



Commonwealth of Pennsylvania
Milk Marketing Board
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Official General
Order No. A-1011

Posted:
Effective

March 16, 2021
April 1, 2021

OVER-ORDER PREMIUM

NOW, this 16th day of March 2021, the Commonwealth of Pennsylvania, Milk Marketing Board (Board), adopts and issues this official general order pursuant to the authority conferred by the Milk Marketing Law, 31 P.S. §§ 700j-101 – 700j-1204. This order will become effective at 12:01 a.m. on April 1, 2021, and will expire at 12:00 midnight on September 30, 2021.

SECTION I

The attached findings of fact and conclusions of law are incorporated herein by this reference as though fully set forth in this order.

SECTION II

(a) In all milk marketing areas, the calculation of the Class I price for milk produced, processed, and sold in Pennsylvania shall include an over-order premium of \$1.00 per hundredweight effective 12:01 a.m. on April 1, 2021, through midnight on September 30, 2021.

(b) Milk dealers shall show by line item on their monthly statements to independent producers and cooperatives the specific amount of the Pennsylvania Milk Marketing Board over-order premium being paid.

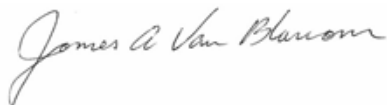
SECTION III

All parts of Official General Order A-893 not inconsistent with this order shall continue in effect.

PENNSYLVANIA MILK MARKETING BOARD



Robert N. Barley, Chairman



James A. Van Blarcom, Member

Date: March 16, 2021

FINDINGS OF FACT AND CONCLUSIONS OF LAW
OVER-ORDER PREMIUM HEARING
March 3, 2021

FINDINGS OF FACT

1. On March 3, 2021, the Pennsylvania Milk Marketing Board (“Board”) held a hearing for all milk marketing areas to receive testimony and evidence concerning the level and duration of the over-order premium.
2. Notice of the hearing was published at 51 Pennsylvania Bulletin 528 on January 23, 2021, and was mailed to those who have requested mailed notice of Board hearings by means of Bulletin No. 1590, dated January 8, 2021.
3. Bryan Stocks testified on behalf of the Pennsylvania Association of Dairy Cooperatives (“PADC”). PADC members are Maryland & Virginia Milk Producers’ Cooperative Association, Inc.; Lanco Dairy Farms Co-op, Inc.; Land O’Lakes, Inc.; and Dairy Farmers of America, Inc. (“DFA”). Mr. Stocks is the Director of Membership for DFA. Mr. Stocks recommended that the over-order premium be set at \$1.00 per hundredweight for the period April 1, 2021, through September 30, 2021.
4. Mr. Stocks testified that Pennsylvania milk production increased approximately 450,000 pounds per day from November 2020 to December 2020. He also testified that year-over-year, comparing December 2019 to December 2020, milk production in Pennsylvania, New York, and Vermont increased 1.4 percent. Mr. Stocks also testified that marketing conditions in the Northeast remained unstable due to the pandemic, with customer orders continuing to fluctuate week to week as retailers adjust to consumer purchasing dynamics. Mr. Stocks further testified that school districts continue to switch between in-person and online classes, with several using hybrid attendance solutions. Those factors have altered the normal supply and demand cycle, and make it challenging to predict customer demand.
5. Mr. Stocks testified that current 2021 futures prices do not indicate any improvement for Class III or IV prices compared to 2020. He also testified that Federal Order 1 Class I milk utilization continued to decline. Class I utilization in Order 1 declined 0.9 percent between 2019 and 2020. Finally, Mr. Stocks testified that crop conditions in 2020 had fallen below previous years for corn, pastures, and soybeans.
6. Mr. Stocks testified that there had been a lot of uncertainty in the milk market throughout the year and that the uncertainty continues into 2021. Retail customer demand remains volatile and hard to predict. Fluid milk sales in the Northeast continue to decline. Taking into account these factors and others, including milk production, price forecasts, and crop conditions, PADC recommended that the over-order premium be set at \$1.00 per hundredweight from April 1, 2021, through September 30, 2021.

