

Testimony of Daniel Brandt
On behalf of Dairy Policy Action Coalition
Before the Senate Agriculture & Rural Affairs Committee
June 29, 2010

Good morning. I want to thank Chairman Brubaker and members of the Senate Agriculture and Rural Affairs Committee for the opportunity to address the issue of ‘stranded’ milk premiums in Pennsylvania. It is fitting that ‘stranded’ revenue topped the national discussion last Friday during the U.S. Department of Justice joint workshop with USDA, where dairy producers, consumers, law professors, economists, government administrators, Senators, and others, gathered in Wisconsin to focus on market competition and the dairy industry’s growing farm-to-retail price spread as a sign of something amiss. Economists noted that the farmer’s overall share of the consumer’s dairy dollar has fallen from over 50% in the 1990s to 38% in 2007 to 25% in 2009. U.S. Senators asked: “Where is all the money going that is being paid by the consumers and not being received by the dairy farmers?”

Today, we’re here before you with the same question as it relates specifically to Pennsylvania’s state-mandated Over-Order Premium.

My name is Daniel Brandt and I am here on behalf of the Dairy Policy Action Coalition (DPAC). I am a partner in Brandt-View Farms with my brother Karl and father David. My son Mark and my nephew Nathan are the fourth-generation to work on this farm. We have 370 registered Holsteins and raise all of our own forages. In addition to serving as vice-chair of DPAC, I am also a state director of the Pennsylvania Holstein Association and a Board member of the Lebanon County Farm Bureau.

Last December, we testified before this committee on the dairy industry’s economic struggles, lack of transparency in milk pricing and what these issues mean to our state’s revenue, rural economies, and jobs. These facts are well known by your committee.

It is also well known that Pennsylvania consumers now pay around 27 cents per gallon in Over-Order Premiums that are intended, by law, for the dairy farmers. For June, this is \$3.18 per hundredweight of Class I milk produced, processed and sold in Pennsylvania.

The attached PMMB price announcement for June 2010 shows this amount, plus an Over-Price Premium of 48 to 69 cents per hundredweight, which is also included in the state-minimum retail and wholesale prices paid ultimately by consumers. The monthly Over-Price Premium is additional to the Over-Order Premium as an added bonus to dealers and handlers. During a recent PMMB hearing, it was noted that the PMMB attempts to help milk handlers cover milk quality premiums to farmers by providing this extra Over-Price Premium within the resale price to encourage the purchase of high quality milk for fluid sales in Pennsylvania.

Both the Over-Order Premium (with fuel adjuster) and the Over-Price Premium are in addition to the cost-recovery and profit margin afforded the dealer-handlers and retailers within the state-minimum retail and wholesale prices announced by PMMB each month.

But since the Over-Order Premium is the state-mandated premium specifically intended for dairy farmers, I will focus my comments just on that, and I'll refer to it as the "farmer premium" because that's what it is supposed to be.

In 2009, Pennsylvania consumers paid a conservative estimate of over \$60 million in "farmer premiums," but at least \$16 million did not get passed through to the dairy farms. With the "farmer premium" set even higher today than it was for the first half of 2009, the amount of 'stranded' premiums is positioned to reach \$26 million annually. At any rate, these conservative estimates show that at least one-fourth of the "farmer premium" is not reaching the farm.

This is disheartening to dairy farm families, especially in troubled times. Whenever PMMB issues an Order to raise the "farmer premium," the local news media tell consumers their price will go up to help the state's struggling dairy farmers. Pennsylvania consumers—as well as farmers from other states and other sectors of agriculture—believe Pennsylvania dairy farmers "have it made."

Do we? Figure 1 shows that from 2006 to early 2008, Pennsylvania's "Mailbox Milk Price" was 20 to 50 cents per hundredweight higher than neighboring Ohio's, and our Mailbox Price was a good 50 to 75 cents higher than the U.S. average Mailbox Price.

But, from 2008 through 2010—when the Pennsylvania Over-Order Premium was actually increased a good 50 cents due to fuel costs and market conditions—Pennsylvania's Mailbox Price has been 20 to 50 cents below Ohio's Mailbox Price.

Throughout 2008 and 2009, the Pennsylvania Mailbox Price also fell to within 5 to 30 cents of the U.S. average Mailbox Price... until the first quarter of 2010. The only reason Pennsylvania and Ohio are now widening their margin with the U.S. average Mailbox Price is because Class IV products (butter and powder) are higher than Class III (cheese) and that means Class IV is the mover for the fluid Class I Federal Order minimum. Thus, Pennsylvania's Mailbox Price gained in February and March of 2010 relative to the U.S. average Mailbox Price, but this gain is not at all related to the Pennsylvania Over-Order Premium.

