

Testimony Presented on
Milk Pricing and Dairy Policy in Pennsylvania at the
Joint Informational Hearing of the Senate and
House Agriculture and Rural Affairs Committees
May 22, 2007

Introduction

My name is John Siglow and I am employed by Dairy Marketing Services as Vice President of Sales and Marketing. I have worked in the dairy industry and specifically for dairy farmer cooperatives and producer pricing agencies my entire career of 31 years in various positions which include marketing, pricing, economics and management.

Dairy Marketing Services (DMS) was formed in 1999 by dairy farmer cooperatives for the purpose of more efficiently and effectively marketing milk in the northeast. I am testifying on behalf of the members of DMS who have members in Pennsylvania which are Dairylea Cooperative Inc., Dairy Farmers of America and Land O Lakes. Together, we represent more than 4,000 Pennsylvania dairy farmers and more than half of the milk produced in Pennsylvania.

I have been asked by Chairman Brubaker to submit testimony on the current situation facing the dairy industry. He asked us for our perspective, and asked us to offer suggestions for improvement.

Current Dairy Industry Situation

Our dairy farmer members have experienced financial hardships caused by low milk prices and high input cost such as feed and energy as described in Chairman Brubaker's letter to me requesting this testimony. The graph in exhibit 1 shows an average northeast milk price and cost of production for the years 2000 through 2006. The source was federal order statistics in determining the price and Farm Credit in determining the cost of production. As you can see, in all the years except 2006 the cost of production is below the milk price or slightly exceeds the milk price except in 2006 where the cost of milk production substantially exceeds the milk price by nearly \$1.50 per cwt. If this continues our members will be forced out of the dairy business, our regions milk supply will continue to decline in relation to the national milk supply and more milk processors will discontinue operations due to an inadequate milk supply.

Although milk prices for 2007 are increasing, exceeding \$16.00 per cwt. in March and expected to reach the \$18.00 to \$19.00 per cwt. this fall, these increases are off set by increased energy and feed cost. Energy related cost of milk production are up \$1.00 per cwt. since 2003 and feed cost are up \$2.00 per cwt. from last spring. This makes an \$18.00 per cwt. milk price comparable to a \$15.00 milk price in 2004. Even with the pending high milk prices dairy farmers are still going to struggle to meet their operating cost and pay back debts incurred during 2006. Recently a dairy farmer made this comparison "To put yourself in a dairy farmers shoes and understand what we went through during 2006, you would have to work for nothing during 2006 plus paying back everything that you earned during 2003-2005".

These anticipated higher milk prices that Pennsylvania dairy farmers desperately need, will only last as long as national and international demand for dairy products exceeds the national milk supply. Approximately 90% of the milk price received by Pennsylvania dairy farmers is based on national supply and demand conditions which will most likely continue to follow cyclical patterns. Excess milk supplies will once again build nationally and again we will experience lower milk prices which will be below the cost of milk production even though our regions milk supply does not exceed regional demand. To avoid this financially devastating reoccurrence we must establish a state pricing structure throughout the northeast that will permit dairy farmers to recover their increased cost.

State Milk Pricing

We commend the Commonwealth of Pennsylvania and in particular the Pennsylvania Milk Marketing Board (PMMB) for their leadership in establishing new state milk price initiatives such as the fuel adjustment that helps offset increasing operating costs that our dairy farmers are experiencing. In the future this needs to continue and be expanded to include capturing out of state class I premiums on Pennsylvania produced milk as a well as other add on class I premiums to recover escalating cost such as energy and feed cost.

These efforts have already begun throughout the various states in the northeast and ground work is being laid by DMS so that state wide pricing can be established. Already in place is a fuel adjuster premium established by the New Jersey Department of Agriculture. DMS has officially spoken to Vermont about using the milk commission to help enact a fuel surcharge in New England similar to that of New Jersey. In New York DMS is preparing a Rogers Allen petition that could establish premiums for New York dairy farmers.

Currently we are awaiting the outcome of a PMMB hearing that was held on October 31, 2006. We requested this hearing in response to low milk prices and high input cost that our dairy farmer members have been experiencing just as we are talking about today. We specifically requested that the PMMB use their pricing authority to require that on the purchase of Pennsylvania producer milk sold in other states, either in bulk or packaged form that any state mandated premium established by the state in which the milk is sold is paid to the Pennsylvania dairy farmer.

To some degree this mechanism already exists today under current PMMB regulations. For example, when a Pennsylvania fluid milk plant sells packaged fluid milk in another state it is required to pay the mandated federal order price (or a PMMB established minimum if not in a federal order area) for the area where the milk was sold. Our proposal requests that the PMMB use their authority to require that not only the federal mandated price be paid to Pennsylvania dairy farmers but also any state mandated premium. This would price Pennsylvania milk sold in New Jersey at the same price level that New Jersey produced milk is sold to a fluid milk plant located in New Jersey. This would do two things; increase revenue to Pennsylvania dairy farmers and prevent Pennsylvania milk from undermining the New Jersey mandated price level.

It was disappointing to hear the opposition from milk dealers at this hearing opposing the efforts of dairy farmers from trying to increase their milk prices by collecting premiums already established by other states. The Pennsylvania dairy industry needs to work together in a unified effort to respond to changing economic conditions so we can maintain and grow a healthy dairy industry in Pennsylvania.

We hope to get a favorable ruling which will give Pennsylvania dairy farmers the ability to improve their income by collecting money already in the marketplace which will help offset their escalating cost. If we do not get a favorable ruling perhaps we should ask for a direct payment from the Commonwealth of Pennsylvania paid directly to Pennsylvania dairy farmers just as New York and many other northeastern states have done. We prefer to get the money out of the marketplace which is a more permanent solution rather than a one-time payment that is temporarily helpful but not permanent.

