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House Agriculture and Rural Affairs Committee
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Thank you for giving me the opportunity to speak on Federal Policy and National and International Market Forces with respect to the Pennsylvania Dairy Industry. The Pennsylvania Dairy Industry does not exist in a vacuum. Our farmers, processors, and many support industries must compete in an international market place. There also is Federal Dairy Policy that determines how milk is priced in the United States. While the Pennsylvania Milk Marketing Board has influence on the rules within the Commonwealth, the U.S. Constitution and freedom to trade across state borders restricts what this Board can do.

I will begin by providing a little context. First, the productivity of dairy farms increases every year. Not only does the milk per cow increase, but so also do the number of cows per farm. The attached figure shows this in index form for the past 20 years, but the trends go back much further. These trends are the result of the scientific advances fostered by work at the Land Grant Universities, agricultural support firms, and their counterparts internationally. Since the American population grows slower than productivity, if we do not export more milk than we import, the number of cows decrease steadily and the number of farms decrease much more. Over a 20 year period, the number of dairy farms nationally shrank by 66 percent. Pennsylvania dairy farm numbers appear to have fallen by somewhat less, but still about 50%. These also are long-term trends. Historically the United States has not exported many dairy products. However, we are now a net exporter. Without exports the shrinkage of farm numbers will be

faster. In this age of Free Trade Agreements, we cannot build a protective wall around the industry. The reality is that to isolate the industry would trap the industry in a faster spiral of shrinkage. Exports increase milk prices. The second figure shows a moving average of net exports and milk prices for the past few years (since we have been a net exporter). The evidence is clear. More exports mean higher milk prices.

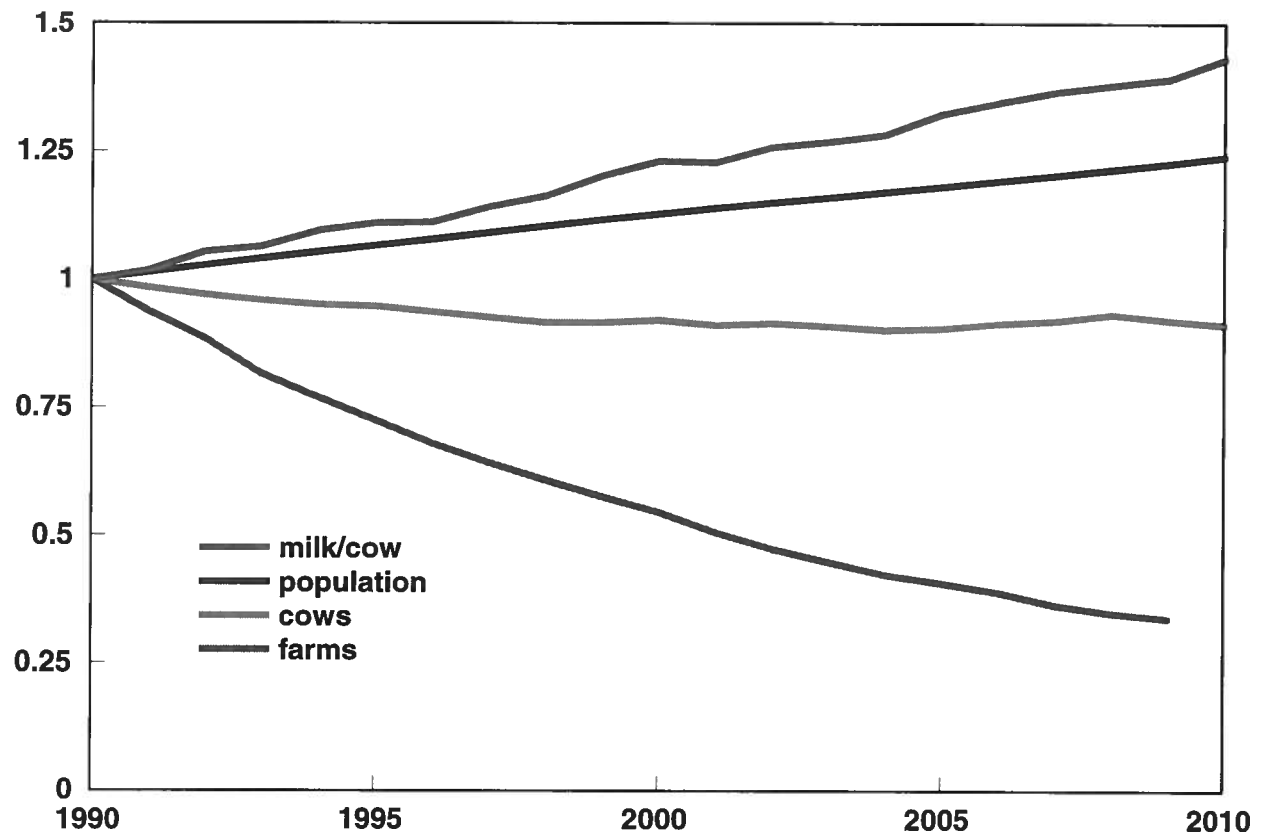
U.S. milk prices are determined by an extremely complex pricing system that charges processors a different price depending on the use of the milk. There also is a price support program that has been non-supportive since 1988. As the third figure shows, the price of milk has been extremely volatile since 1988, often dropping by 30% or more in a period of a few months. Note also that while the prices vary widely, the level of prices has not risen during this period, meaning the purchasing power of the revenue from a hundred pounds of milk has shrunk steadily. This means a farmer must produce more milk each year than the one before or face a decline in purchasing power. Farm inputs have not stopped increasing in price during this period, although their quality has improved with scientific advances.