7. Dennis Schad testified on behalf of PADC as an expert in agricultural economics and milk marketing. Mr. Schad recommended that the over-order premium be set at \$1.00 per hundredweight from April 1, 2021, through September 30, 2021.
8. Mr. Schad testified that national aggregate milk production in 2020 exceeded that in 2019 by 2.1 percent. However, Mr. Schad also testified that Pennsylvania's 2020 milk production was 1.2 percent above that of 2019.
9. Mr. Schad testified that the COVID pandemic disrupted normal dairy sales and distribution channels, with commercial disappearance of cheese and butter decreasing 0.4 percent and 0.2 percent, respectively, between 2019 and 2020. He also testified, though, that dairy powder exports surged. Through November 2020 nonfat dry milk powder exports increased 19.3 percent from year earlier levels and whey exports increased 23.6 percent in 2020.
10. USDA studies indicate the cost of feed represents more than 60 percent of the cost of milk production. Mr. Schad testified that feed prices increased markedly during the last half of 2020, with current futures prices indicating more price increases. In addition, last summer's dry weather stressed Pennsylvania's corn crop, causing a 15 percent decline in production from the previous year.
11. Mr. Schad testified that the December 2020 Penn State Dairy Outlook forecasted the 2021 Pennsylvania all milk price to closely track the 2019 price. Mr. Schad also testified, however, that forecasting milk prices into 2021 was fraught with uncertainty. Mr. Schad noted several potential factors impacting price forecast uncertainty, including the trend of increasing national milk production, the increasing cost of dairy feeds, the uncertainty of if, when, and the extent of post-COVID recovery, and government purchases of dairy products and potential direct payments to dairy farmers.
12. Wayne Brubaker testified on behalf of Pennsylvania Farm Bureau as an expert in farm business analysis and producer cost of production. Mr. Brubaker is Consulting Supervisor for MSC Business Services ("MSC"), a division of PFB Members' Service Corporation. MSC provides business consulting and benchmarking. As part of those services, MSC provides historical cost of production figures and projections. Mr. Brubaker recommended that the over-order premium be set at \$1.00 per hundredweight from April 1, 2021, through September 30, 2021.
13. Mr. Brubaker testified MSC dairy farmers had the worst annual net income in 2018 of the past eight years, at close to negative \$90,000.00. 2019 showed a marked improvement, but still resulted in an average annual net loss of approximately \$4,000.00. MSC is still gathering 2020 data, but from 2019 back to 2015 MSC dairy farmers had posted five consecutive years of negative annual net incomes. Mr. Brubaker testified that from 2012 through 2019 the average MSC dairy client had experienced total negative annual income.
14. Mr. Brubaker testified that looking ahead, the extreme volatility of feed expenses was a significant concern. He testified that feed expenses represent, by a wide margin, the

single highest overall cost for MSC dairy farmers. Mr. Brubaker testified that during 2020 the price of milk never recovered to its pre-COVID levels, but grain and oilseed prices increased to levels not experienced since 2013. While feed prices have increased, milk futures prices point to a stable or declining price. With feed prices at near decade highs, milk prices at best stable and at worst declining, and the pandemic-related possibility of markets changing dramatically with little notice, Mr. Brubaker testified that Pennsylvania dairy farms could be facing a very difficult time.

15. David Graybill testified on behalf of Pennsylvania Farm Bureau. Mr. Graybill serves on Pennsylvania Farm Bureau's Board of Directors and chairs its State Dairy and Farm Policy Committee. Mr. Graybill operates Red Sunset Farms in Mifflintown. Red Sunset Farms currently milks around 64 registered Holsteins and raises 60 replacement heifers. Mr. Graybill markets his milk to Maryland and Virginia Milk Producers Cooperative, with 61 percent of his farm's gross income in 2020 coming from his milk check. He also produces corn, soybeans, hay, and small grains, approximately 64 percent of which feed his dairy cattle, with the rest sold on the open market. Red Sunset Farms is a sole proprietorship, with one full time and two part time employees.
16. Mr. Graybill places a high priority on managing an environmentally friendly operation and is constantly adding and improving conservation practices to reduce his farm's environmental footprint.
17. Mr. Graybill is a client of MSC Business Services and fully uses the tax accounting and preparation, business accounting, and business analysis services it provides. Mr. Graybill testified that 2019 was the most recent year that his farm's income and costs were analyzed and compared through MSC's Dairy Profitability Comparison. Red Sunset Farms' total revenue from all sources in 2019 was substantially higher than comparably sized farms and the top 10 percent. Mr. Graybill testified that his farm's average price for milk sales in 2019 was \$18.97 per hundredweight, which was 30 cents higher than comparable sized farms but 19 cents lower than the top 10 percent. Red Sunset Farms' cost of production in 2019 was \$18.54 per hundredweight, which was \$3.39 less than comparable sized farms and \$2.69 more than the top 10 percent. He also testified that the price he received for milk in 2020 was 42 cents higher than what he received in 2019 and that on a cash basis the farm's total income from all sources in 2020 was at a breakeven level.
18. Mr. Graybill testified that his farm was hardest hit by the COVID pandemic in the second quarter of 2020, with a 19 percent drop in milk prices. During 2020 Mr. Graybill received payments from the Market Facilitation Program ("MFP"), the Coronavirus Food Assistance Program ("CFAP"), and the Paycheck Protection Program. He testified the MFP and CFAP payments represented 15 percent of his income and his dairy operation would have operated in the red if milk checks had been the only source of income.
19. Mr. Graybill testified that due to his farm's smaller size he had to learn to become very efficient and thoughtful in the way he does business. To help financially manage the challenges of the past few years, he has made adjustments to herd management and crop