USDA publishes the Mailbox Milk Prices each month with about a three-month lag, and defines the Mailbox Price as: *"The net price received by dairy farmers for milk, including all payments received for milk sold and deducting costs associated with marketing and transporting the milk."*

Moving on to Figure 2. This shows how Pennsylvania's Mailbox Price is \$1.20 to \$1.50 below the USDA-announced "All-Milk" price, whereas other areas have a Mailbox Price just 30 to 70 cents below the announced "All-Milk" price. How is it that a state with a mandated "farmer premium" paid by Pennsylvania consumers at a rate of over 25 cents per gallon winds up with a Mailbox Milk Price that looks like this?

As you know, the retailers and dealer-handlers already receive a separate calculation that represents their cost recovery and profit margins, which are set within the state-minimum retail and wholesale prices. The "farmer premium" is a different story. The PMMB no longer has the authority to track milk back from the retailer, unless the sale is transacted within the borders of Pennsylvania. This creates opportunities for all kinds of diversions to mix-and-match in-state and out-of-state milk purchases or bottling and warehousing services to effectively break the chain. Since the PMMB can only audit the trail for milk produced, processed and sold in-state, any missing link in the chain can lead to more "farmer premium" being swallowed in the middle.

On June 2, PMMB took a first big step with a decision that will close one of the loopholes to recover an estimated \$5 to \$7 million of 'stranded' premiums. The new calculation affects only the milk dealers and handlers who sell and source milk both in- and out-of-state, by having them pay the full premium on milk they buy from Pennsylvania farms or the fluid beverage milk they sell to Pennsylvania consumers—whichever is the smaller amount.

However, for those of us who attended the PMMB hearing, where this change was hotly contested, we learned from the testimony of various milk dealers that they intend, in their words, to ‘find a new shell game’ or source more out-of-state milk or use sales models that include out-of-state distribution centers to circumvent their obligation.

When this decision goes into effect in October: Will it help dairy farmers? Maybe, maybe not: We still have concerns about where the rest of this money is going and how well it is distributed. Unless the Over-Order Premium is designated at retail for distribution directly to dairy farmers, the entities in the middle will continue to “find new shell games.”

At the national hearing in Wisconsin last Friday, University of Connecticut economist Dr. Ron Cotterill talked about “coalescing powers” in the marketplace and the effect on farmers and consumers at both ends from the powerful middle. In the drive to become more efficient, the act of “channeling efforts” throughout the value chain tends to beef up the middle and diminish the value realized by those at the ends (farmers and consumers). Dr. Cotterill spoke of a remedy that would take a 30-cent per gallon vendor fee at the retail level and have it pooled directly back to dairy farmers instead of entrusting “a coalescing marketing chain” with the responsibility of passing it back. His statement was relevant to our discussion here today.

The bottom line is that Pennsylvania consumers believe they are supporting Pennsylvania farmers when they pay a higher price for their milk. The dairy industry has changed and consolidated over the past 10 to 20 years. It really does not matter if the dealer buys milk from Pennsylvania farms or out-of-state farms. That Over-Order Premium should not even be figured into their business model. That premium should be set aside for dairy farmers. Every penny of that premium should go into a pool and be paid back to farmers because the law says that is what the premium is designed for.