The United States is one of four major exporters of dairy products, well behind the European Union and New Zealand and about the same as Australia. New Zealand and Australia have small populations and low-cost dairy industries, while the European Union has a rigidly-controlled, high-cost industry with subsidized exports. The EU quota system is supposed to end in 2013 and this will force its dairy prices to fall. Given the economic challenges in the EU now, the cost of the Common Agricultural Policy, and the pressure to decrease its export subsidies, it is expected the EU dairy industry will undergo a substantial restructuring when quotas end. The

number of small dairy farms will drop and the much of the dairy farming in high cost areas will shift elsewhere, for example from France to Poland.

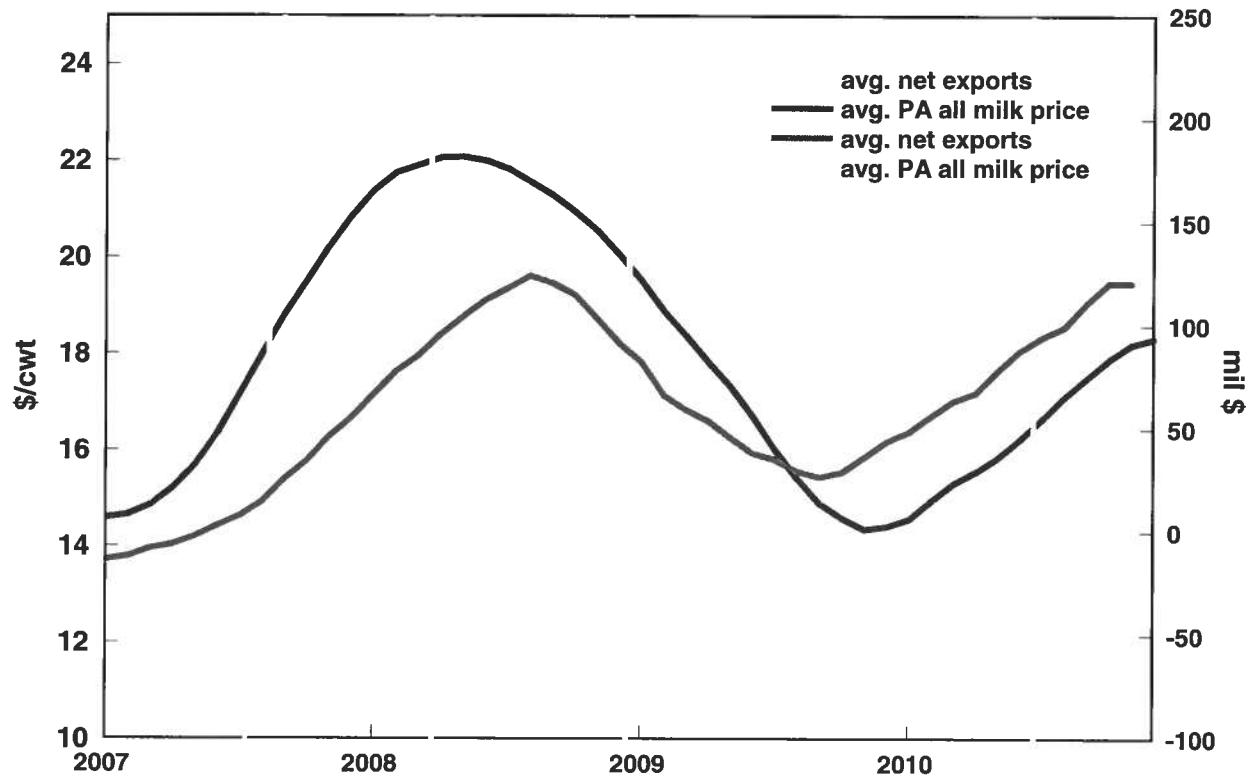
Dean McPheron talked about world population growth and the need to continue productivity growth in agriculture. It is clear that the future of U.S. and Pennsylvania agriculture depends on the industry continuing to improve and attain greater efficiency. The competitive marketplace demands it and the opportunity for a prominent role in feeding the world in the future means that those farmers that can compete will provide an essential service and face a vibrant market.

