

Presentation at Legislative information hearing, August 24, 2009 at Penn State Fayette,
The Eberly Campus, Uniontown, Pa.

Good afternoon. My name is John Piwovar, a Fayette county native and a retired dairy farmer. My wife and I owned and managed an 80 cow dairy for 32 years before retiring 1 year ago. I continue to keep abreast of goings on in the dairy industry very much as I did as a producer and DFA member. I have tried to understand the complexity of the milk pricing system over the years and now can see it from another perspective. I speak here today for myself but I would hope I speak for fellow dairymen in western Pa as well as my cooperative, Dairy Farmers of America.

The dairy industry is in a state of turmoil and frustration for milk producers now as they experience farm gate prices far below cost of production. I am particularly disturbed because the huge export markets we enjoyed the past two years because of the devalued dollar which drove our prices has disappeared and no one can predict when they will return. We've experienced ups and downs in milk prices in the past but this cycle is tearing apart dairy farm families. I sense despair as well as frustration when talking to dairymen today. I read that \$16 class III prices, which would be at the lower level of producer economic recovery, are not likely to return until mid 2010. Costs of production for dairy farmers in PA are nearer to \$20 (per cwt).

The frustration is compounded by the fact that the milk pricing process and price discovery mechanisms are so complex that most dairymen don't understand them. We see discussions every low cycle of supply management proposals and other measures, some extreme, as well as the usual blame game by the usual pundits. All this has made the struggling dairyman weary and confused. I would like to speak to the confusion created by the PA Milk Marketing Board. (PMMB)

Most dairymen I know believe that PMMB is a state agency set up primarily to help dairy farmers. To read PMMB's mission statement one could even arrive at that conclusion. PMMB is a state agency set up to benefit the state's milk dealers and fluid milk processors. They conduct periodic hearings to establish minimum RETAIL milk prices assuring milk dealers a reasonable return based on their costs. PA's milk consuming public pays minimum prices set by PMMB. To sell milk for less is a violation of law. It is no stroke of luck that PA has more milk dealers than surrounding states. They do a great job of protecting their own. Dealers large and small benefit from this arrangement.

In 1988 PMMB started paying 'premiums' to dairy producers based only on fluid milk sales. While PMMB boasts that they returned \$211+million dollars to dairymen from 1988 to 2000, it must be put into perspective that during those years PA dairymen produced over 130 billion pounds of milk. That is less than \$0.17 per cwt for all dairymen. Some got none at all, and, even today, no dairyman gets the full \$2.15 'premium' PMMB boasts. PA's dairy producers are all equal out there on the farm; they must all produce milk under the same regulatory rules. Why should they not be treated

equally in sharing extra money from a state agency? Those of us whose milk goes into cheese or butter production perform a valuable market function of balancing the market. Are we less valuable than those whose milk ends up in a jug on the grocery shelf? Only 15% of the milk produced in PA qualifies for the PMMB premiums. Milk must be produced, processed, and sold in the Commonwealth to qualify. Dealers use creative ways to avoid paying it when they can. However, 100% of all fluid milk sold in PA is subject to their minimum pricing provisions regardless of where it is produced or processed.

The mission statement of PMMB is:

"To ensure that Pennsylvania's dairy industry remains vital, the Milk Marketing Board provides a regulatory environment that facilitates a safe, adequate supply of wholesome milk by providing security for its dairy farmers and milk dealers; while providing an adequate supply of dairy products for consumers."

The security for dairy farmers refers to a security fund paid into by dealers which will pay dairy farmers any lost revenues should the dealer experience bankruptcy. I would submit to you that "providing an adequate supply of dairy products for consumers" by "providing security for its milk dealers" is absurd. Milk comes from cows, not pasteurizing or bottling machines. There has never been an inadequate supply of dairy products in PA, especially fluid milk. We are ranked number 5 in milk production nationally and, historically, we've always had had 50% of that production sold as fluid milk and the other 50% made into other dairy products.

I would suggest that if PMMB is serious in their efforts to provide security for dairy farmers they should expand their efforts and conduct hearings into the costs of production by dairymen and then establish a minimum price to be paid for milk at the farm. This is a concept long discussed by producers, especially in hard times like these. Make it mandatory that dealers pay these prices to PA dairymen. Of course this wouldn't work because the dealers would buy their raw product elsewhere. My point is that having fixed prices based on input costs is a super deal if you can get it. PA's milk dealers have such a deal. Do dairy farmers deserve less?

So what should be done?

I believe there are several approaches.

- 1) PMMB needs to share its producer premiums with all dairy producers in PA equally. As an agency authorized by the legislature they cannot, in all fairness, give more to some and less to others.
- 2) PMMB needs to be frank and forthright with the legislature, dairy producers, and the consuming public as to what it does and for whom.

- 3) The legislature needs to evaluate whether the state needs to be in the business of fixing retail milk prices for milk dealers and whether it is a good thing for consumers.

In summary, I would like to thank Representative Hanna for organizing this forum and affording me an opportunity to present my views. I would also thank all those organizations and individuals who are working toward finding a solution for some economic security for the PA dairy industry, the Commonwealth's economic kingpin in the Commonwealth's largest industry. The key to resolving this crisis is that some consensus be reached by all segments of the business; a consensus which would result in solutions which help everyone prosper.