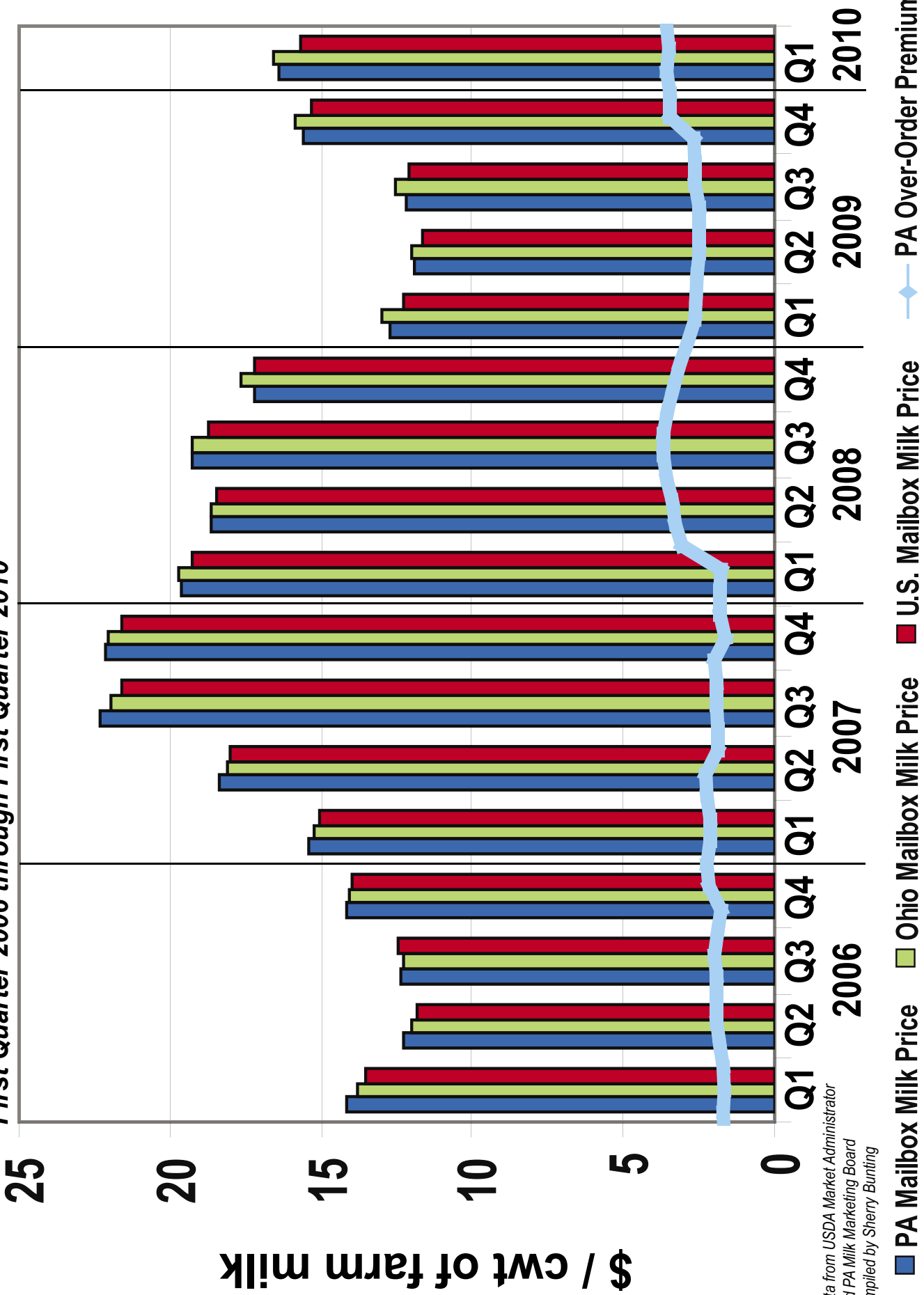
Attachments:

- Fig. 1: PA Mailbox Milk Price vs. Ohio vs. U.S. avg. vs. PA Over Order Premium – First Quarter of 2006 through First Quarter of 2010.
- Supporting Data for Fig. 1
- Fig 2: \$ / cwt. difference between USDA-announced “All-Milk” Price and USDA-calculated final “Mailbox” Milk Price 2008 and 2009 - annual weighted average
- PMMB Retail /Wholesale Price Announcement for June 2010 showing the additional over-price premium.

For further information, please contact Daniel Brandt, DPAC vice-chair. For specific questions about the data contained in the attachments and references in this testimony, please contact Sherry A. Bunting, DPAC Correspondence Secretary (717-445-7531 / agrite@ptd.net). Information is also available at www.dpac.net.

Fig. 1

PA Mailbox Milk Price vs. OH Mailbox vs. U.S. Avg Mailbox vs. PA Over-Order Premium
First Quarter 2006 through First Quarter 2010



Data from USDA Market Administrator and PA Milk Marketing Board compiled by Sherry Bunting

