

PMMB Hears Requests To Reduce Over-Order Premium

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HARRISBURG (Dauphin Co.) — Representatives for the state's major farm and dairy organizations presented testimony last week to the Pennsylvania Milk Marketing Board (PMMB) to lower the Class I over-order premium as of Nov. 1.

The current over-order premium is set at 80 cents per hundred pounds of milk produced, processed and sold in Pennsylvania for use as drinking milk.

The purpose of the premium is to help maintain the instate production of fluid milk, the most perishable dairy product, during periods when producers suffer temporary economic difficulties.

The loss of instate fluid milk production during temporary economic bad times could eventually make the state dependent upon imported fresh milk, and in the long run, drive up the cost of living for all Pennsylvanians, school districts, etc., or make fresh drinking milk difficult to get or more expensive to purchase in rural areas.

The PMMB held the hearing as part of its normal operations. The current over-order premium level is set to terminate Oct. 31, and the agency regularly holds hearings in advance of such scheduled events.

The over-order premium had been 50 cents and was raised in September 1996 to 80 cents, and raised from 80 cents to \$1.20 from in Sept. 1997. In April this year, though scheduled to drop back to 50 cents, dropped back to 80 cents because of continued profitability difficulties for producers.

It is now scheduled to drop to 50 cents on Oct. 31.

Testimony about the effect of the scheduled premium level was received late last week from Bob Pardoe on behalf of the Pennsylvania State Grange; David Hay and Bob Junk on behalf of the Pennsylvania Farmers Union (Hay on behalf of the PFU Milk Producers Association, Junk on behalf of the whole organization); Joel Rotz, dairy specialist with the Pennsylvania Farm Bureau; David Eyster representing Dairylea; and Dennis Schad, representing the Middle Atlantic Cooperative Milk Marketing Association (MACMMA), a marketing coalition of regional and national dairy cooperatives.

All — except Schad, representing MACMMA, and Dairylea's Eyster — requested that the over-order premium be lowered from 80 cents to 50 cents, as is scheduled, given the better position presented to dairy producers for making profit — better raw milk prices and lower grain prices.

In the testimony presented, Schad said the multi-state/national/global cooperatives he represents are seeking a reduction in the Pennsylvania premium to 40 cents.

In his submitted testimony for Dairylea, Eyster requested that the PMMB maintain its 80-cent premium level.

The cooperatives under MACMMA include Dairy Farmers of America (DFA), Land O' Lakes, and the Maryland and Virginia Dairy Producers Cooperative. Last year, DFA went global when it entered into a contract with New Zealand to supply cheese components for the cooperative's United States Italian cheese manufacturing operations in the Mid West.

New Zealand is the world's leader of inexpensive milk and dairy products. Through its government it is a world leader in exporting dairy product. It also has lobbied heavily in Washington D.C. to influence American domestic dairy policy.

Drop It To 40 Cents

While all arguments presented to the PMMB were based on interpretations of statistical data, the MACMMA position was tempered with apparent concern for

milk sales and marketing outside of the state.

"MACMMA supports setting a 40-cent Class I over-order premium, based on the current method of premium distribution," Schad stated, though his testimony didn't specify what aspect of the current method of distribution would cause the organization's leaders to seek lowering the over-order beyond the 50-cent per hundredweight (cwt.) rate that has served as a minimum for years.

"Further, MACMMA recommends that this (40-percent) rate remain in effect until a chance in dairy production or marketing conditions occurs, or a change in the distribution methodology warrants an adjustment to the Class I premium."

Schad also urged the PMMB to move quickly on their decision.

Schad stated that MACMMA markets the milk of more than 50 percent of the dairy producers in the state (though he didn't state how much of the state's milk production is represented by those producers.)

The bottom line from MACMMA is that a 40-cents per cwt. over-order premium is all that is needed to "... generate an adequate return to Pennsylvania dairy farmers and will reasonably align Pennsylvania Class I prices with competitive market prices."

