

Testimony  
before the  
United States Department of Agriculture  
Agricultural Marketing Services  
December 12, 2006

*Presented by*  
Dennis C Wolff, Secretary  
Pennsylvania Department of Agriculture

*Regarding*  
Docket No. AO-14-A76, et al.; DA-07-01  
Milk in the Northeast and Other Marketing Areas;  
Notice of Hearing on Proposed Amendments to  
Tentative Marketing Agreements and Orders

On behalf of Governor Rendell, I want to thank Secretary Johanns for extending an invitation to the Commonwealth of Pennsylvania to attend today's national public hearing regarding Class I and Class II milk price formulas applicable to all Federal milk marketing areas, and for his interest in the dairy industry that he expressed during our recent meeting in Washington. I appreciate the request by the National Milk Producers Federation that would help off-set lower producer prices that will result from USDA's recent decision to increase the "make allowance" as well as increased transportation and energy costs. We are supportive of amending Class I and Class II milk price formulas as a corrective measure to help address several different concerns. This testimony will provide the Agriculture Marketing Service pertinent information to fully consider the merits of amending the federal orders. As a national issue, this will undoubtedly be a difficult decision for USDA, as myself and other Northeast Agriculture Secretaries and Commissioners discussed with Secretary Johanns during a recent meeting regarding the viability of the dairy industry in the Northeast United States.

Agriculture is Pennsylvania's number one industry, with dairy contributing 42% of the agricultural revenues. Pennsylvania has 8,600 dairy farm businesses that produce over 10.6 billion pounds of milk annually. The income from this milk is very important to the state's economy, and this volume of milk is important to feeding the United States population on the east coast.

During the past ten years Pennsylvania has lost over 2,000 dairy farms and 75,000 dairy cows. This trend has been driven by low profitability within the industry. Initiatives have been established in the state to improve profitability and there are positive results. However, those results are thwarted when milk prices decrease by 17% at the farm gate, as they have during this past year. The U.S. all-milk price for 2005 was \$15.15 per hundredweight. Penn State Agricultural Economist Dr. Ken Bailey and others are projecting 2006 to be around \$12.60. This change totally removes any farm profit level that was there in 2005 and forces most farms to operate at a loss.

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Cyclical changes in farm milk prices have been more frequent and in greater magnitude. Pennsylvania dairy producers had record low milk prices in 2002 – 2003. The state's dairy farms had not recovered from that when the current cycle of low prices hit. The average cost of producing 100 pounds of milk in 2005 by the top 10% of farms in the Northeast was \$17.47. Compare that with the projected all-milk price projected for 2006 of \$12.60. Aside from the drastic difference, the cost of production for 2006 will most likely be even higher. In the Northeast, we produce only 16% of the nation's milk supply, yet Pennsylvania is within 500 miles of 50% of the United States population.

According to the USDA, the National Milk Producers Federation's proposed amendment would establish a direct relationship between dairy product prices and the Class I and II price. Because the cost of producing Class I and II milk have risen, NMPF's request would add up to 73 cents per hundredweight to the prices, resulting in higher prices for dairy farmers. It is our understanding that if approved, this amendment would add about 35 cents per hundredweight to the milk checks of producers in the northeast and about 50 cents per hundredweight in the South. As referenced previously and personally witnessed on Pennsylvania dairy farms, there is a strong interest in supporting any efforts to raise Class I and Class II prices for dairy farmers, based upon the current industry status.

We appreciate the opportunity to provide input on the need for amending Class I and II price formulas and view this as an important step in strengthening milk prices for producers.