Producer Pricing Agencies

In addition to regulated state milk pricing structures cooperatives also need to continue to improve their over-order pricing agencies that price all classes of milk and charge service fees to recover the cost of marketing milk.

To improve our ability to effectively charge these over-order premiums we have helped form a northeast milk marketing agency which includes DairyLea Cooperative Inc., Dairy Farmers of America, Land O'Lakes, St. Albans Cooperative Creamery, Agri-Mark, Inc., Upstate Niagara Cooperative Inc., and Maryland & Virginia Milk Producers Cooperative Association, Inc. Since the inception of the Greater Northeast Milk Marketing Agency (GNEMMA) during 2006 we have been able to collect approximately \$2.5 million in additional over-order premiums for our members. Throughout the northeast region we need regulated state pricing structures as well as producer pricing agencies to establish and maintain additional premiums needed to offset drastic decreases in the federal order price in order to keep a viable dairy industry.

Pennsylvania Proposed Legislation

Two pieces of proposed legislation which we strongly support which are currently making their way through the legislative process are The Resource Enhancement and Protection Act of PA (REAP) and One-Stop Shop for Permits.

REAP provides tax incentives to help protect waterways which is important to our industry particularly since all of us are more concerned about our natural resources and how we conserve and protect them. It is difficult for a dairy farmer struggling to pay bills to make costly changes on his farm. The REAP Program provides the economic incentive which will lead to more dairy farmers making changes on their farms to protect waterways.

One-Stop Shop for Permits will reduce the length of time to get permits that are needed to make improvements or to expand dairy farm operations. In a state that has not been keeping pace with national milk production there should not be road blocks and hindrances when a dairy farmer wants to improve or expand his farm operation. The system needs to be refined to make it easier to secure the necessary permits for an improvement or expansion.

National Issues

Looking at the national arena DMS and its members are doing a number of things to improve the financial future of our dairy farmer members. Through National Milk Producers Federation (NMPF) we have supported and are awaiting the results from our proposal to change the way Class I and II prices are calculated which would increase the blend price up to \$0.30 per cwt. if adopted. NMPF is a federation of cooperatives throughout the United States representing over 70% of the milk in the United States and represents its members by addressing national issues through a unified voice.

NMPF Farm Bill Proposals

During 2006 NMPF arranged meetings throughout 30 states which involved 180 people including dairy farmer members from Dairyalea and DFA. The mission was to develop a unified direction for the 2007 Farm Bill which would be feasible under the current spending level and palatable under WTO. The Farm Bill proposals cover various areas which are:

- Dairy Product Price Support Program
Replace the current milk price support program with a dairy product price support program. Under this program the Secretary would direct the purchases of butter, powder and cheese at specific product prices to approximately equate to a \$9.90 per cwt. milk price. Although this price may be too low it does create a floor and without a floor prices would slip lower, financially harming more dairy farmers and making it more difficult for a price recovery. Since products are purchased at a specific price this program would be more effective and predictable than the current program.
- Milk Producer Security Program
The current MILC program would be replaced by a direct payment program at a rate of \$0.50 per cwt. with a cap of \$40,000. This would provide consistent payment to farmers and is decoupled from the price and future milk output.
- Promotion Assessment on Imported Dairy Products
This would allow the implementation of the \$0.15 per cwt. promotional check off to be assessed on imported dairy products.
- Energy Programs
NMPF supports equitable access for U.S. dairy farmers to participate in the Farm Bill Energy Title and supports extension of section 9006 and proposes to increase the loan cap to \$100 million. This will provide economic incentives for more dairy farmers to create on-farm renewable energy systems that capture methane from animal waste and use the gas to generate electricity to power their farming operation.
- Conservation Programs
NMPF supports the extension of the Environmental Quality Incentives Program (EQIP). Additionally, they support a substantial increase in funding and an increase in allocation to livestock and dairy producers from 60% to 75%.

- Human Nutrition Programs
NMPF supports and request improvement in many of the nutrition programs which include the Women, Infants and Children Program, Food Stamp Program and the Healthy Diets in Schools Initiative.
- Animal and Public Health Protection Programs
NMPF supports the extension of programs and continued funding to control animal diseases including brucellosis, bovine tuberculosis and Johne's disease as well as funding for the dairy indemnity program and the national animal health emergency management system.
- Trade Expansion Programs
NMPF is requesting that Congress restore the authorized annual funding level for the Market Access Program to \$325 million, the amount for which it was initially authorized in the 1985 Farm Bill.
- Risk Management Program
NMPF proposes to enact a forward contracting program as part of the Farm Bill but must include the following protections.
 - Assure that participation in the program is not a handler's condition of receiving producer milk.
 - Provide for enforcement of payment under the contract.
 - Allow only manufactured classes of milk to be contracted and sunset the program.

Closing Remarks

The financial health and viability of Pennsylvania dairy farmers is not only determined by the price level but also the ability for the dairy farmers to manage their farm in such areas of herd health, calving and production per cow. In this area Pennsylvania has become a leader by establishing the Center for Dairy Excellence and the Dairy Task Force. I am a board member for the Center and serve on the Economic Development Committee of the Dairy Task Force. I have seen first hand how the efforts through groups of mostly volunteer dairy industry people have improved the productivity and financial stability of Pennsylvania dairy farmers. Therefore, I urge the Pennsylvania legislature to continue its investment in the Center through a line item in this year's budget at \$700,000 and continuance in future years' budgets.

In speaking on behalf of our 4,000 dairy farmer members, I would like to thank the Senate Agriculture and Rural Affairs Committee for giving DMS the opportunity to share with you our thoughts and ideas on the dairy industry and extend our appreciation for your concern for the well being and future of the Pennsylvania dairy industry.

Exhibit 1