**Data supporting Fig. 1 graph:
PA Mailbox Milk Price vs. Ohio vs. U.S. Avg. vs. PA Over Order Premium**

	PA Mailbox	Ohio Mailbox	U.S. Avg. Mailbox	PA Over-Order Premium
Jan-06	14.92	14.64	14.43	1.93
Feb-06	14.2	13.88	13.52	1.9
Mar-06	13.28	12.95	12.64	1.93
Apr-06	12.41	12.16	11.92	1.9
May-06	12.22	12	11.8	1.93
Jun-06	12.1	11.92	11.74	1.99
Jul-06	12	11.82	11.66	2.07
Aug-06	12.2	12.01	12.88	2.07
Sep-06	13.02	12.89	12.88	2.07
Oct-06	13.95	13.81	13.65	2.1
Nov-06	14.19	14.13	14	2.04
Dec-06	14.39	14.32	14.2	1.98
Jan-07	14.94	14.79	14.66	2.23
Feb-07	15.32	15.13	14.92	2.26
Mar-07	16	15.74	15.6	2.2
Apr-07	16.84	16.59	16.45	2.2
May-07	18.17	17.89	17.78	2.26
Jun-07	20.19	19.83	19.8	2.29
Jul-07	22.12	21.72	21.49	2.04
Aug-07	22.38	22.08	21.47	2.04
Sep-07	22.48	22.13	21.78	2.07
Oct-07	21.87	21.93	21.39	2.07
Nov-07	22.58	22.32	21.81	2.1
Dec-07	22.03	21.95	21.04	1.88
Jan-08	21.22	21.18	20.7	2
Feb-08	19.67	19.7	19.03	2
Mar-08	18.09	18.28	18.01	1.97
Apr-08	18.57	18.59	18.19	2.8
May-08	18.12	18.23	18.09	2.95
Jun-08	19.1	19.05	19.12	3.01
Jul-08	19.86	19.83	19.43	3.13
Aug-08	19	19.08	18.58	3.19
Sep-08	18.81	18.92	18.27	3.19
Oct-08	18.08	18.42	17.94	3.1
Nov-08	17.84	18.3	17.42	2.98
Dec-08	15.78	16.32	16.12	2.86
Jan-09	14.41	14.83	13.77	2.68
Feb-09	11.94	12.28	11.61	2.53
Mar-09	11.69	11.97	11.6	2.5
Apr-09	12.12	12.43	11.96	2.47
May-09	12	12.32	11.61	2.44

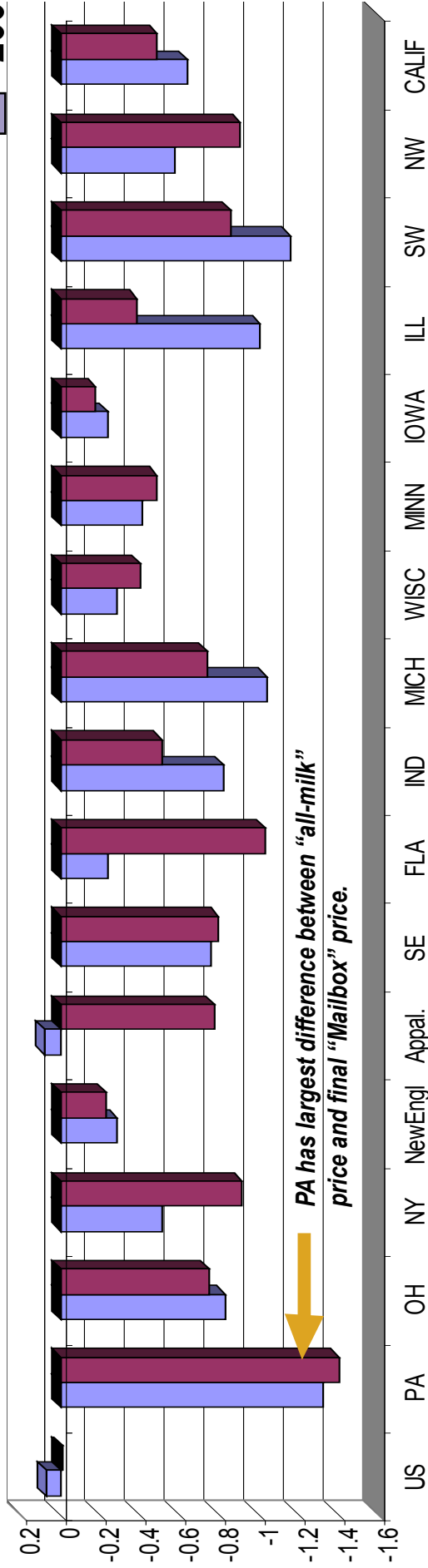
Jun-09	11.63	11.87	11.27	2.44
Jul-09	11.67	11.9	11.3	2.44
Aug-09	12.05	12.45	12.04	2.53
Sep-09	12.98	13.28	12.98	2.53
Oct-09	14.52	14.88	14.29	2.56
Nov-09	15.61	15.85	15.37	3.06
Dec-09	16.66	16.84	16.37	3.06
Jan-10	16.72	16.92	16.16	3.12
Feb-10	16.71	16.92	15.97	3.09
Mar-10	15.76	15.92	14.92	3.12

