

**BEFORE THE PENNSYLVANIA MILK MARKETING BOARD**

**OVER-ORDER PREMIUM**

**All Milk Marketing Areas**

**March 2, 2022**

**Testimony of Deputy Secretary Greg Hostetter**

**Presented on behalf of the Commonwealth of Pennsylvania**

**Department of Agriculture**

**Submitted February 16, 2022**

Dear Chairman Barley and Members of the Board:

My name is Greg Hostetter and I am currently serving as the Pennsylvania Department of Agriculture's Deputy Secretary for Animal Health and Food Safety. As you all know from my prior testimony before this Board, I partnered with my father for 23 years operating a 150-acre, 55 cow dairy, and I understand the challenges being faced by Pennsylvania dairy farmers.

I am testifying today on behalf of the Pennsylvania Department of Agriculture ("Department") regarding the continuation of the Pennsylvania Class I over-order premium.

The Department continues to support the concept of a premium price above the federal minimum price to be paid to Pennsylvania dairy farmers as long as it meets the following criteria:

1. Premium dollars must be uniformly distributed among all Pennsylvania dairy producers.
2. The amount charged to Pennsylvania consumers must not be substantially more than what is distributed back to Pennsylvania dairy farmers.
3. The distribution system must not provide incentives for "shell games" by which payment of the premium to Pennsylvania dairy farmers can be avoided by purchasing or selling milk across state lines.

The over-order premium as collected and distributed under the Board's current formula fails to meet these criteria, and should not be continued this way indefinitely. The time has come for the Board to take a hard look at the current system, and to devise a new system which treats all Pennsylvania producers equitably and sends the correct signals to processors and retailers in the state.

The Department has been working hard for several years toward the goal of ensuring that the dairy industry in the state can grow and enjoy a bright future for years to come. Beginning

with a dairy study done in 2016-2017, which led to the Dairy Development Plan, the Dairy investment Plan, and ultimately the Dairy Futures Commission, the Department has supported initiatives to assist and unify all segments of the dairy industry toward that goal.

We believe the current collection and distribution system built into the over order premium runs counter to that goal by dividing, rather than unifying the industry, as it pits one group of producers against another, and incentivizes dealers and retailers to purchase milk for the Class I market from out of state, rather than from Pennsylvania producers.

The over-order premium was originally implemented in 1988 in response to widespread drought conditions that affected all dairy farmers throughout the state. The dairy industry in Pennsylvania has changed considerably in the last 34 years. For one thing, while we do not have the exact figures, it is widely known that Class I utilization across Pennsylvania has declined significantly between 1988 and 2022. This by itself has resulted in a lower percentage of Pennsylvania produced milk being used for the Class I market, and thus a gradual dilution of the premium being paid to Pennsylvania producers during this time period. Also, improvements in the transportation system has allowed for easier movement of milk over greater distances and across state lines.

The point is that a system that may have worked well for the Pennsylvania dairy industry as it existed in 1988 no longer works for the industry as it exists in 2022. Whether or not the Board decides to continue the existing premium for another six months, we would strongly urge the Board to take a fresh look at all options available to develop a fair and equitable premium distribution system that treats all Pennsylvania dairy farmers equitably while not overcharging Pennsylvania consumers for premiums that never get back to the Pennsylvania farmers.

Toward that end, the Department supports legislation that would enable the Board to license retailers selling milk in the state. Reporting of retail sales to the Board would go a long way toward helping the Board to get a handle on the amount of premium dollars that are lost at the retail level under the current system. The Department would support consideration of other legislative initiatives as well, as long as they meet the criteria we have outlined above. The bottom line is that we cannot continue to support the current over-order premium collection and distribution system indefinitely, and we are asking the Board to start now to look at different alternatives to rectify the existing inequities in the system.

Thank you for consideration of our position in this matter.