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**BEFORE THE UNITED STATES
DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE**

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In Re :	National Hearing of	:	
	December 11, 2006 et	:	
	seq. on Proposal to	:	Docket No. AO-14-A76 et al.;
	Amend Class I and Class II	:	DA-07-01
	Price Formulas Applicable	:	
	to All Federal Milk Orders	:	

HEARING BRIEF OF PENNSYLVANIA FARM BUREAU

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Pennsylvania Farm Bureau ("Farm Bureau") files this Brief and offers the following comments regarding the proposal offered by National Milk Producers Federation (NMPF), which is being considered pursuant to the aforementioned proceeding. Farm Bureau is a statewide general farm organization in Pennsylvania with a membership of more than 45,000 farm and rural families in the Commonwealth. Based on historical percentage of dairy farmers to regular memberships and indications of commodities produced on membership applications, we estimate that between 4,500 and 5,500 families who are members of Farm Bureau are currently engaged in dairy production.

Essentially, NMPF's proposal would amend the formula for determining the price mover for Class I and Class II milk in a manner that would increase the ultimate price to be paid to producers for milk utilized as Class I and II. Many witnesses testified at the hearings of December 11-15 regarding the "what" of NMPF's milk proposal. We would like to offer for your consideration the "why" implementation of adjustments to Class I and Class II pricing formulas to increase the prices received by producers for Class I and II milk, such as that proposed by NMPF, is critical to Pennsylvania's dairy industry and the supporting businesses who rely on Pennsylvania's dairy industry for continued viability.

Pennsylvania's dairy industry has severely suffered from the price downturns that Pennsylvania dairy farmers and dairy farmers in other states have had to bear. A comparison of historical data on number of commercial dairy herds identified in dairy herd "ring tests" performed by the Bureau of Animal Health and Diagnostics Systems of the Pennsylvania Department of Agriculture shows that nearly 2,300 commercial dairy herds were lost in Pennsylvania during five-year period of July 1, 2001 through July 1, 2006 – a twenty-seven percent decline (27%) in the number of commercial dairy herds operating in

2001¹. The period of July 2005 through June 2006 – the period of the most recent price downturn for dairy farmers – was particularly harsh for Pennsylvania dairy farms. During this 12-month period, Pennsylvania experienced an acceleration in loss of commercial dairy herds. More than 900 dairy herds disappeared during this 12-month period alone – a twelve percent (12%) loss in total number of existing commercial herds. The loss that occurred during this period was **more than twice** the number of losses in dairy herds that occurred during the same periods of any of the previous four years. **The deep and prolonged cuts in prices suffered by dairy farmers in the last several years in the wake of federal pricing orders have resulted in an alarming reduction in number commercial dairy herds operating in Pennsylvania.**

Recently, the Pennsylvania Milk Marketing Board² held pricing hearings to consider whether adjustments should be made to the formula for state-mandated minimum pricing to be paid to Pennsylvania producers. At that hearing, numerous dairy farmers and representatives of agribusinesses testified on the current economic situation that Pennsylvania dairy farmers are facing. Their testimony painted a graphic picture of substantial losses that individual Pennsylvania farm operators are experiencing relative to their costs of production for milk in the wake of the 2005-2006 price downturn, the serious depletion in financial reserves that dairy farmers have suffered as a result of the recent downturns in producer price, and the extreme economic vulnerability that many

¹ Ring test data from Pennsylvania's Bureau of Animal Health and Diagnostics Systems indicates that from July 2001 and July 2006, the number of commercial dairy herds in Pennsylvania fell from 8,856 to 6,489.

² The Pennsylvania Milk Marketing Board is the independent agency responsible for establishing mandated prices to be paid to producers, wholesalers and retailers for fluid milk pursuant to Pennsylvania's state regulation of milk pricing.

Pennsylvania dairy farmers will face if meaningful and sustained price recovery does not come soon.

The degree of economic harm that recent price downturns have caused families operating average-size dairy farms in Pennsylvania is illustrated in the annual financial reports of dairy farms with herd sizes of 100 cows or less that were enrolled in Farm Bureau's MSC Business Services for years 2001 through 2005. MSC Business Services is an affiliated enterprise of Farm Bureau that provides business and tax accounting, tax preparation and business planning services to farmers who have contracted with MSC for these services. Farm operators who utilize MSC Business Services are paying annual fees in addition to annual Farm Bureau dues in order to secure the services provided. Farmers who secure the services provided by MSC Business Services would normally be considered to be persons who are more progressive and efficient managers of their farm business.

Each year, MSC Business Services produces an annual report of aggregate financial data pertaining to clients and classes of clients that MSC services, which is contained in MSC's annual *Dairy Herd Analysis*. Income from dairy farms reported in MSC's *Dairy Herd Analysis* includes both income from milk sales and income from cow and calf sales.

Since the average size of the milking herd on Pennsylvania dairy farms is approximately 69 cows, analysis provided by MSC for farms with 100 or fewer cows would reasonably reflect those financial conditions that efficiently operating farms of average herd size in Pennsylvania have experienced in recent years.

A review of MSC's *Dairy Herd Analysis* for years 2001 through 2005 would indicate that, even with the inclusion of income from cow sales as part of these farms' total dairy income, 2001 was only year in which MSC-serviced dairy farms of 100 or fewer cows operated profitably, with an average annual margin of \$0.39 per hundredweight. For each of the four years succeeding 2001, these farms on average suffered losses on every hundredweight of milk produced. For 2002, their average loss for each hundredweight of milk produced was \$0.80. For 2003, these dairy farmers lost on average \$1.25 per each hundredweight of milk produced. For 2004, these farms lost \$0.39 per each hundredweight, and for 2005, they lost \$0.67 per each hundredweight of milk produced.

It does not take a financial genius to realize that such a prolonged period of sustained annual losses places businesses such as those operating average-size dairy farms in serious financial jeopardy, and makes it extremely difficult for operators of these businesses to economically withstand more of the same for much longer.

Keep in mind that the adverse economic effects that have already occurred from federal order pricing regulation have yet to be augmented by USDA's most recent decision to change the pricing formula for Class III and IV to adjust "make allowances" for manufactured milk products. These make allowance adjustments will further reduce the prices that producers will ultimately receive for their milk, and further aggravate the already depressed economic situation that dairy farmers are desperately struggling to overcome.

Although Farm Bureau recognizes that USDA's judgment of the merits of NMPF's proposed pricing formula for Class I and II mover must be based on the testimony and evidence presented at the December 2006 hearings, Farm Bureau believes USDA's assessment of the particulars of NMPF's proposal must be made in the context of the economic realities that producers, particularly Pennsylvania producers, are facing, and the extreme gravity that these realities are placing on dairy farmers' future economic survival.

Summary

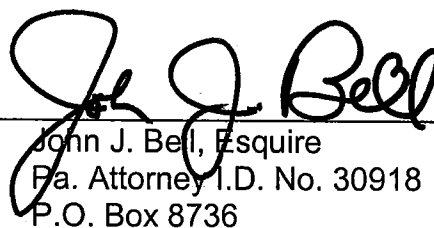
Farm Bureau recommends that current federal milk orders be amended in a manner that will incorporate the changes in producer pricing formulas for Class I and Class II milk proposed by National Milk Producers Federation or that will otherwise increase the Class I and Class II price to be paid to producers.

Thank you for your consideration.

Respectfully submitted,

PENNSYLVANIA FARM BUREAU,

BY: _____


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