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Testimony of Jim Harbach Before the PA Milk Marketing Board August 30, 2022

Good morning, my name is Jim Harbach and along with my brother-in-law Kevin Schrack, sons Doug , Andy and other family members, we own and operate Schrack Farms in Loganton, PA. I would like to thank Chairman Barley and board members VanBlarcom and Kassimer for the opportunity to testify here today.

As a bit of background, I am the ninth generation to operate Schrack Farm which currently consists of 2400 acres where we grow, corn, small grains , alfalfa and grasses to feed our herd of nearly 1500 dairy cows producing 40 million lbs annually.

This milk is marketed through Dairy Farmers of America (DFA) and primarily goes to Landsdale and middlebury for processing. Even though we consistently receive a quality bonus in our milk check and would certainly prefer to receive a high percentage of Class I price and any PA over-order premium (OOP) potentially attached to it, a lot

of our milk goes for manufacturing purposes. As it is marketed through my co-op, I have no control of this. I also want to note that we have been hauling our own milk for the past 29 years so we have firsthand experience with the costs and logistics involved with that aspect. Hauling costs can be a significant factor when what might be the normal flow of milk is disrupted by external market factors.

I am here today to offer comment primarily on Part A of the PA Department of Agriculture petition for a hearing on the board-imposed Over -Order Premium. Part A asks for consideration of three basic questions and I will offer my thoughts on each.

First, are the premium dollars uniformly and fairly distributed among all PA dairy producers? My answer to this is a resounding “NO”. As evidence of this we need look no further than data supplied by this board itself. In her December 13, 2021 “Milk Matters” column in the Lancaster Farming newspaper PMMB Executive Secretary, Dr. Carol Hardbarger, wrote that in June of that year 641 independent farms sold milk to a PA processor for use as Class I and it was subsequently at retail within the state. The article went on to note that “Those 641 farmers received a total of \$2,918,482 in OOP payments for the first six months of this year” and ‘...the average payment received was \$4553....’.

The column went on to say that during the same period cooperatives and their members received \$3,619,636 in OOP payments.

In a response to this article I, along with a fellow PA dairyman, wrote a letter to the editor of Lancaster Farming that was published on January 1, 2022. In that letter we pointed out that, using Dr. Hardbarger's own data, and making the conservative estimate of 4000 cooperative farms sharing \$3.619,636, that resulted in only an average of \$905 per farm in OOP dollars.

In my mind this is clear evidence that OOP dollars are NOT "uniformly and fairly distributed among all PA dairy producers." A five-fold difference among farmers who all face the same challenges in a very competitive market is far from fair and equitable. And furthermore, to have this disparity be the result of a state-mandated regulatory pricing system intended to help all farmers is unconscionable and unjustified.

Now as to the second question raised in the PDA petition: does the amount charged to PA consumers substantially equal to what is distributed back to PA farmers? As we all know, hard data to answer this question is difficult to come by since we have no accounting of total retail milk sales in the state.

Nonetheless, as I look at the amount of milk sold at "big box" stores such as Costco under their store brands and

the fact that many PA fluid processors source at least a portion of their raw milk from out of state and out-of-state cooperatives own PA fluid plants, it is not hard to conclude that there is a significant amount of milk sold at the minimum retail price – in which the OOP is embedded – that does not meet the 3-part test (produced, processed and sold I PA) for the premium to be returned to PA farmers.

Now, the final matter the PDA petition asked to be addressed: does the current system provide incentive to purchase or sell milk across state lines? Again, to me the answer is most definitely yes, and I have experienced this firsthand. For years our milk went directly to Valley Farms Dairy in Williamsport, a delivery point within 30 miles of the farm. Then in recent years this plant was sold to an out-of-state cooperative for the purpose of processing NY milk for sales in Pa through Wegmans stores. Our cooperative lost that market and we were forced to deliver our milk elsewhere.

Since the OOP is used in determining the minimum retail price – the price that all milk sold is subject to – regardless of whether or not it meets the “produced, processed and sold in PA” test, there was clearly an incentive created for this co-op to find a PA plant to handle their NY milk for their PA customers.

This is a decision any smart business person would make in order to capture premium dollars from the consumer without an obligation to return them to dairy farmers. I know if I were in that role it would be a no-brainer for me to do the same.

As I said in my letter to Lancaster Farming referenced earlier, this incentive distorts the free and efficient movement of milk from farm to market, as in our case with Valley Dairy. In simple terms, the more out-of-state milk processed by a PA plant and sold in PA, the less premium required to returned to PA farmers. And I can't really fault the fluid plants for this. Rather it is the fault of the regulated market we currently have.

Finally, regarding the question of whether or not to extent the current OOP past when the existing Official General Order expires on September 30th of this year. I think my testimony makes it clear that I oppose the current OOP at any level. It's a broken system that has outlived its usefulness and should be discarded. Furthermore, I believe it would be extremely difficult to have a productive discussion of possible alternatives with an OOP in place, as too many parties would have a vested interest in maintaining the system as opposed to discussion of viable alternatives.

And as close my testimony, let me relate that I was recently asked this question: “When data from USDA shows that PA’s mailbox price to farmers is consistently on par with, and certainly not higher than, surrounding states, and yet the retail price is significantly higher, at times even double what it is in those states, how can you think PA’s regulatory pricing system is benefiting either the farmer or the consumer?”

I pose that same question to all of you as board members of the PA Milk Marketing Board: How can you justify continuing a regulated pricing system that provides no overall benefit to farmers and causes PA consumers to pay more? And, to the extent that you may still believe this system provides some benefit to farmers, it continues to pick winners and losers among them.

I would like to thank PDA , Secretary Reading and the PMMB board for recognizing the need for this discussion and debate over how to improve this system that seems to be falling short of its original intentions. Good luck with your further deliberations on this important topic.

Sincerely,

Jim Harbach