

Testimony  
Presented to:  
Pennsylvania State Senate Agriculture and Rural Affairs Committee

Presented by:

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Chairman Brubaker and Chairman O’Pake, members of the Pennsylvania State Senate Agriculture and Rural Affairs Committee, on behalf of Governor Edward G. Rendell it is my honor to testify before you today on the subject of state and federal dairy policy reform. Governor Rendell has been a strong leader in seeking new and innovative tools, programs and policies to help our state’s dairy industry grow and become more profitable. We appreciate your interest in the dairy industry, and we look forward to working with you and the Committee to find common sense solutions to help make the industry stronger.

Pennsylvania has approximately 8,600 dairy farms with milk production in 2006 of 10,742 million pounds. The United States Department of Agriculture (USDA) reports there were 554,000 head of dairy cows in 2006 and that the average farm produces 1,206,966 pounds of milk. The average farm in 2006 produced milk with 62.2 cows, with an average productivity of 19,404 pounds of milk per cow. Pennsylvania is home to a mix of small and large dairy farms. These farms spend most of their money locally to produce milk, thus supporting local businesses and the tax base. The state has the capacity and resources to produce even more milk. Dr. Ken Bailey will, in his comments, review some of the supply, demand, and pricing issues that Pennsylvania dairy farmers are experiencing both today and over the course of the last several years.

Because dairy farms spend money locally, they have a multiplier effect of about 2.5. In other words, for every \$1.00 spent by a dairy farm about \$2.50 in wages and related business activity is pumped into the local economy. It is estimated that dairy production and its associated businesses added on average over \$4.2 billion dollars per year in activity to Pennsylvania’s economy from 1998 to 2002.

Throughout the Governor’s travels, he has come upon countless Pennsylvania dairy farm families who are struggling to pay increasing feed, fuel, fertilizer and other bills. Many dairy farmers worry that if economic conditions do not improve within the dairy industry, they will be forced to sell their cows and look for other occupations in order to make a living. The dire economic situation which confronts the dairy industry in the Northeast and elsewhere prompted Governor Rendell to explore new directions in

dairy policy. The Governor recognizes that there are some problems associated with the current structure of the Federal Milk Marketing System, specifically the high volatility of prices, the gap between cost of production and the price paid to farmers, and the overall complexity of the system.

In recent meetings with Secretaries of Agriculture from other states, as well as leading dairy economists such as Dr. Ken Bailey, Dr. Bob Cropp, and Dr. Mark Stephenson, we all agreed that current U.S. dairy policy is too complex and limits market creativity and dairy product innovation. With slow growth in domestic consumption of dairy products, dairy policy changes need to stimulate new product development to meet the growing export market. This would have the added benefit of removing some farm gate price volatility, which has consistently been an extreme hardship on Pennsylvania producers. Pennsylvania farmers have voiced the need for dairy reform loud and clear to me.

Governor Edward G. Rendell recently presented to Congress a series of recommendations for dairy reform that will help stabilize milk prices and increase farm profits. The federal reform recommendations complement those Governor Rendell suggested for the 2007 Farm Bill, a key piece of federal legislation that affects every citizen through agriculture and nutrition planning for a period of five years. The Farm Bill is an opportunity to ensure that federal policy reflects the unique needs of Pennsylvania's citizens and agricultural industry. Since 2005, Pennsylvania has conducted listening sessions with the state's farmers and agricultural leaders, discussing the Farm Bill and the challenges facing the industry. We have developed a comprehensive set of recommendations for all ten titles of this federal legislation.

These policy recommendations, coupled with the 2007 Farm Bill Reauthorization, provide the dairy industry a rare opportunity to fundamentally improve demand and strengthen producer prices. The 11 recommendations the Governor made address fluctuating milk prices that have denied producers a stable source of revenue. By restructuring the federal order system, developing an insurance and grant program, and establishing a forward contracting program, dairy producers will have more tools to make educated business decisions.