Keep It At 80 Cents

According to Dairylea's Eyster, while the price of milk paid to the producer has been revived during previous months into the current month, the market indicators are that the price will drop significant-

ly between October and January.

He based this opinion on the Chicago Mercantile Exchange Basic Formula Price futures contracts.

Dairy producers have been advised for the past year and more, with the elimination of effective dairy support prices and wildly fluctuating prices, how to manage their operational profits through the purchase of future's contracts. (The goal is to minimize fluctuations in profits, both highs and lows, by locking in a price with a future cash contract, so that profits or losses from the future contract are used to offset the price received for actual dairy product sold.)

The CME Basic Formula Price contracts are relatively new, but based on the fact that the U.S. Department of Agriculture pricing of milk is based on an official Basic Formula Price.

The market BFP levels, while speculative on what the actual USDA BFP will be, are considered to be fairly close to what the actual BFP will be, since those involved with the buying and selling of them are considered to be balancing forces.

Eyster said that CME BFP future's contracts indicate a drop in the price of milk by about \$2.73 per hundredweight from the current price.

"Instead of giving consideration to lowering the Class I over-order premium, it is more appropriate to consider an increase in the premium to offset the erosion in farm income that will be occurring due to Class I prices that are expected to be sharply below year-earlier levels, in early 1999."

Though not directly related to the issue of the premium, Eyster also requested that the PMMB issue its public support for Pennsylvania to join the North East Dairy Compact.

50 Cents Is Fine For Now

David Hay spoke on behalf of the Farmers Union Milk Producers Association, with its 110 members who market 8 million pounds of milk per month.

He emphasized, in his comments, that the PFUMPA members' farms are located along the western edge of Pennsylvania.


While most of Pennsylvania dairy producers may have experienced good crop weather and low predation, Hay said western Pennsylvania didn't receive that benefit.

He said his members didn't receive good crop weather earlier this year and are short in quality forages, which are essential to a good milk-producing diet for cows, despite the low grain prices.

He urged the board to "hold the line" on the 50-cent premium, and that he didn't understand how it could be justified at 40 cents.

On behalf of the Pa. State Grange, Bob Pardoe a Northumberland dairy farmer with 150 animals and 360 acres, said that while dairy producers have recovered some of their losses from last year and early this year, that the market will bear the 50-cent premium.

Joel Rotz, representative for the Pennsylvania Farm Bureau, presented evidence of the price/cost of production factors for dairy producers, and requested the PMMB keep its scheduled over-order premium change to 50 cents per cwt



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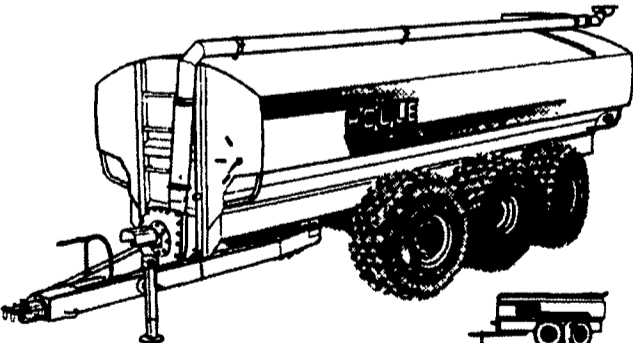
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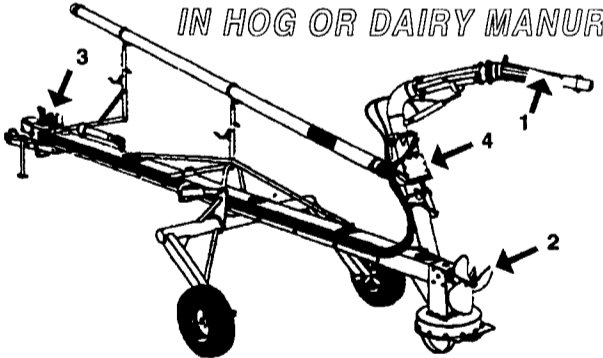
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