Milk/Cow, Population, & Cows 1990-2010



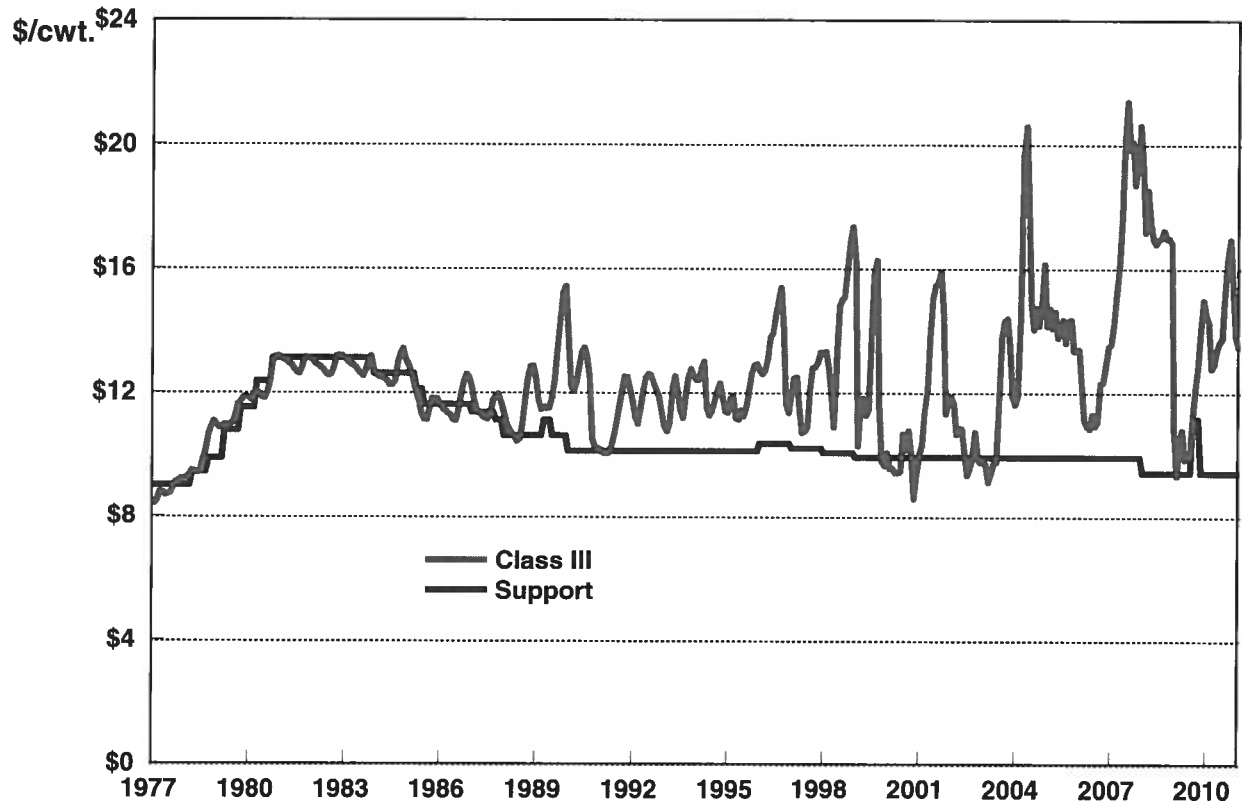
Net Dairy Exports and Milk Price

2007-10