The general themes of the Governor's dairy reform plan are **to strengthen the safety net for producers, improve the federal order system, provide for improved price discovery, and develop new export markets.** The MILC program has been an important safety net for a large number of milk producers; however, the Dairy Price Support Program (DPSP) provides very low support price protection for dairy producers. In fact, the DPSP may be hindering our ability to export dairy products. The U.S. is in a good position to become a significant player in the global dairy markets. The U.S. is already a large exporter of whey and lactose, products that are not regulated under the DPSP. Having access to strong markets for dairy products will allow the U.S. to continue to grow beyond domestic markets. The Federal Milk Marketing Orders (FMMO) should be revisited and changes considered. For example, the current Class I formula may not reflect market realities and the Class I mover is too volatile. The U.S. dairy industry

could benefit from a reliable and transparent method of price discovery for dairy commodities. It is questionable whether that exists today, as witnessed with the current non-fat dry milk reporting errors.

The recommendations include (see fact sheet for more details):

- Restructuring the milk income loss contract, or MILC, to pay a milk target price to all producers when the price of Class III products (e.g. hard and spreadable cheese, cottage cheese) drops below \$12 per hundredweight
- Removing the dairy price support program and developing a recourse loan program for processors and manufacturers
- Exploring the economic benefits to producers of establishing two classes of milk – a fluid class and a manufacturing class – to replace the current four class system
- Establishing a loan forgiveness program for those who graduate with a two- or four-year degree and elect to work in production dairy.

Other recommendations encourage timely decision making on federal order hearings, daily and weekly reporting of commodity market transactions and expanding risk management options. Such a tool would greatly reduce the opportunity of misreporting, which, in the latest case, cost US dairy farmers millions of dollars in lost income. With a more consistent and stable milk pricing payment plan, Pennsylvania dairy producers will have the financial security to grow their businesses and continually improve profitability.

Governor Rendell has taken an active role as well at the state level with introducing programs and policies which have increased farm profits. He appointed the Dairy Task Force and created the Center for Dairy Excellence. The Center is responsible for increased production per cow by 1500 pounds per cow, which equates to \$150 more profit per cow. The Governor Ratified a Memorandum of Understanding with the Commissioners/Secretaries of Agriculture from New York, Pennsylvania, and Vermont that, for the first time, established a formal relationship to work cooperatively to enhance the dairy industry throughout the region. He established a Northeast Dairy Leadership Team to provide the leadership goals and direction for the Northeast Dairy Industry. The Northeast will become more competitive in the marketplaces and more profitable for individual dairy farmers. Under the Governor's direction we expanded the Profit Team Program to over 100 farms. The pilot farms experienced growth averages of 16.7% in milk production per cow, 7.2% increase in cow numbers, and total milk production increases of 24.9%. Average profit improvement was \$249 per cow.

Governor Rendell supported a lawsuit filed against the implementation of a federal milk pricing change that would harm Pennsylvania dairy producers' profitability. The lawsuit, filed by several dairy producers and cooperatives from across the country, sought to overturn an additional deduction, called a make allowance, from producers' monthly milk checks. Processing companies that make cheese, dry whey, butter and nonfat dry milk from Class III and IV milk requested the make allowance, arguing that

the deduction will help cover their operating costs. However, that money would come directly from dairy producers' income.

Under the Governor's direction we launched PAGrows, a one-stop shop for all financing needs for agricultural producers, agricultural processors, farmers' markets and agribusinesses to expand, sustain or diversify their operation(s) through personal and technical consultations. Many dairy farm families have used this money, available through the First Industries Fund, to leverage private investments into new farm buildings, dairy cattle, equipment and other capital projects.

Last year, the Governor petitioned the Pennsylvania Milk Marketing Board to use its authority to capture over-order premiums in other marketing areas, a move that would boost the profitability of Pennsylvania dairy producers. Since then, the Pennsylvania Department of Agriculture has participated in hearings, delivering expert and producer testimony and briefings to the Board. The Board is expected to announce its decision in June. Milk produced, processed and sold within the commonwealth receives a premium above the latest federal order milk price. However, if milk is processed or retailed in another marketing area, producers do not receive that money. Only 15 percent of the fluid milk produced in Pennsylvania is eligible for current premiums, and by capturing a larger portion that is available in the marketplace, the state's producers can increase their income.

