and support us in the “heavy-lifting” as you have in the past.

Mr. Chairman, members of the Committee, this concludes my testimony. Thank-you again for your invitation to participate in this hearing. I wish all of you, our state, our nation, and our dairy industry a more prosperous and peaceful new year.