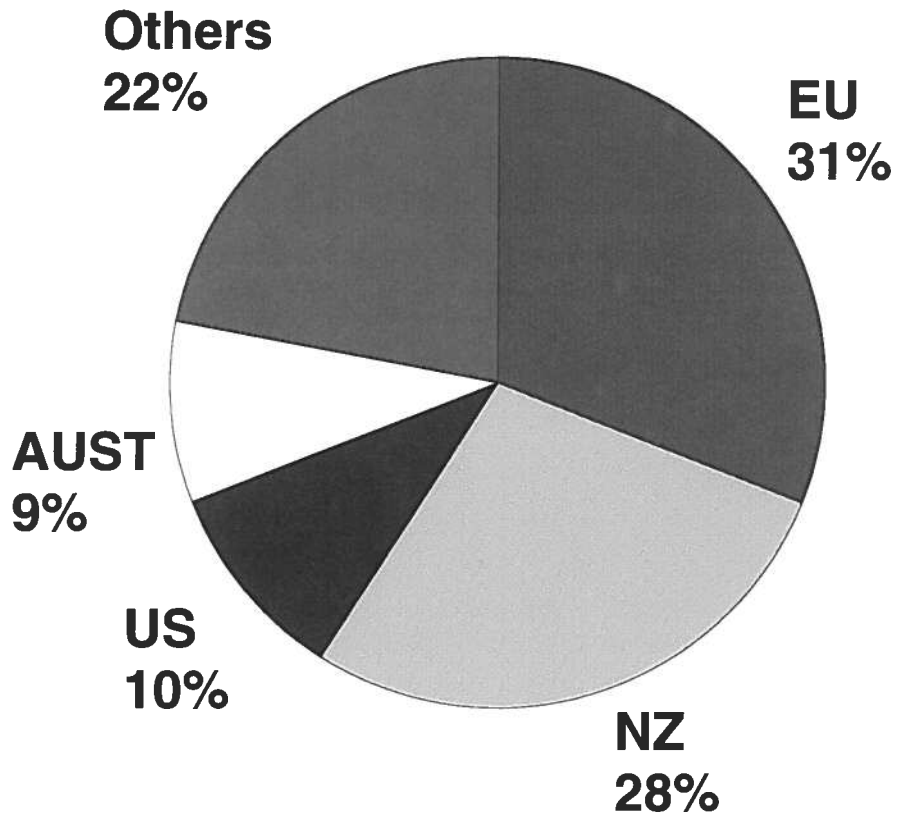


Source: USDA

Class III Milk Price and Support Price 1977-present



Shares of World Dairy Exports 2008