*Mailbox Milk price data from USDA Market Administrator

**PA Over Order Premium includes the fuel adjuster - data from PMMB website.

Fig. 2

\$ / cwt. difference between USDA-announced “All-Milk” Price and USDA-announced final “Mailbox” Price 2008 and 2009 - annual weighted average



This bar graph shows the difference (plus or minus) between the USDA-estimated “All-Milk” price and the USDA-finalized “Mailbox” milk price in both 2008 and 2009. As you can see, the weighted average across the U.S. varies by only pennies (one to seven cents per cwt) between “All-Milk” and “Mailbox.” The average of all states and regions, excluding Pennsylvania, is 60 cents per hundredweight (reflecting costs such as hauling and promotion assessments). On the other hand, Pennsylvania’s Mailbox price was \$1.33/cwt **below** its “All-Milk” price in 2008 and \$1.41/cwt **lower** in 2009. Among all states and regions, Pennsylvania has **the largest negative difference** between the USDA-estimated “All-Milk” price and the USDA-finalized “Mailbox” milk price.

The chart above shows PA’s “difference” compared with the entire U.S. and compared with other states (Appal = Appalachian states; SE = Southeast states; SW = Southwest states; NW = Northwest states).

****The “All-Milk” price** is an estimate of the average market milk price at the farm level, based on the Federal Order minimum price for Class I, II, III, and IV and the percent utilization of those classes. The “All-Milk” price does not include over-order premiums, assessments or hauling costs.

The average of the final price received by producers, which includes over-order premiums, assessments and hauling costs. Pennsylvania’s large negative difference reflects the fact that PA producers are not receiving the benefits of the very substantial PA over order premium, which now stands at just over \$3.00 per hundredweight of milk (25 cents per gallon). Interestingly, the PA over order premium was higher in 2009 than 2008 (because of the low Federal Order prices), however, PA farmer’s received a larger cut to their final “Mailbox” milk price in 2009 (a negative difference of \$1.41) compared with 2008 (a negative

difference of \$1.33).

***Something is very wrong with this picture, and it begs a few questions:

- 1) Are PA over order premium dollars being used to pay a portion of the Federal Order minimum?
- 2) If PA is the one state with the largest and most formalized over order premium paid by consumers at retail and intended for the farmers... why then is PA the one state with the **largest negative discrepancy** between the USDA-estimated “All-Milk” price and the USDA-finalized “Mailbox” milk price?



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Minimum Resale Prices For June 2010

AREA-ZONE	OFFICIAL GENERAL ORDERS		CLASS I DIFF.	OVER-PRICE PREMIUM	OVER-ORDER PREMIUM /1/	BUTTERFAT VALUE /2/	SKIM VALUE /2/	CLASS I PRICE @ 3.5%
1-0	A-951 (CRO 2)	893, 899, 925, 942, 952, 957, 964,967	\$3.05	\$0.63	\$3.18	\$1.7841	\$16.47	\$22.14
2-0	A-953 (CRO 2)	893, 925, 942, 952, 957, 964, 967	\$2.80	\$0.69	\$3.18	\$1.7822	\$16.28	\$21.95
3-0	A-962 (CRO 1)	893, 925, 942, 952, 957, 964, 967	\$2.80	\$0.48	\$3.18	\$1.7801	\$16.07	\$21.74
4-0	A-963 (CRO 1)	893, 925, 942, 952, 957, 964, 967	\$2.90	\$0.48	\$3.18	\$1.7811	\$16.17	\$21.84
5-0	A-954 (CRO 1)	893, 925, 942, 952, 957, 964, 967	\$2.30	\$0.61	\$3.18	\$1.7764	\$15.70	\$21.37
6-0	A-956 (CRO 1)	893, 925, 942, 952, 957, 958, 964, 960, 967	\$2.50	\$0.63	\$3.18	\$1.7786	\$15.92	\$21.59
Advanced Class II Butterfat Price /2/			\$1.7369		Class I Butterfat Differential			\$1.62
Advanced Class II Skim Price /2/			\$10.31		Advanced Class III Skim Price			\$7.50
Class II Price @ 3.5% Butterfat			\$16.03		Advanced Class IV Skim Price			\$9.61
School Stop Charge for Area 1 /2/			\$12.42		Advanced Class III & IV Butterfat Price			\$1.7155
Consumer Price Index /2/			218.01					
Container Cost /2/			Area 1	Area 2	Area 3	Area 4	Area 5	Area 6
Gallon			\$0.2019	\$0.1874	\$0.1900	\$0.1896	\$0.1573	\$0.2114
Half Gallon			\$0.1528	\$0.1508	\$0.1521	\$0.1524	\$0.1213	\$0.1256
Quart			\$0.1260	\$0.1002	\$0.1021	\$0.1278	\$0.1017	\$0.1697
Pint			\$0.0893	\$0.0858	\$0.0800	\$0.1012	\$0.1009	\$0.1485
Half Pint Paper			\$0.0201	\$0.0241	\$0.0265	\$0.0273	\$0.0265	\$0.0244
Half Pint Plastic Add On			\$0.0396	\$0.0416	\$0.0394	\$0.0385	\$0.0297	\$0.0466
Energy, Heating & Disc Eff. Add-Ons /2/			-\$0.0036	-\$0.0026	-\$0.0042	-\$0.0029	-\$0.0046	-\$0.0004

