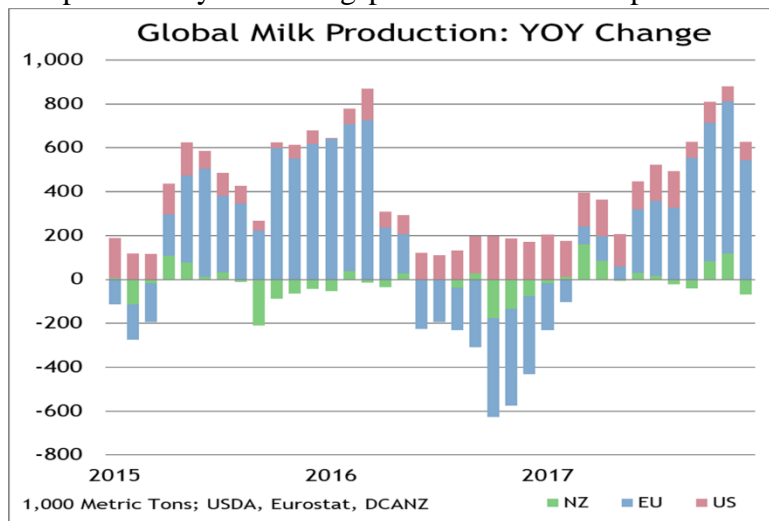


**Statement before the House of Representatives’  
Agriculture and Rural Affairs Committee by  
Agriculture Secretary Russell C. Redding  
Monday, February 26, 2018**

Good afternoon, Mr. Chairman. Thank you for convening today’s hearing to examine the current state of Pennsylvania’s dairy industry and what steps we can take together to ensure the industry’s economic viability for decades to come. I grew up on a dairy farm, and can empathize with the painful decisions dairy farm families – and their lenders – have been making over several years of low wholesale milk prices.

For those members of the Committee who do not have first-hand experience in dairy farming, let me say that the work is both honorable and relentless. It is a wonderful environment in which to raise a family and, though I may not have appreciated it fully at the time, a way to grow up with the kind of work habits that make almost any other profession more attainable. And, I would add that we have seen these kinds of swings in market prices before, especially since 1990 when Congress eliminated floor pricing of the milk price support program in that year’s farm bill.

Particularly since then, dairy farmers individually have met market signals – both high prices and low prices – by increasing production. When prices are up, farmers add cows to boost their



income. When prices are down, farmers add cows to make up for lost revenue, collectively making worse the imbalance in the supply of milk that suppressed prices in the first place. Pennsylvania has added nearly 1 billion pounds of milk in the last year. Milk production per cow also has increased as genetics, feed supplements, and herdsmanship have improved. The industry and its challenges are complex, though, as we are now very much in a global market. As this chart of

monthly year over year milk production developed by the Maryland & Virginia Milk Producers Cooperative shows, U.S. production increased in late 2016 – early 2017 while production in the E.U. and New Zealand dropped. As other nations increased production again through 2017, U.S. production stayed strong.

Dairy’s history speaks of a partnership that includes farmers, processors, academia, Extension, and all levels of government. Expanding that partnership to take advantage of new opportunities is integral to dairy’s future.

There are connection points to the dairy industry throughout the Pennsylvania Department of Agriculture. With the exceptions of the Hardwoods Development Council and maybe the Bureau

of Dog Law Enforcement (though arguably the Dog Law was passed in part to help address damage to livestock caused by wild dogs and coyotes), every part of the Department has a role:

The Bureau of Food Safety and Laboratory Services regulates the safety of milk and dairy products with a team of two program specialists and ten milk inspectors. Our staff administers the Pasteurized Milk Ordinance on behalf of the U.S. Food and Drug Administration. This allows Grade A milk to be processed and shipped to their customers throughout the country and beyond.

Over the last year, Agriculture's milk inspectors supported interstate commerce in Grade A milk by inspecting 1,025 milk plants, 46 single service manufacturing plants, and 1,122 pieces of milk plant equipment. They conducted 230 Bulk Tank Unit record reviews, inspected 564 milk tanker trucks and 57 transfer/wash stations, as well as 137 reseal inspections for milk plants that had to break the seal on their pasteurizers. In addition, they conducted 450 Grade B raw milk dairy farm sanitation inspections across the 73 raw milk producers in Pennsylvania. All in all, some 3,500 inspections were done from February 16, 2017 – February 16, 2018. Finally, the Food Safety Microbiology Lab completed 1,551 tests on 553 milk samples.

