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## HOUSE AGRICULTURE AND RURAL AFFAIRS COMMITTEE

These comments are submitted to the Committee regarding the August 24, 2009 hearing on milk prices on behalf of the Pennsylvania Association of Milk Dealers (PAMD).

PAMD is a state trade association of dairy processors who purchase and sell the vast majority of beverage milk sold in the Commonwealth.

For the past few years the United States grew dairy exports to the point where we were exporting over ten percent of our national production. Exports grew because of the dollar's decline in value and the improving economic fortune of poorer countries around the world.

When the world economy dramatically slowed last year our dairy export market practically disappeared. The resulting supply and demand imbalance caused milk prices to crash.

Since the federal government decided to allow market forces to play a greater role in setting federal minimum milk prices in the late 1980s, we have had milk price volatility - but nothing like this.

We believe the problem must be addressed at the national level. Dairy farmers are hurting all across the country. The federal government and the dairy industry have done some things but more must be done.

### Milk Income Loss Contract (MILC) Program

For the past several years the federal government has had a milk income loss program. Payments are made to the dairy farmers when the Class I price at Boston, Massachusetts falls below \$16.94 per hundredweight. Payments from that program this year have been:

<u>Month</u>	<u>2009 MILC Payment cwt.</u>
January	\$ 0.00
February	1.5135 actual
March	2.0056 actual
April	1.5863 actual
May	1.4673 actual
June	1.8411 projected
July	1.5435 projected
August	1.6425 projected
September	1.2105 projected
October	.6084 projected
November	.1756 projected
December	.1424 projected

### Dairy Support Price Increase

Last month U.S. Agriculture Secretary Tom Vilsack raised the support price for cheese (\$1.13 to \$1.31 per pound) and nonfat dry milk powder (\$.80 to \$.92 per pound) for milk produced in the August 1 to October 31, 2009 period.

The price of cheese rose from around \$1.10 per pound to \$1.35 on August 14, 2009, on the Chicago Mercantile Exchange.

Secretary Vilsack is also providing incentives to enhance dairy export.

### CWT Herd Buyout

The industry funded program Cooperatives Working Together (CWT) has conducted two herd buyout programs this year in an attempt to get supply and demand in balance.

In May 103,000 dairy cows were removed from production and over the next few weeks nearly 87,000 more cows will be taken out of production.

This program is funded by dairy farmers and participants are able to submit bids for what they will take per hundredweight to sell their cows for beef.

#### Other Efforts

The National Milk Producers Federation (a dairy cooperative trade association) has established a strategic committee to address low milk prices and price volatility.

The U.S. Holstein Association has proposed a production control price plan that is receiving much interest.

Although we think a national solution must address the milk price problem, we encourage the state to look at a program to provide property tax relief for farmers, investment incentives, and other forms of relief.

#### Conclusion

I would like to commend two state agencies for their efforts:

The **Pennsylvania Milk Marketing Board** has maintained an over-order premium on Class I milk since 1988. That premium is currently \$2.15 cwt., which is probably the highest state mandated premium in the country.

Statements have appeared in the press stating that the price of milk has remained high in stores despite the reduced prices paid to farmers.

Studies in Pennsylvania have consistently shown retail milk prices in supermarkets moving up and down monthly with changes in prices paid to dairy farmers. An expert economist has determined that Pennsylvania is better at having retail prices track producer prices because retailers in Pennsylvania tend to sell at the minimums.

I regularly buy milk (1% gallon) at Giant or a convenience store such as Rutter's who sell at the state minimum. On Wednesday, August 19, I bought a gallon of 1% milk at Giant Foods, New Cumberland, PA and paid \$2.90. I recall paying around \$3.80 per gallon when prices peaked in 2007-08 (\$.90/gallon = \$10.46 cwt.).

The Department of Agriculture's **Center for Dairy Excellence** has done a great job since its creation by helping dairy farmers with management issues and profitability. They have also been useful in guiding dairy farmers through these recent difficult months.

Thank you for allowing us to submit these comments.

**Earl Fink**  
**Executive VP**  
**Pennsylvania Association of Milk Dealers (PAMD)**  
**August 20, 2009**