/1/ The Over-Order Premium includes a \$0.53 Fuel Adjustment pursuant to O.G.O A-927.

/2/ For generating PMMB Excel prices.

WHOLESALE / RETAIL PRICES OF PROMINENT PRODUCTS AND SIZES

AREA-ZONE	CONTAINER SIZE	WHOLESALE				RETAIL OUT-OF-STORE			
		HOMO 4% & UNDER	REDUCED FAT 2%	LOW-FAT 1%	NONFAT	HOMO 4% & UNDER	REDUCED FAT 2%	LOW-FAT 1%	NONFAT
1-0	Gallon	\$3.6284	\$3.4482	\$3.3054	\$3.1849	\$3.72	\$3.56	\$3.44	\$3.33
	Half Gallon	\$1.8580	\$1.7680	\$1.6966	\$1.6363	\$1.90	\$1.82	\$1.76	\$1.70
	Quart	\$1.0300	\$0.9850	\$0.9493	\$0.9191	\$1.04	\$1.00	\$0.97	\$0.94
2-0	Gallon	\$3.3529	\$3.1770	\$3.0322	\$2.9097	\$3.55	\$3.40	\$3.27	\$3.16
	Half Gallon	\$1.7443	\$1.6562	\$1.5839	\$1.5226	\$1.84	\$1.76	\$1.69	\$1.64
	Quart	\$0.9324	\$0.8883	\$0.8521	\$0.8216	\$0.97	\$0.93	\$0.90	\$0.87
3-0	Gallon	\$3.3490	\$3.1723	\$3.0278	\$2.9153	\$3.48	\$3.32	\$3.19	\$3.09
	Half Gallon	\$1.7268	\$1.6385	\$1.5661	\$1.5099	\$1.79	\$1.71	\$1.64	\$1.59
	Quart	\$0.9376	\$0.8934	\$0.8573	\$0.8291	\$0.96	\$0.92	\$0.89	\$0.86
4-0	Gallon	\$3.3795	\$3.2091	\$3.0681	\$2.9690	\$3.69	\$3.52	\$3.37	\$3.27
	Half Gallon	\$1.7578	\$1.6725	\$1.6020	\$1.5525	\$1.92	\$1.83	\$1.76	\$1.70
	Quart	\$0.9694	\$0.9267	\$0.8915	\$0.8667	\$1.05	\$1.01	\$0.97	\$0.95
5-0	Gallon	\$3.3975	\$3.2125	\$3.0749	\$2.9614	\$3.61	\$3.44	\$3.32	\$3.22
	Half Gallon	\$1.7548	\$1.6623	\$1.5935	\$1.5367	\$1.86	\$1.77	\$1.71	\$1.66
	Quart	\$0.9759	\$0.9295	\$0.8952	\$0.8669	\$1.02	\$0.98	\$0.94	\$0.92
6-0	Gallon	\$3.4577	\$3.2721	\$3.1302	\$3.0578	\$3.63	\$3.46	\$3.34	\$3.27
	Half Gallon	\$1.7643	\$1.6716	\$1.6006	\$1.5644	\$1.85	\$1.76	\$1.70	\$1.67
	Quart	\$1.0370	\$0.9905	\$0.9551	\$0.9370	\$1.06	\$1.02	\$0.99	\$0.97