#### Beyond Food Safety:

- The Bureau of Animal Health and Diagnostic Services, the Animal Health and Diagnostic Commission, and the three-part Pennsylvania Animal Diagnostic Lab System consisting of the Pennsylvania Veterinary Lab and labs at Penn State University and the University of Pennsylvania's School of Veterinary Medicine partner with industry and the veterinary community to monitor herd health and prevent, diagnose, and mitigate the impact of animal diseases. The Livestock Evaluation Center has been engaging in feeding trials for a growing dairy beef market with JBS Beef;
- The Department's Bureau of Plant Industry regulates livestock feed and feed supplements;
- The Bureau of Market Development includes milk and dairy products in the PA Preferred program and works closely with the Pennsylvania Dairy Promotion Program in an effort to build new market opportunities for milk and dairy products and to help dairy farmers find their way to Pennsylvania's small business financing programs;
- The Bureau of Food Distribution administers The Emergency Food Assistance Program, or TEFAP, for USDA, which of course began in 1981 as a way to distribute to those in need stocks of cheese and butter purchased by USDA to prop up milk prices during a difficult period in the market. While TEFAP now includes dozens of food products, milk and cheese remain available through the charitable food network. The Bureau also partners with the industry and charitable food network on the Fill a Glass With Hope campaign. In addition, the Bureau of Food Distribution administers the Pennsylvania Agricultural Surplus System, or PASS, which provides an efficient mechanism for Pennsylvania's agricultural industry to donate safe, wholesome food products while being reimbursed for the costs involved in harvesting, processing, packaging, and transporting those foods. Milk, cheese, and butter are among the commodities that have entered the charitable food system through PASS, helping to create a market that might otherwise not have existed;
- The Bureau of Ride and Measurement Standards ensures that consumers who buy a gallon of milk actually get a gallon of milk;
- The Bureau of Farmland Preservation reached a milestone this month of \$1 billion in State funds invested in conservation easements over the last 30 years matching \$500 million in

county and local funds. Many of the more than 5,200 preserved farms are dairy farms, giving the Department a direct stake in the viability of the dairy industry in perpetuity;

- Even the Bureau of Farm Show plays a role in supporting the dairy industry, hosting shows like the All American Dairy Show and the Keystone International Livestock Exposition, and most recently, launching with industry the new “Calving Corner” display at the 2018 Farm Show. That exhibit was a crowd favorite and plans are already underway for next year.

Of course, the Department of Agriculture operates within the larger State Government, and we depend on sister agencies across the Wolf Administration for collaboration in supporting the dairy industry. The Department of Community and Economic Development (DCED) has been working with farmers and their lenders to provide affordable financing opportunities. Their Small Business First Fund and Machinery & Equipment Loan Fund programs have been used by dairy farmers to modernize their facilities and even to diversify their operations by adding broiler houses to offset recent low milk prices with new revenue from a burgeoning poultry industry. The Tourism Office in DCED has been working with the Bureau of Market Development and the Center for Dairy Excellence to create “ice cream trails” that promote tourism and consumption of my favorite value-added dairy product.

The Department of Human Services administers USDA’s Supplemental Nutrition Assistance Program, or SNAP, and the Department of Health administers USDA’s Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), providing supplemental foods, such as milk, health care referrals, and nutrition education for low-income pregnant, breastfeeding, and non-breastfeeding postpartum women, and to infants and children up to age five who are found to be at nutritional risk. Like TEFAP, SNAP and WIC are helping to support a market for milk among those who might not otherwise have access to it in the marketplace.

The Department of Education administers USDA’s National School Lunch Program. As USDA has reconsidered its approach on milkfat content of milk products sold in schools, Secretary Rivera and I reached out to schools last May regarding the potential for a waiver that would allow 1% milkfat products to be available. Some 300 schools requested and received the waiver.

The Department of Environmental Protection, working with the Department of Agriculture, the State Conservation Commission, and Penn State University, has catalogued additional best management practices beyond those captured in farmers’ nutrient management plans to give credit under the Chesapeake Bay model to Pennsylvania producers who are farming responsibly.

The Federal Government greatly influences dairy markets, and as I’ve noted, several State agencies are engaged because of their responsibility to deliver Federal programs. Congressional leaders are intent on passing a new farm bill this year, which will include provisions dealing with dairy directly and indirectly. The farm bill authorizes most USDA programs for commodity support, natural resource conservation, rural economic development, nutrition assistance, risk management, research, renewable energy and international trade, among others, all of which are important to the future of the dairy industry.

Dairy is now part of a global marketplace, and international trade considerations extend beyond the farm bill, as the US Trade Representative and the U.S. Secretary of Agriculture negotiate a

new “NAFTA 2.0” with Pennsylvania’s largest agricultural trading partners, Mexico and Canada. To the extent that we have more fluid milk supplies than regional demand requires, the potential for exports of milk and dairy products becomes more important every day.

