

BEFORE THE PENNSYLVANIA MILK MARKETING BOARD

OVER-ORDER PREMIUM

All Milk Marketing Areas

August 30, 2022

Testimony of Secretary Russell C. Redding

Presented on behalf of the Commonwealth of Pennsylvania

Department of Agriculture

Submitted July 29, 2022

Dear Chairman Barley and Members of the Board:

My name is Russell C. Redding and I serve as Secretary of the Pennsylvania Department of Agriculture.

I am testifying today on behalf of the Pennsylvania Department of Agriculture (“Department”) regarding the existence, level and duration of the Class I over-order premium.

I want to express my appreciation to the Board for holding hearings to address this issue and working with the Department to find ways to strengthen Pennsylvania’s dairy industry. We have been fortunate to have a market-based mechanism that generates additional income for Pennsylvania dairy farmers, through the over-order premium. This arrangement has created a covenant between Pennsylvania producers and Pennsylvania consumers that is unique among states and agricultural products. However, changes are required to help ensure its sustainability.

As Executive Deputy Hostetter expressed in his March 2, 2022 testimony on behalf the Department of Agriculture, we continue to support the concept of a premium payment to Pennsylvania dairy farmers in addition to the federal minimum price, as long as it meets following three 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.

Today’s testimony builds on these criteria.

The filing of our petition in May has prompted many conversations among the dairy community and their desire to better understand both the current PMMB premium distribution system and our reasoning for filing the petition. For context, allow me to summarize some of the discussion and reasons:

- There is palpable tension and growing frustration in the Pennsylvania dairy community over the inequality of the collection and distribution of the state-mandated over-order premium. This takes many forms, but the most frequently cited reasons range from neighbor-to-neighbor disparity between producers who are both in the dairy business, producing the same quality milk, experiencing the same pressures on operating margins due to inflation, drought, etc., but who benefit differently under the current system.
- There is a lack of recognition that we have an integrated milk marketing system, and to maintain a Class 1 market, there must be viable processing options for the other classes of milk. Many producers feel the benefits of the current premium accrue to the few who supply the Class 1 market, when the reality is that all producers must work together to maintain the system, and all should be recognized for their contributions.
- As noted in the Department-initiated dairy study done in 2016-2017, and follow-up Dairy Development Plan, the Dairy investment Plan, and ultimately the Dairy Futures Commission, there is a critical need for more investment/reinvestment in Pennsylvania milk processing infrastructure, particularly fluid milk. We believe a premium structure can be developed that will provide a mechanism to facilitate such investments.
- Pennsylvania has had something unique in the over-order premium that is intended to create a direct relationship between the Pennsylvania dairy farmer and the Pennsylvania consumer, that can help strengthen the relationship between our food producers and food

consumers. This needs to be recognized and honored, and consumers need to be assured that all premiums they are paying are going to Pennsylvania dairy farmers and processors.

- The non-Pennsylvania milk being sold at retail in Pennsylvania, to Pennsylvania consumers is mandated to carry the over-order premium, but the premiums from these transactions are not being captured and therefore not benefiting Pennsylvania dairy farmers or Pennsylvania processors. In fact, they are benefitting our competitor states. And,
- Recognizing that Pennsylvania has changed considerably in the last 34 years since the over-order premium, was established. Total dairy consumption has increased but Class I utilization has declined significantly between 1988 and 2022, while other classes of milk consumption have increased. These changes have 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.

As we expressed in the March 2 testimony, the over-order premium as collected and distributed under the Board's current formula fails to meet the three criteria, for the reasons I have just outlined above, and cannot continue this way indefinitely. We take the acceptance of our May petition as an indication the Board's interest in addressing these inequities.

While the over-order premium concept is good, the collection and distribution are flawed. Because the premium is added to the Pennsylvania minimum producer price that a dealer must pay to a producer, it flows up through the minimum price buildup into the wholesale minimum price that retailers must pay, and finally into the minimum retail price that consumers must pay. It therefore mandates that every consumer pays the premium at retail when they purchase fluid milk, but under the current system, the premium only flows back to Pennsylvania dairy farmers

if the retailer purchased the milk from a processor in Pennsylvania, who purchased the milk from a Pennsylvania producer. Our belief is if every Pennsylvania consumer pays, every Pennsylvania dairy farmer should benefit. For this to be realized, the Board must devise a new system, outside of the current producer-wholesale-retail price buildup, which treats all Pennsylvania producers equitably and sends the correct signals to processors and retailers in the state.

While our initial inclination is to oppose any extension of the current premium for reasons stated, we recognize that redesigning a system that has existed for 34 years will take considerable leadership and deliberations. In addition, data on total fluid milk sales in Pennsylvania and premiums generated, how much premium is currently collected and distributed and the delta between the two are essential to designing a new system. To assist with the first question of retail fluid milk sales and premium generated, the Department engaged Temple University, Fox School of Business and E-Consult. This entity assisted the Department with conducting the Economic Impact of Agriculture in Pennsylvania study, in 2018 and updated in 2021. Their work on the milk sales is currently underway and should be completed in several weeks. To answer the second question of how much over-order premium is currently collected, the Department received this data from the PMMB.

We would not be opposed to a 60-day extension of the current premium to allow the Board and interested parties time to develop a fair and equitable premium distribution system that treats all Pennsylvania dairy farmers equitably. This additional time will also allow all stakeholders to engage with the Pennsylvania General Assembly on passage of Rep. Lawrence's HB 224 PN 2980 that would give the Board the ability to coordinate the collection and distribution of board established premiums into a Milk Marketing Fund to be paid to milk

producers, dealers, and handlers. The intent of this bill is to ensure these consumer-paid premiums get to Pennsylvania dairy farmers. Sen. Schwank's SB 840 PN 1032 would enable the Board to license retailers selling milk in the state. Reporting of retail sales to the Board is a critical piece to help the Board to get a handle on the amount of premium dollars that are lost at the retail level under the current system.

In summary, for all the reasons we have outlined in our previous testimony and here today, the current system is not working as originally intended 34 years ago for Pennsylvania dairy farmers and consumers. Just to be clear, the Department is not advocating for an elimination of the over-order premium with nothing in its place. However, we believe it is time for a change, and the Department stands ready to assist the Board in any way we can to develop a new system that is fair and equitable to Pennsylvania dairy farmers, processors, retailers and consumers.

Thank you for consideration.