

Testimony of Duane Hertzler

On behalf of Dairy Policy Action Coalition

Before the House Agriculture & Rural Affairs Committee

February 10, 2011

Chairman Maher, Chairman Petrarca and members of the House Agriculture and Rural Affairs Committee.

My name is Duane Hertzler, and I am a dairy farmer from Perry County. My wife June and I are part of Moo-Echo Farm, LLC with our son Neil and his wife Kilah. Neil and Kilah have 4 sons who also help on our dairy. Our family farm consists of 400 acres owned, 300 acres rented, 300 milk cows and 300 heifers. We sell our milk to Mt. Joy Coop, a supply coop for Dairylea. We specialize in a farming practice called managed intensive (seasonal) grazing that helps keep our feed costs low because we allow our cows to harvest the grass!

I serve on several agriculture boards, including Animal Health Commission, chairing the Dairy Committee. I also serve with the "Dairy Policy Action Coalition," better known as DPAC, which is a coalition of grassroots dairy producers actively participating, with a unified voice, on policies and issues affecting milk pricing.

During the past two years, we have experienced the same financial stress that all dairy farmers have. Fortunately, because of our 40 years in business and the depth of our assets, we were able to survive this economic downturn.

Many dairy farms were not as lucky and will be working up to 5 years, or more, to recover from the money borrowed to stay in business. Our farm looks like it will take 3 years, at least, to recover. For 2011, the milk prices look more promising.

But rising corn and soybean prices are keeping the margins tight. In some ways, the global demand for grain is a factor, but also 38 to 40% of U.S. corn stocks are being used for ethanol, which is subsidized. A rule-of-thumb breakeven milk price used to be \$15 to \$17 per hundredweight. That number is \$3 higher today. So, we still have varying degrees of economic and emotional stress on Pennsylvania dairy farms, and we have a pricing system that fails both producers and consumers.

At the joint workshop with USDA and Department of Justice in Wisconsin last June, experts said more value is staying in the middle of the consolidated supply chain. The dairy farmer's share of the consumer's dollar was 42% as recently as 2002. Now it is down to 27%.

I believe it is a privilege, not a right, to dairy in Pennsylvania. But the state and national policies work against us as dairymen. I believe government basically has 2 roles: First, to protect its citizens. Second to provide its citizen's with opportunities! This is where the right policy needs to be in place to provide a reasonably priced and safe food supply. This includes having policies that give farmers the opportunities they need to provide it.

The rural infrastructure for agriculture relies on a strong dairy production sector. In Pennsylvania, agriculture is our number one industry with dairy being the largest segment contributing 40% of total Ag receipts and providing countless jobs both on the agribusiness side, supplying the farms, and on the food processing side.

Pennsylvania has experienced a significant decrease in the number of dairy farms in the past 30 years, going from 19,000 farms in 1978 to 7400 farms in 2009. We are fortunate to have our son involved because often the next generation chooses other professions because of the long hours and low profit margins. Many of the remaining farms in Pennsylvania today are structured like ours operating as partnerships or LLC's owned by family members.

The dairy industry has many layers of complex government policies to regulate and set prices for dairy products. At the state level, the PA Milk Marketing Board (PMMB) sets a minimum price that includes a premium for fluid milk at the wholesale and retail levels intended to help dairy farmers offset their production costs. Unfortunately, a significant portion of these premium dollars are lost or stranded and never returned to the farmers' milk checks.

It is puzzling that the mailbox milk price for neighboring Ohio – where there is no state-mandated premium from consumers – began to surpass Pennsylvania's mailbox price in 2008 at a time when the PA premium was raised to above \$2 per hundredweight. In the attached graph, you can see that. I hope this committee will review the Milk Marketing Act, and consider changes to insure the transfer of these consumer premium dollars to the dairy farm families.

