

AGRICULTURE POLICY HEARING

January 12, 2010

**Pennsylvania Milk Marketing Board
Dave DeSantis
Chief, Enforcement & Accounting**

Good morning Representative Metzgar and other concerned legislators and members of the public. My name is Dave DeSantis and I work for the Pennsylvania Milk Marketing Board as the Chief of Enforcement and Accounting. The Milk Marketing Board and I would like to thank you for this opportunity to clarify the role of the Milk Marketing Board in the economic regulation of milk in Pennsylvania. The members of the Board and Board Staff are acutely aware of the fact that prolonged and extremely low milk prices have triggered a crisis for all of our dairy farmers throughout the state. The Board is working with the Governor's Office, the legislature and the Pennsylvania Department of Agriculture to address this grave issue.

I would like to start with an overview of the Board and how it works to serve the dairy industry in Pennsylvania. First, the Board sets the price that must be paid to Pennsylvania dairy farmers. This includes the Over-Order Premium which is paid on milk that is produced, processed and sold in Pennsylvania. Currently, the Premium is over \$3.00 per hundredweight. Since the Board instituted the Premium, nearly five hundred million mandated premium dollars have been paid to our dairy farmers. The Board also audits all dealers that purchase Pennsylvania farm milk to ensure that payments are at or above minimum prices and on time. Dealers are also required to post a bond or security for the value of that milk. Beyond the farm price, the Board

establishes the wholesale and retail price for packaged fluid milk products. The Board sets these resale prices based on costs incurred by dealers and retailers to process, package, deliver and sell the milk. This regulated resale price structure has allowed all costs, including the Over-Order Premium, to flow through to the consumer. You should note that even with this relatively high premium included in the retail price, consumer prices for milk in similar markets outside of Pennsylvania are about the same as or higher than the prices in Pennsylvania for the most prevalent product types and container sizes.

It is also important for you to note what the Board does not do. The Board does not regulate prices beyond our borders. When milk is bought or sold outside the state, the Board does not influence that price. Therefore, when a dealer or retailer goes outside of Pennsylvania to purchase milk, the Board cannot dictate what price that dealer or retailer pays for that milk even if it was originally produced on a Pennsylvania dairy farm. Also the Board cannot mandate that dealers buy Pennsylvania-produced milk. The Board has always been sensitive to the influence of outside markets to ensure that Pennsylvania markets are not threatened by an imbalance in prices at any level. Also, at present, the Board does not place a premium on milk when it is used for manufacturing purposes like butter, cheese or even candy. Knowing the kind of national and international competitive pressure a company like Hershey is under; increasing their costs through a mandated premium would need to be carefully considered.

To address this group's concern regarding additional steps the Board may take to provide relief and return additional revenue to our dairy farmers, I offer the following: After several meetings with the Department of Agriculture, the Governor's staff and after testifying before the Pennsylvania State Senate Agriculture Committee, a plan of action was formulated that will help to maximize revenues for Pennsylvania dairy farmers. First of all, the Board issued Official General Order A-967 effective January 1, 2010. This Order sets the Over-Order Premium at \$2.65, plus a fuel adjuster of \$0.42, for a total mandated premium of \$3.12 for the month of January. This is nearly as high as the premium has ever been.

In response to an inquiry from Governor Rendell, the Board responded with three strategies that would address the issue of low farm prices.

1. Milk produced and processed in Pennsylvania and sold to large retailers outside the state receives no Over-Order Premium even when that retailer brings that milk back into Pennsylvania. The current Milk Marketing Law no longer provides the authority to the Board to license these "Importing Retailers." Unless these Importing Retailers are licensed, the Board cannot require them to report how much milk they are bringing back into the state where the Over-Order Premium may be applied. To address this issue, the Board will request that the Milk Marketing Law be amended to return to the Board the authority to license, and require reports from Importing Retailers. It will then be possible for the Board to take the additional steps necessary to apply the Board-mandated Over-Order Premium on milk produced, processed and ultimately retailed in Pennsylvania.

2. At present, milk produced in Pennsylvania and processed outside the state receives no Over-Order Premium even though the processor or importing retailer is bringing the milk back into the state for resale. Bear in mind the minimum resale price includes the Over-Order Premium. Under current arrangements, farm milk is usually owned by the producer until it is accepted and off-loaded at the processing plant, whether in-state or out-of-state. The Board may not regulate the price paid for milk where the sale takes place outside the state. Without either a clear and uniform change in hauling arrangements providing that processors complete their purchase transaction at the Pennsylvania farm, or some change in law, the Board will not be able to ensure that a Board-enforced minimum Pennsylvania producer price includes the Over-Order Premium paid at retail by consumers for this category of milk. If analyses indicate that such a change in the law would be constitutional, then the Board may be in a position to place the Over-Order Premium on this milk.
3. The Board has just accepted a petition to consider changing the calculation for the Over-Order Premium. Currently, when Pennsylvania dealers purchase both in-state and out-of-state producer milk the Over-Order Premium is based on the ratio of the dealer's Pennsylvania receipts to total receipts. Since this formula was established through an Official General Order of the Board, a hearing is needed to consider a change in the calculation. I expect that the hearing will explore alternatives to the existing formula that could require a

greater amount of Premium be paid. The hearing is scheduled for February 16.

During times of low producer prices, more attention is paid to possible solutions and by the time long-term solutions can be implemented, producer prices have improved and the will to continue working on those solutions dissipates. We believe we have an excellent opportunity now to implement some of the long-term solutions in the form of changes to the Milk Marketing Law that will allow the Board to most effectively address current and future low price cycles. Although the Pennsylvania Milk Marketing Board has a significant effect on the prices paid to our dairy farmers, we should remember that the Federal Order System and systems they use to set producer prices are at the heart of the dramatic price fluctuations we have experienced in the past several years. I believe that until there are fundamental changes to those systems, we will continue to face instability in the farm price for milk.

I want to thank Representative Metzgar for having this hearing to address this very important matter. We at the Milk Marketing Board are looking forward to working with you to make Pennsylvania the best place in the country for dairying.