and feed management practices on his farm. Mr. Graybill sells cull cows as an income stream and replaces cows when their production lags. He has stopped buying minerals in bulk and now buys bagged amounts monthly. Managing feed and inputs has increased levels of more profitable milk components. Mr. Graybill testified that due to drought conditions in Pennsylvania during 2020 many farmers may be purchasing more feed than in a typical year. Mr. Graybill's crop yields in 2020 were about two-thirds of his typical crop yields, leading to him purchasing soybean meal and hay. The lack of hay also caused Mr. Graybill to reduce his heifers from 75 head to 60.

20. Arden Tewksbury testified on behalf of Progressive Agriculture Organization. He also testified that the Pennsylvania Farmers Union, Farm Women United in Laceyville, the South Auburn Grange, and many consumers supported his testimony. Mr. Tewksbury testified that the over-order premium is very necessary because neither the United States Congress nor the United States Department of Agriculture have come to grips with the inadequate prices dairy farmers continue to receive. Mr. Tewksbury recommended that the over-order premium be at least \$1.00 per hundredweight and noted that Readington Farms in New Jersey pays a \$1.00 per hundredweight premium on all milk.
21. The Board finds that the over-order premium should be set at \$1.00 per hundredweight from April 1, 2021, through September 30, 2021.

In so finding, the Board relies on the credible and persuasive testimony of Mr. Stocks, Mr. Schad, Mr. Brubaker, Mr. Graybill and Mr. Tewksbury. Their testimony raised several issues and concerns supporting a \$1.00 per hundredweight over-order premium. In addition to the general uncertainty the COVID pandemic continues to cause, fluid milk sales continue to decline, milk prices are forecasted to be stable at best, and feed costs are increasing. Considering these conditions in the context of Mr. Brubaker's testimony regarding the adverse financial results for MSC-client dairy farms for the past almost ten years we conclude the over-order premium should be \$1.00 per hundredweight.


CONCLUSIONS OF LAW

1. The March 3, 2021, over-order premium hearing was held pursuant to the authority granted to the Board in sections 801 and 803 of the Milk Marketing Law (Law), 31 P.S. §§ 700j-801 and 700j-803.
2. The hearing was held following adequate notice and all interested parties were given a reasonable opportunity to be heard.
3. All parts of Official General Order No. A-893 not inconsistent with the attached order will continue in effect.
4. In accordance with Official General Order No. A-894, milk dealers shall continue to show by line item on their monthly statements to independent producers and cooperatives the specific amount of the Pennsylvania Milk Marketing Board's over-order premium being paid.
5. In accordance with Official General Order No. A-894 (Supplemental), the over-order premium will continue to apply only to Class I milk produced, processed, and sold in Pennsylvania.
6. In adopting this order, the Board considered the entire record and concludes that the order is supported by a preponderance of credible evidence and is reasonable and appropriate under sections 801 and 803 of the Law.
7. The attached order may be amended pursuant to the procedures set out in section 801 of the Law.

PENNSYLVANIA MILK MARKETING BOARD



Robert N. Barley, Chairman



James A. Van Blarcom, Member

Date: March 16, 2021

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