At the federal level: outdated and overly complex dairy policy also needs to be reformed. This year I traveled to Madison, Wisconsin and Chicago to study some of the proposals that hopefully will fix our broken pricing system with better policy. DPAC is working with Congress for changes to improve transparency, price discovery, and encourage new product innovation.

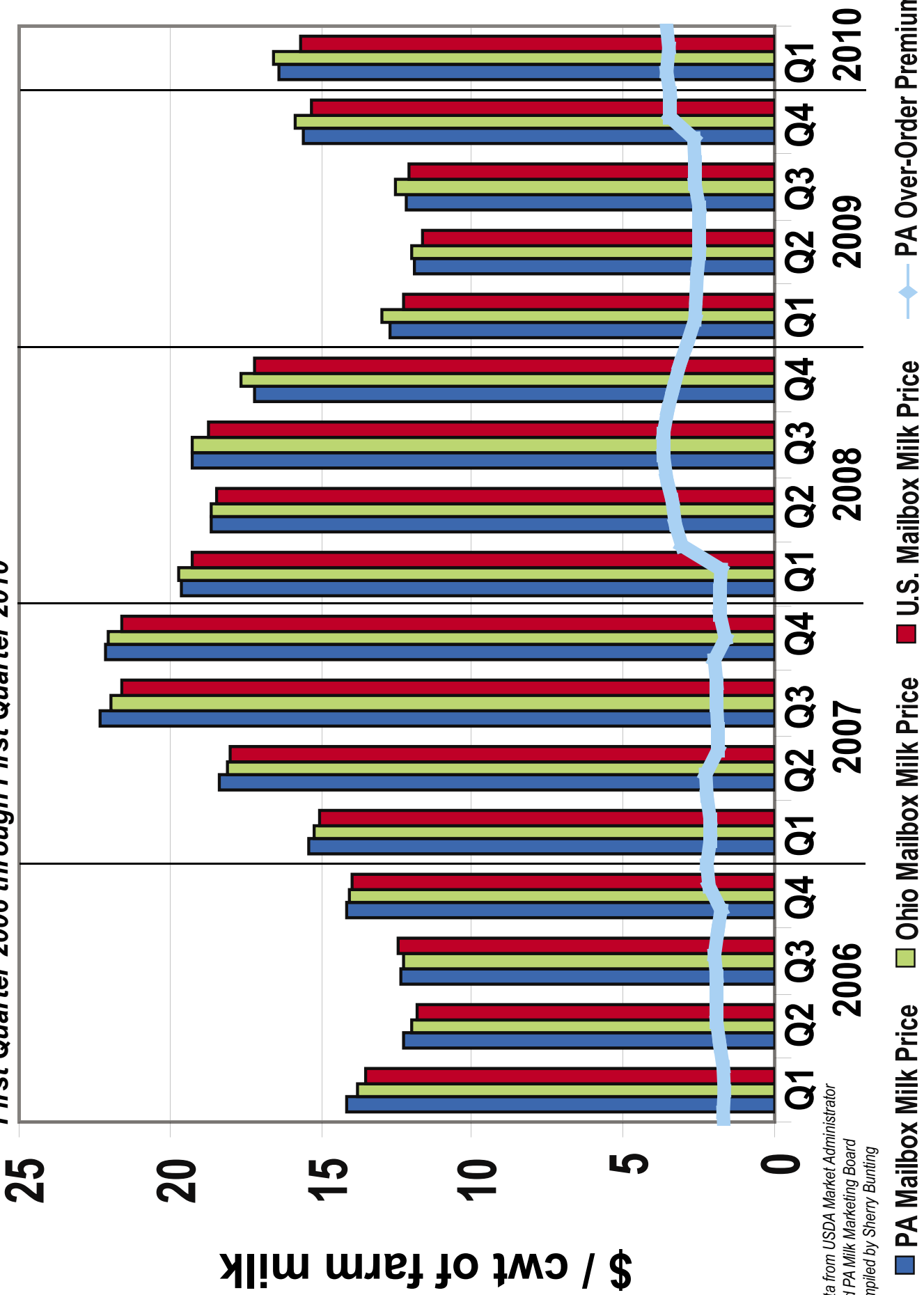
Again, thank you for this hearing and allowing me to tell you about our dairy farm and the dairy industry in Pennsylvania. Agriculture is an important part of our state's economy and culture. I hope my testimony will be useful to this committee as you develop a comprehensive understanding of the dairy industry in Pennsylvania.

