

Pa. Senate Ag Committee schedules June hearing on ‘stranded’ premiums

Dairy producers, consumers applaud PMMB decision as first step, but questions remain about ‘stranded’ milk premiums

HARRISBURG, Pa.—An estimated \$60 million in over-order premiums were paid by Pennsylvania consumers in state-minimum retail milk prices last year, but conservative estimates are that \$16 million did not reach dairy farmers, who are the intended recipients. This issue of ‘stranded’ premiums was revealed in testimony during a public hearing on milk price transparency conducted last December by Senator Mike Brubaker, Chairman of the Senate Committee for Agriculture and Rural Affairs.

This premium portion of the consumer milk price rose from 21 cents per gallon at the start of 2009 to over 25 cents by November. For June 2010, it is close to 27 cents per gallon (\$3.18 per hundredweight).

Set by the Pennsylvania Milk Marketing Board (PMMB), in accordance with the Commonwealth’s Milk Marketing Law, the over-order premium is intended to help Pennsylvania dairy farmers when the federal minimum milk prices are insufficient to cover production costs. Last year, dairy farmers received milk prices that averaged \$100 per cow per month less than it cost them to produce the milk, and this year’s prices hover around breakeven.

“If Pennsylvania consumers have to pay the 25 cents extra per gallon, they want to know this money is going to the farmers,” observes Lance Haver, director of the Consumer Affairs Office for the City of Philadelphia. “The milk dealers and retailers already have their cost recovery and a profit margin built separately into the retail price that we as consumers pay for milk. Then there is this premium consumers pay that is specifically meant to help the dairy farmers in undue times. If some of this money is not being passed through, then who is keeping it?”

The Dairy Policy Action Coalition (DPAC) of grassroots producers would also like to know the answer to this question. DPAC is focused on milk pricing and market transparency at the federal level, but the coalition’s state issues action group has been attending PMMB hearings and meeting with state lawmakers, seeking transparency and future direction for Pennsylvania’s Milk Marketing Law.

Part of the problem is milk plants on the state’s borders have been able to ‘swap’ their in- and out-of-state milk purchases and sales through creative accounting. Until now,

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regulations allowed milk handlers to reduce their obligation to Pennsylvania farmers by the percentage of out-of-state milk they purchased—even if they had regulated Class I fluid milk sales within the state that were equal to the amount of milk they purchased from in-state farms.

In February, the PMMB staff, with the support and blessing of Governor Ed Rendell and the Pennsylvania Department of Agriculture, brought a proposal to the Milk Marketing Board seeking to end the ‘swap.’

In a 3-0 decision on June 2, the Board favored the staff’s proposed change in the premium calculation for dealers and handlers that have sales of Class I fluid milk products within the state and purchase the milk from both in- and out-of-state farms. The move is expected to recover between \$5 and \$7 million in ‘stranded’ consumer-paid premiums to be passed through in the price paid to farmers.

According to the PMMB decision, effective October 1, 2010, the full over-order premium rate will be payable by milk dealers to

Pennsylvania producers on either the pounds of milk purchased from in-state farms or the pounds of Class I fluid milk sold to in-state consumers—whichever is the lower.

“Any step toward collecting any ‘stranded’ premiums should be applauded, but we are a long way from the end,” said Annville dairy farmer and DPAC vice-chair Daniel Brandt. “That might account for \$5 to \$7 million, but there are still concerns about where the rest of this money is going and how well it is distributed to the dairy farmers.”

“We are on a long road toward regaining the original purpose of the PMMB,” adds Womelsdorf dairy farmer Zach Meck, also a DPAC charter board member. “The decision of the PMMB in June is only one small piece of the entire puzzle.”

Richland dairy farmer and DPAC board member Nelson Troutman sees the PMMB’s recent unanimous decision as an example of what can be accomplished if people “work together and don’t give up. If we as farmers had not been involved in talking with our legislators or being present at the PMMB meetings, we may not even be at this point,” he relates. “As dairy producers, we need to stay informed and involved through the DPAC network.”

Vigilance may be more important than ever. During the PMMB hearing in February, witnesses stated that a board decision in favor of the farmers could prompt dealers to replace Pennsylvania milk with more out-of-state milk for sale to Pennsylvania consumers, or to divert Pennsylvania milk to out-of-state distribution centers before resale to Pennsylvania retailers and consumers, thus avoiding any obligation to pass the premium through to the farmers.

“It doesn’t matter if the dealer’s milk comes from in or out of state, that premium should not even be figured into their business model,” says Brandt. “That premium should be set aside for the dairy producers. There should be no incentive to the milk dealers to get out-of-state milk. Every penny of that premium should go into a pool and be paid back to the farmers because the law says that is what that premium is designed for.”

The concerns of farmers and consumers are not lost on the Pennsylvania State Legislature. In early December, Senator Mike Brubaker (R-36th), Chairman of the

Agriculture and Rural Affairs Committee, conducted a public hearing on milk pricing transparency.

Later that month, DPAC sent letters to the State Attorney General and State Auditor General asking them to look into the issue of ‘stranded’ premiums. Attorney General Tom Corbett’s office responded with an information gathering meeting on April 1, and Auditor General Jack Wagner’s office sent an April 20 reply, stating that it would monitor the concern in consideration of a performance audit.

Since then, DPAC dairy producers have had separate meetings with Sen. Brubaker, Senate President Pro Tempore Joseph Scarnati (R-25th) as well as House Ag Committee Chairman Mike Hanna (D-76th) and House Ag Committee Minority Chair John Maher (R-40th) on the issues surrounding the state’s Milk Marketing Law. On June 29, ‘stranded’ premiums will be the subject of a Senate Ag Committee hearing at the Capitol.

“This is a bi-partisan issue,” notes Meck. “We appreciate the interest of the Governor and lawmakers because there are more loopholes to sew up. That was obvious at the PMMB hearing in February, where a witness for the milk dealers actually stated they would find ‘new shell games’ if the Board voted in favor of the PMMB staff’s request. This shows us that changes in the law are necessary to carry out PMMB’s original purpose, which has become unrecognizable today. Much has changed over the past 10 to 20 years while we as farmers were busy working hard, taking care of our animals, and planting and harvesting our crops.”

DPAC is a coalition of grassroots dairy producers actively participating, with a unified voice, in the policies and issues affecting milk pricing. The coalition was formed in November 2009 and has a 20-member board made up of active dairy producers from Pennsylvania, Ohio and New York, along with adhoc producer members serving on action groups from Tennessee, Kentucky, and Indiana. Funded by donations instead of dues, DPAC is corresponding with producer groups in seven states and with more than 2000 producers in 23 states. For more information, visit www.dpac.net or call 800.422.8335.