

TESTIMONY
OF
PENNSYLVANIA ASSOCIATION
OF MILK DEALERS
BEFORE
SENATE AND HOUSE
AGRICULTURE COMMITTEES
MAY 22, 2007

Chairman Brubaker and members of the Committee.

Good morning. My name is Earl Fink. I am the Executive Vice President of the Pennsylvania Association of Milk Dealers (PAMD), a 74-year old trade association of fluid (beverage) milk processors.

Our 32 members process and distribute the vast majority of beverage milk sold in the Commonwealth.

BACKGROUND

Farm prices are regulated by both the federal and state governments.

Since the late 1980s federal policy has been to let the market set the milk price. The market price of cheese, butter and powder now sets prices. The Federal Dairy Support Program which buys surplus milk powder, butter and cheese off the market to support the milk prices has been set by the Congress at a safety net level since 1988.

From the 1940s to the 1980s federal policy on milk was to set price supports at levels that would provide most dairy farmers a sustainable income.

In 1978 the industry requested and Congress approved a large increase in support prices.

This resulted in an increase in production far in excess of market needs. In the early 1980s the government was buying the equivalent of 10 percent of all milk produced in the country at a cost of more than 2 billion dollars per year.

The government implemented three programs in the 1980s to deal with the milk surplus.

Dairy farmers were assessed 50 cents per hundredweight from December 1982 until September 1983. This did not solve the problem.

In 1984 and 1985 dairy farmers were paid \$10.00 per hundredweight to reduce production from 5 percent to 30 percent. Surplus continued.

In 1986 Congress approved the whole herd buy-out. Dairy farmers could bid a per hundredweight price for which they would agree to sell their cows for beef or shipment to another country.

Nearly 14,000 herds were bought out across the country at a cost to the government of \$1.8 billion dollars.

Finally, in 1987 and 1988 Congress reduced the support from a high of \$13.50 cwt. in the early 1980s to \$11.00 in 1988 and authorized the Agriculture Secretary to further adjust the support based on surplus conditions. The market began setting milk prices.

We have seen price volatility – at times severe – since the late 1980s. Last year was particularly tough for dairy farmers because their costs – feed, fuel, fertilizer, etc. – were going up while milk prices were declining. But, the market is rebounding and we expect record high milk prices the second half of this year.

PENNSYLVANIA MILK MARKETING BOARD (PMMB)

The PMMB has the authority to set producer milk prices as well as wholesale and retail prices. It has done so since 1937.

In 1988, in response to dairy farmers, the board began setting an over-order premium to enhance the income of our state's dairy farmers.

The premium is adjusted every six months based on market conditions. Through March of this year it has returned nearly 431 million additional dollars to our farmers.

The current premium is \$1.85 cwt. plus \$.30 for fuel adjustment for a total premium of \$2.20.

PAMD has supported this premium since its inception even though at times we have disagreed with the level.

It puts our member plants at risk to out-of-state competitors who do not have state mandated premiums.

Overall, we think the PMMB has done a good job of adjusting the premium to reflect market conditions.

SUMMARY

We want Pennsylvania's dairy farmers to be successful. We want to buy high quality local milk. We believe the problem of price volatility is a national problem that must be addressed by the Congress in this year's farm bill.

I have provided the Committee with a lot of history because I believe decisions about the future of dairy policy should not be made without understanding this history. The Milk Dealers mainly want the Committee to know that any action taken should not put Pennsylvania processors and their dairy farmers at a competitive disadvantage relative to less or unregulated competition from out-of-state. We also believe that because of the constraints of the Commerce Clause of the U.S. Constitution, the PMMB is presently doing all it can do, short of pricing other classes of milk, to help dairy farmers in Pennsylvania. For that reason, we commend Secretary Wolff for his decision to focus on influencing national dairy policy.

The milk price problem requires a national solution – not 50 state solutions.

Thank you for inviting our Association to express our views.