Respectfully Submitted,

**Duane Hertzler
Loysville, PA**

Fig. 1

PA Mailbox Milk Price vs. OH Mailbox vs. U.S. Avg Mailbox vs. PA Over-Order Premium
 First Quarter 2006 through First Quarter 2010



Data from USDA Market Administrator and PA Milk Marketing Board compiled by Sherry Bunting

**Data supporting Fig. 1 graph:
PA Mailbox Milk Price vs. Ohio vs. U.S. Avg. vs. PA Over Order Premium**

	PA Mailbox	Ohio Mailbox	U.S. Avg. Mailbox	PA Over-Order Premium
Jan-06	14.92	14.64	14.43	1.93
Feb-06	14.2	13.88	13.52	1.9
Mar-06	13.28	12.95	12.64	1.93
Apr-06	12.41	12.16	11.92	1.9
May-06	12.22	12	11.8	1.93
Jun-06	12.1	11.92	11.74	1.99
Jul-06	12	11.82	11.66	2.07
Aug-06	12.2	12.01	12.88	2.07
Sep-06	13.02	12.89	12.88	2.07
Oct-06	13.95	13.81	13.65	2.1
Nov-06	14.19	14.13	14	2.04
Dec-06	14.39	14.32	14.2	1.98
Jan-07	14.94	14.79	14.66	2.23
Feb-07	15.32	15.13	14.92	2.26
Mar-07	16	15.74	15.6	2.2
Apr-07	16.84	16.59	16.45	2.2
May-07	18.17	17.89	17.78	2.26
Jun-07	20.19	19.83	19.8	2.29
Jul-07	22.12	21.72	21.49	2.04
Aug-07	22.38	22.08	21.47	2.04
Sep-07	22.48	22.13	21.78	2.07
Oct-07	21.87	21.93	21.39	2.07
Nov-07	22.58	22.32	21.81	2.1
Dec-07	22.03	21.95	21.04	1.88
Jan-08	21.22	21.18	20.7	2
Feb-08	19.67	19.7	19.03	2
Mar-08	18.09	18.28	18.01	1.97
Apr-08	18.57	18.59	18.19	2.8
May-08	18.12	18.23	18.09	2.95
Jun-08	19.1	19.05	19.12	3.01
Jul-08	19.86	19.83	19.43	3.13
Aug-08	19	19.08	18.58	3.19
Sep-08	18.81	18.92	18.27	3.19
Oct-08	18.08	18.42	17.94	3.1
Nov-08	17.84	18.3	17.42	2.98
Dec-08	15.78	16.32	16.12	2.86
Jan-09	14.41	14.83	13.77	2.68
Feb-09	11.94	12.28	11.61	2.53
Mar-09	11.69	11.97	11.6	2.5
Apr-09	12.12	12.43	11.96	2.47
May-09	12	12.32	11.61	2.44

Jun-09	11.63	11.87	11.27	2.44
Jul-09	11.67	11.9	11.3	2.44
Aug-09	12.05	12.45	12.04	2.53
Sep-09	12.98	13.28	12.98	2.53
Oct-09	14.52	14.88	14.29	2.56
Nov-09	15.61	15.85	15.37	3.06
Dec-09	16.66	16.84	16.37	3.06
Jan-10	16.72	16.92	16.16	3.12
Feb-10	16.71	16.92	15.97	3.09
Mar-10	15.76	15.92	14.92	3.12

*Mailbox Milk price data from USDA Market Administrator

**PA Over Order Premium includes the fuel adjuster - data from PMMB website.