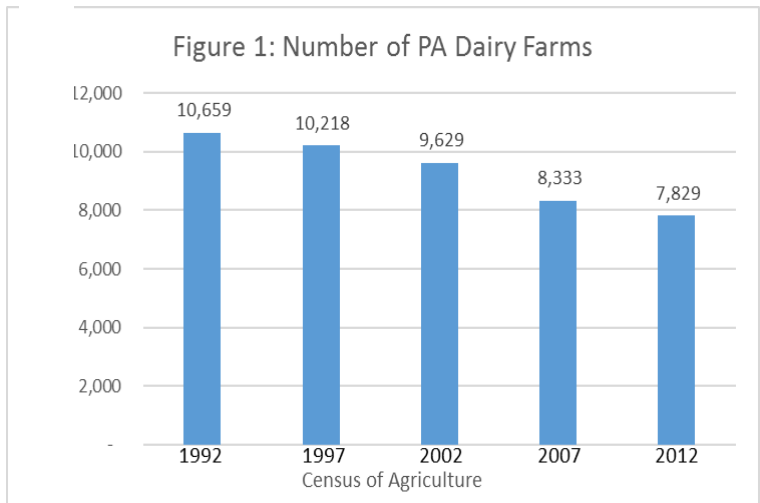
In February 2017, Governor Wolf wrote to Canadian Prime Minister Justin Trudeau regarding steps that country was taking to expand nationwide a milk pricing strategy adopted by the Province of Ontario. In dealing with its own milk surplus by expanding the use of Class Six pricing and the expansion to a Class Seven, Canada blocked access to its markets by Pennsylvania and other US dairy exporters.

In the meantime, Jeff Leal, Minister of Agriculture, Food and Rural Affairs for the Province of Ontario, made a trip through the northern US in June 2017. I met with him directly then and again in December when I traveled to Ontario. There are many opportunities to increase trade between Pennsylvania and Ontario outside of the dairy industry. Unfortunately, it may take a new NAFTA agreement to resolve this difficult dairy issue.

Similarly, as dairy farmers have grown more dependent on hired labor, specifically immigrant labor, to manage dairy herds, farmers have become more dependent on an immigrant labor system that is unwieldy at best. I look forward to working with this Committee in keeping our congressional delegation informed as to the challenges farmers and processors are facing with current immigration laws.

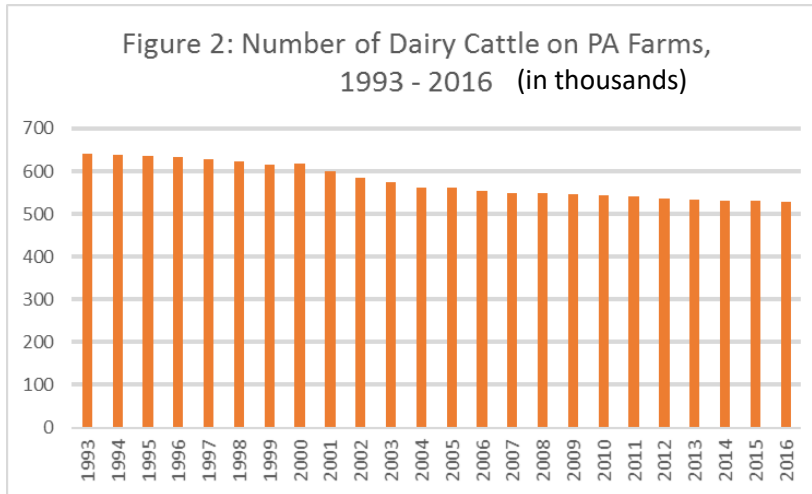
As we await the results of the 2017 Census of Agriculture from USDA’s National Agricultural Statistics Service and fresher data on everything from production levels to hired labor to renewable energy participation to prices paid by and to farmers, I am reminded of other challenging moments in the dairy industry.

In 2004, then Secretary Dennis Wolff created the Center for Dairy Excellence to enhance the profitability and viability of the dairy industry. For the last 13 years, the Center has provided the dairy industry with on-farm guidance from profit teams, workshops and training in a variety of topics, advocacy and partnership across the Department of Agriculture and Penn State, and more. I appreciate the General Assembly’s support of the Ag Excellence line item in the Department’s budget as much as I appreciate the hard work of Jayne Sebright and her team on behalf of the dairy industry. If members of the Committee are interested in formalizing the Center’s structure and role in statute, I think its record of success with the farmers it has reached over the last 14 years would warrant such a move.