Governor Rendell recently wrote to USDA Secretary Johanns and urged him to provide back payments to those producers who were financially hurt by erroneous nonfat dry milk price reports. He asked Secretary Johanns to utilize his authority under Section 32 of the Agricultural Act of 1935, which directs USDA funds for dairy producer indemnification, once the overall impact on dairy producer prices has been determined.

In order to avoid future reporting errors, he requested that USDA immediately implement mandatory auditing of product prices and inventories, as directed by Congress in 2000 and 2002, and also included in Pennsylvania's federal dairy policy reform proposal for the 2007 Farm Bill. Producers want mandatory daily and weekly reporting of all dairy commodity transactions, including prices and quantities by location and product characteristics. Without regular audits that the USDA is supposed to conduct, incorrect reporting of powder prices is simply not going to be caught.

The dairy industry is critically important to our economy and quality of life and therefore must be nurtured and supported. Having the right state and federal dairy policies in place will be critical to improving farm income, capturing international markets, and encouraging investments at all levels of the industry – from the farm to processors. For these reasons, I would ask for your support to encourage dialogue among policymakers and the dairy community. It is our goal, in the final analysis, that the U.S. dairy industry be stronger – both here at home and around the globe.

I would like to close by offering a few comments related to the Governor's School Nutrition proposal which would provide for healthier schools and healthier

students. Governor Rendell's school nutrition proposal provides \$6.5 million to fight childhood obesity and increase access to school breakfast. It benefits PA's children – and the agricultural sector of our economy. The Governor's plan fights childhood obesity by improving the nutritional value of the food our children eat throughout the school day. These “competitive foods” include items sold in vending machines and school stores, ala carte items in the cafeteria, food items sold in conjunction with fundraisers, and any other food item offered in school that is not part of the National School Lunch Program, including a wide range of dairy products.

The voluntary School Nutrition Incentive Program would provide additional funding to schools that choose to implement Pennsylvania's Nutritional Guidelines, which are designed to be implemented over three years. School districts are required by federal law to adopt a wellness plan that includes nutritional standards, and more than 60% of school districts have adopted wellness plans that include their intent to fully implement all three years of the Pennsylvania Nutritional Guidelines, based on a representative sample of the plans. In other words, school districts are eager to move in this direction – and we are pleased to be able to assist them in helping children make smart nutritional choices.

The second component of the Governor's plan increases access to school breakfast by creating the expectation that schools will offer breakfast if at least 20% of students are eligible for free or reduced-price lunch. In a recent report on school nutrition from the Food Research and Action Center, Pennsylvania was among the bottom 10 states for our participation in the school breakfast program. If Pennsylvania had served breakfast as well as the best-performing states, in addition to better preparing students for an academically rigorous day, Pennsylvania would have received an additional \$25 million in federal funding.

Because study after study shows that breakfast is important to a child's well-being and academic performance, more than half of the states ensure that at least some schools offer it – and 17 have an approach similar to this one based on free and reduced-price lunch eligibility. In Pennsylvania, there are currently 346 schools with at least 20% of students eligible for free and reduced-price lunch that do *not* offer breakfast.

At the same time, the Governor's plan ensures that breakfast will not become an unfunded mandate. Because Pennsylvania's school breakfast and lunch reimbursement rates already have a built-in incentive that increases the lunch reimbursement level in any school that offers breakfast, schools already stand to increase their revenue by beginning to make breakfast available to their students. But the proposal also creates a safeguard for school districts by allowing any school that would be expected to offer breakfast to seek a waiver if it can demonstrate that the cost would exceed the additional revenue the school would receive.

By making school food healthier and increasing access to breakfast, Governor Rendell's school nutrition proposal will improve our children's quality of life and their educational achievement.