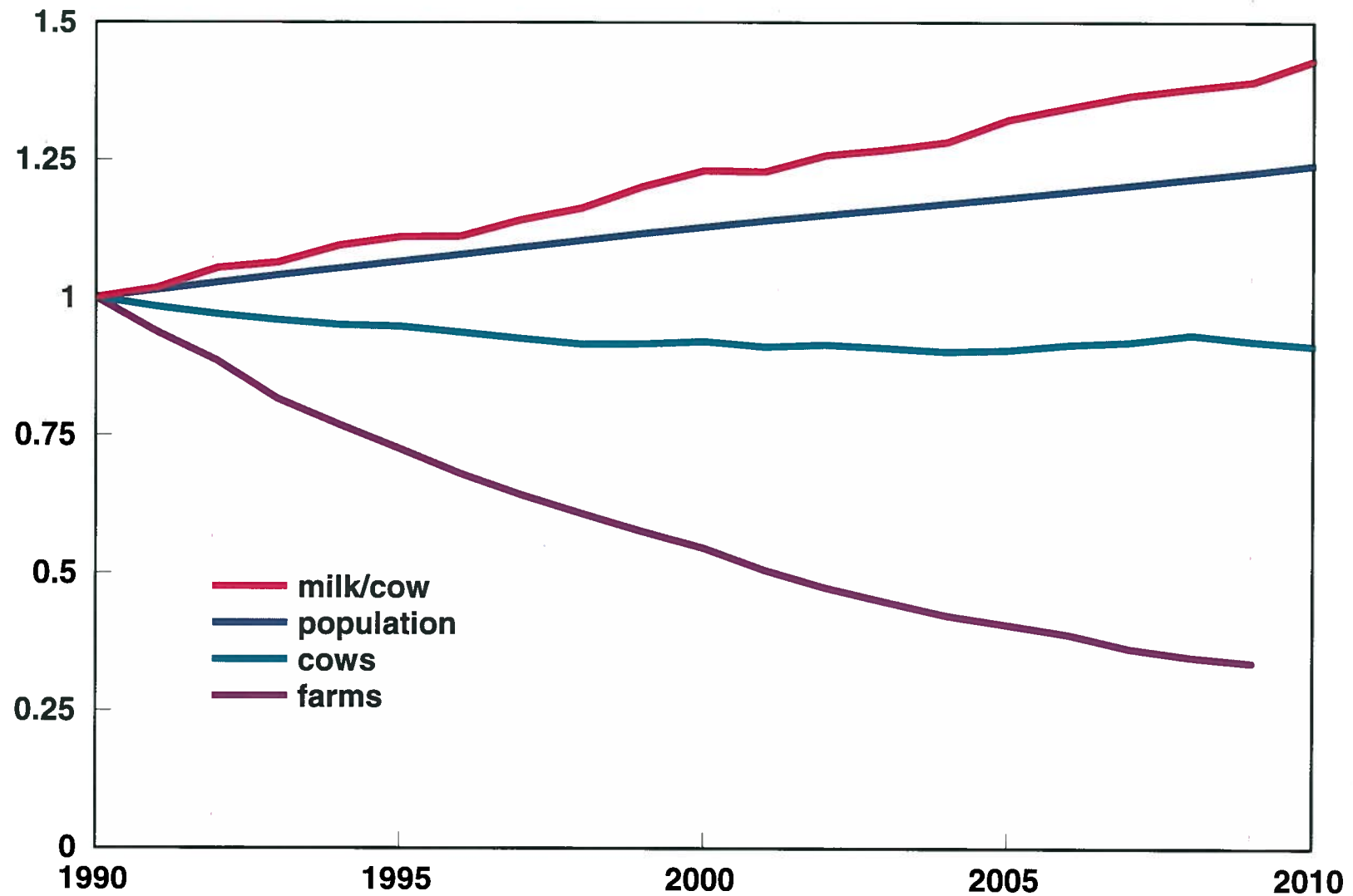
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Federal Dairy Policy and International Market Forces