Still, though, some trends appear difficult to slow, much less stop. When the new Census of Agriculture data is available, I suspect it will show a continued downward trend in the number of Pennsylvania farms with dairy cows. Figure 1 (above) looks at Census results dating back to 1992.

The largest drop was between 2002 and 2007, reflecting the circumstances that led to the creation of the Center for Dairy Excellence.

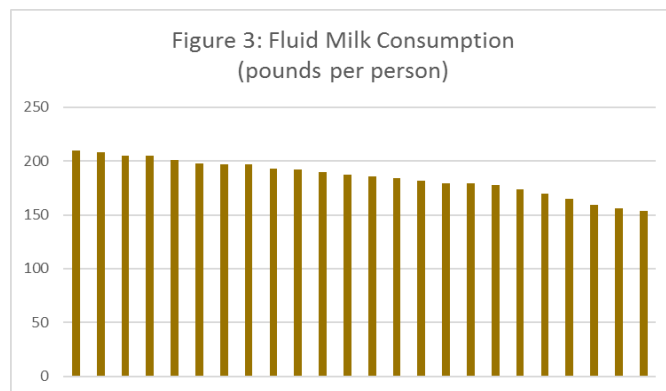


Not all of those farms went out of business entirely, of course. Some turned to beef, some turned to crops, some added poultry and then chose that over dairy for its more predictable income. But, some did leave agriculture, and I worry for them and their communities.

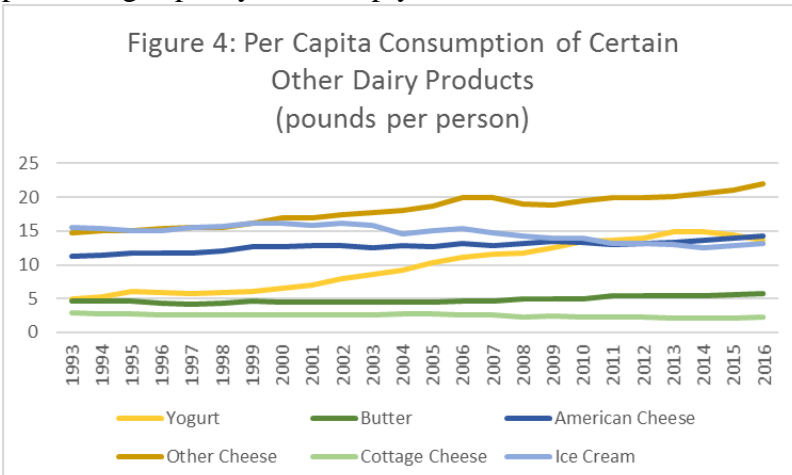
Of concern, too, is what happened to the cows. For the most part, it appears the cows

were purchased by other dairy farmers and remained in production. As Figure 2 shows, the decline in dairy cattle on farms is not as precipitous as the drop in the number of farms.

Over the same 1993 – 2016 timeframe, NASS data show that consumption of fluid milk across the U.S. dropped from an average 210 pounds per person per year to 154 (Figure 3). At the same time, consumption of yogurt increased from 4.9 pounds per person per year to 13.7. Other processed dairy products, such as specialty cheeses, also have seen consumption increases (Figure 4).



Pennsylvania, like the rest of the Northeast, has historically produced for a largely fluid market, yet current conditions better resemble the Upper Midwest, where milk production has historically been for cheese and other manufacturing uses. While that region has had decades to build up its processing capacity, that simply has not been the case in Pennsylvania.



I met with Pennsylvania’s dairy cooperatives along with the Center for Dairy Excellence in January 2017 to gather their input on building more processing capacity in Pennsylvania. That was followed the next month by a “Dairy Development Forum”, in which DCED Secretary Dennis Davin, the Philadelphia Port Authority, the St. Joseph’s University Center for Food

Marketing, and Penn State's Smeal College of Business presented to PA dairy processors on the opportunities available to them in Pennsylvania for help with financing, marketing, and exporting dairy products. Governor Wolf followed that event with letters directly to 50 dairy processors encouraging them to build new capacity in Pennsylvania. As we speak today, the Governor's Action Team is scouring Pennsylvania for suitable processing plant sites that would include necessary infrastructure, such as waste water disposal and rail siding.

On January 3 of this year, I released with the Center for Dairy Excellence a report on Pennsylvania's potential for increasing processing capacity performed by Dr. Chuck Nicholson and Dr. Andrew Novakovic of Cornell University, and Dr. Mark Stephenson of the University of Wisconsin, Madison. The study assessed the economic impact and potential change in milk prices to farmers and in supply chain costs by adding processing capacity at 21 possible locations in Pennsylvania, as well as under a second scenario of two additional plants at locations that provided the greatest potential benefits. In both cases, new plants could keep more than 20 percent of the state's milk supply in Pennsylvania, rather than being shipped out-of-state for processing.

