

**TESTIMONY OF PENNSYLVANIA
ASSOCIATION OF MILK DEALERS
SENATE AGRICULTURE COMMITTEE HEARING
JUNE 29, 2010**

Chairman Brubaker and members of the Committee – my name is Earl Fink. I am the executive vice-president of the Pennsylvania Association of Milk Dealers. Our thirty-one members process and distribute the vast majority of Class I milk sold in the Commonwealth.

The Pennsylvania Milk Marketing Board has had a mandated Class I premium in place since the fall of 1988.

The premium has ranged from \$0.25 to \$2.65 per cwt. A fuel adjustor was added to the premium in 2004. From September 1988 to April 2010 the premium has provided \$561,697,080 additional dollars to Pennsylvania dairy farmers.

Our Association has always supported the over-order premium although at times we have disagreed with the level.

We want our farmers to be successful and we want to continue purchasing locally produced high quality milk.

Payment of Premium

Our members are private or publicly owned companies.

We are required to pay the entire premium to dairy farmers. We pay the monies to individual producers or cooperatives.

Cooperatives are allowed to re-blend their payments to their members.

We do not know how much of our premium paid to cooperatives actually goes to Pennsylvania farms.

The current payment is based on how each plant utilizes its milk. For example, if you bought 1000 lbs. of milk from Pennsylvania farms and sold half (500 lbs.) in Pennsylvania as Class I you would pay the premium on one-half of your sales. Assuming the premium is \$2.00 per hundredweight, you would pay your farmer \$1.00 (.5 x \$2.00 = \$1.00).

Other Premiums

Plants pay voluntary premiums in addition to the state over-order premium.

Some premiums are paid to attract milk. I am aware of one plant that pays a \$1.00 cwt. premium just to attract milk. Other payments are based on quality, volume or the non-use of rBST.

I know of another plant that pays a premium based on three criteria: \$.07 to \$.35 for quality (SPC), \$.25 for not using rBST and \$.25 for shipping 200,000 pounds per month. Farmers shipping to this plant could receive up to \$.85 per hundredweight over the state mandated premium.

Concerns

The Milk Marketing Board recently changed the formula for premium payments for plants purchasing both Pennsylvania and out-of-state milk. We disagree with this change. This change will adversely affect a number of our members.

We studied producer payment data for a cross section of our members that would be affected by this change, which showed that these plants paid out more to their producers in combined mandated and voluntary premiums than the amount that is built into the wholesale minimum price, although some of the payments went to their out-of-state producers.

Some groups are urging the Milk Board to collect premiums on all milk sold in the state and pay them to Pennsylvania dairy farmers. We think this is a mistake.

A state cannot legislate interstate commerce unless authorized by Congress.

We are concerned about the amount of out-of-state milk coming into Pennsylvania.

In the past 2 ½ years the Milk Marketing Board has issued seventeen new licenses to sell Class I milk. Ten of those new licensees are sourcing part or all of their milk out-of-state.

We think any effort by the Milk Board to regulate interstate commerce could lead to costly and unhelpful legal problems.

Moreover, changes such as the recently adopted change to the over-order premium formula adversely affects companies purchasing out-of-state milk making these plants less competitive relative especially to packaged milk coming in from out-of-state. Also, some have recently sought another change to the method of distributing the over-order premium. They seek not to add additional dollars, but to “pool” the over-order premium, diluting the impact of the premium and thus further undermining the competitiveness of Pennsylvania processing plants purchasing milk from Pennsylvania dairy farmers. This can adversely affect the overall health of the Pennsylvania dairy industry including of course Pennsylvania farmers.

The system has worked well adding hundreds of millions of dollars to Pennsylvania milk checks. But the system must balance with real life competition from out-of-state and legal restrictions on state regulation of interstate commerce. We fear that the changes already made and those sought will seriously undermine the delicate balance that the Board has otherwise managed to create and maintain.

Thank you for inviting us to express our views on these issues.