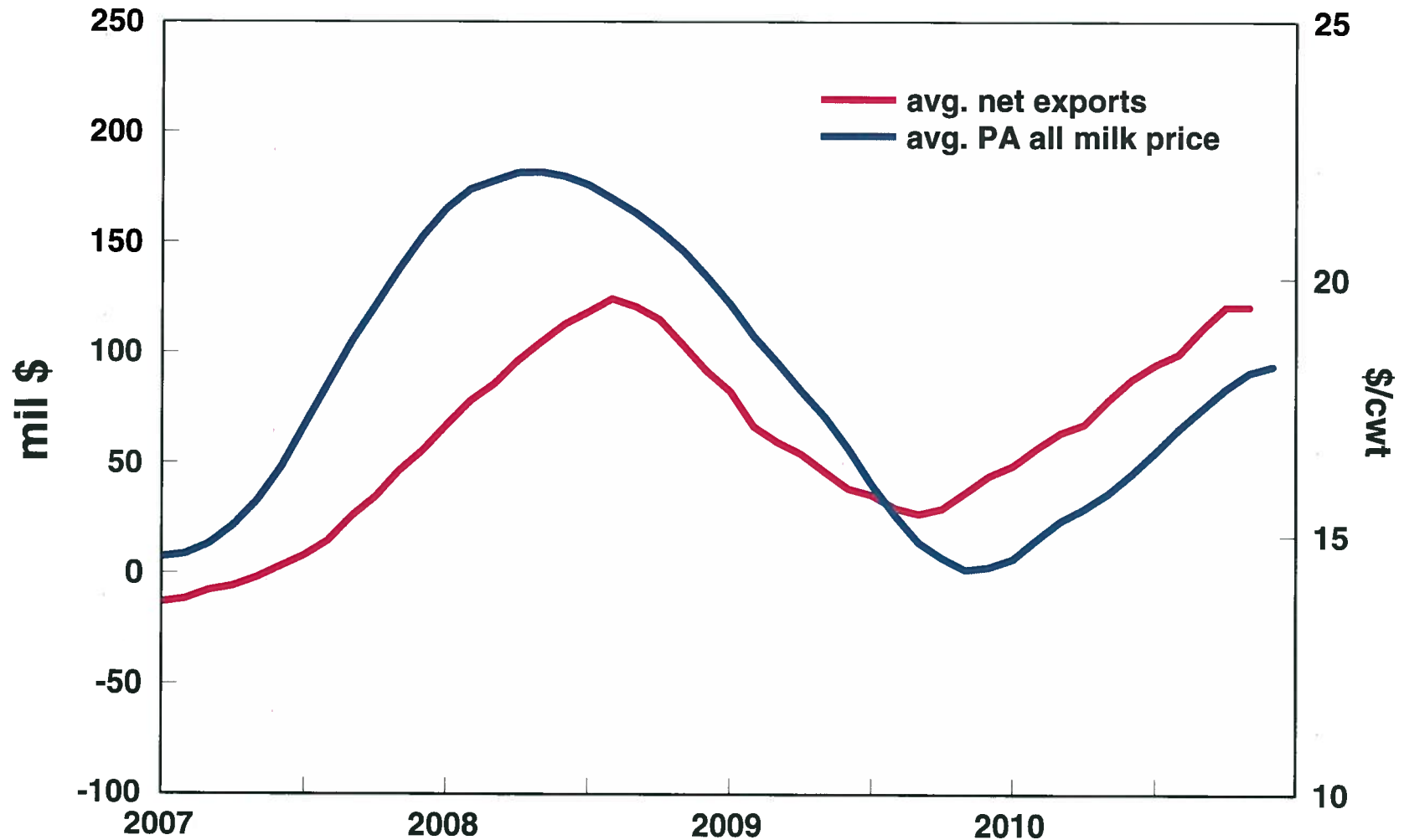
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Milk/Cow, Population, & Cows 1990-2010

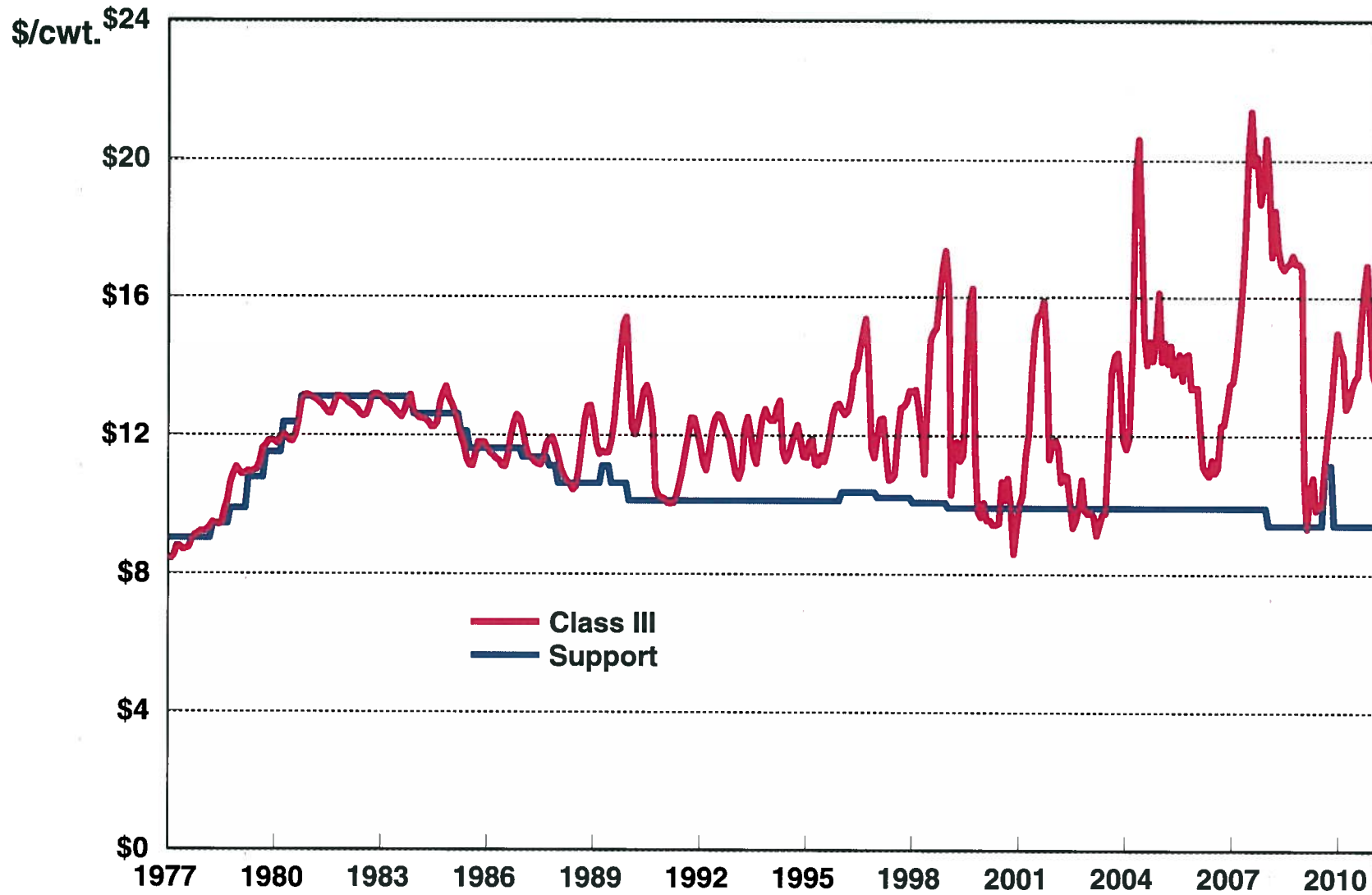


Net Dairy Exports and Milk Price

moving average 2007-10



Class III Milk Price and Support Price 1977-present



Shares of World Dairy Exports 2008