Keeping more milk in Pennsylvania would reduce hauling costs and increase milk premiums for farmers. The net benefit could amount to \$35 million per year under the "two-plant scenario" and \$48 million per year under the "All Pennsylvania locations" scenario that covered each of the 21 potential sites. Under the two-plant scenario, hauling costs would be reduced by \$0.05 per hundredweight and the value of milk premiums to farmers on a statewide average would increase between \$0.26 and \$0.29 per hundredweight.

According to the authors, these benefits would justify investments of between \$430 million and \$600 million in expanding Pennsylvania's processing capacity. Such investment would increase the value of dairy products produced in Pennsylvania by between \$599 million and \$921 million; add between \$1.5 billion and \$2.3 billion in additional economic activity; and create between 1,100 and 1,700 jobs.

Over this same time period, I was working with the Team PA Foundation to create a new Agriculture Committee of the Foundation board. Co-chaired by Scott Sechler of Bell & Evans Poultry and myself, the Committee of agribusiness leaders followed up on a series of listening sessions we held the prior year with stakeholders all over Pennsylvania by contracting for an economic impact study on Pennsylvania agriculture. That study was released at the Farm Show last month. Produced by Econsult Solutions, Inc. and the Fox School of Business at Temple University, the study concluded that Pennsylvania agriculture accounted for \$135.7 billion of annual economic impact, or roughly 18 percent of the State's gross domestic product. The study included six categories of strategic recommendations to keep Pennsylvania agriculture competitive into the future. As I continue thinking about a path forward specific to the dairy sector, all six categories of recommendations offer constructive ideas:

- 1. Capitalize on branding and marketing opportunities*

In 2017, USDA reported that Pennsylvania now ranks second nationally for sales by farmers of organic products. Consumer demand for organics has been increasing faster than production, though, and the potential for organic milk and processed dairy products is real. Organic Valley

Cooperative is among the dairy processors with whom the Department and the Governor have been engaged.

This recommendation also speaks to the continued need to engage dairy in the Department's PA Preferred program to help Pennsylvania consumers interested in buying "local" foods to identify milk and dairy products from Pennsylvania. Similarly, increasing the volume of milk and dairy products in the PASS program will help build markets among the charitable food community.

Finally, there is a need to continue working with raw milk producers to ensure that they have the training and tools they need to succeed.

*2. Expand on agricultural infrastructure, such as processing and manufacturing capacity*

As discussed in the dairy study released last month, creating processing capacity in Pennsylvania is timely and necessary. This includes both conventional and organic processing. We will continue working with DCED and the Governor's Action Team. This area also includes producer-owned processing through the development of new and existing cooperatives. USDA's Value-Added Producer Grant Program could be of assistance in this effort, along with investments the Department already makes in the Keystone Cooperative Development Center.

Finally, the Department will continue its commitment to the Center for Dairy Excellence, and consider a parallel effort to establish research capabilities to identify new dairy products and markets.

*3. Continue improving regulatory processes and the business climate*

The Bureau of Food Safety and Laboratory Services has the most direct impact on dairy from a regulatory perspective. We will continue cross-training already underway between food and milk sanitarians to ensure that inspections can be done by as many people in the bureau as possible as efficiently as possible to facilitate interstate commerce in milk and dairy products.

The Bureau of Farmland Preservation recently was awarded \$6.3 million in grant funds by USDA's Natural Resources Conservation Service. Those Regional Conservation Partnership Program grant funds are targeted to farms in the Chesapeake Bay watershed that are waiting to be preserved, but have not yet met the requirement for creating nutrient management plans and implementing best management practices. Second priority will be grants to preserved farms that need to make changes in their planning and practices to remain in compliance.

*4. Broaden workforce development and education opportunities*

The Department of Agriculture will continue to work with industry and Pennsylvania's congressional delegation on dairy's needs vis-à-vis Federal immigration policies. We will continue to support the Center for Dairy Excellence's many workshops and educational programs. We will work with already preserved farms to offer technical assistance to those ready to sell their farms to the next generation. We will work with industry to create apprenticeships and other educational opportunities.

5. *Make additional investments in infrastructure systems like transportation and broadband*

The Department will work with PennVest, DCED, USDA Rural Development, and the Governor's Action Team to identify suitable locations for building dairy processing capacity or create them through financial assistance for water and wastewater disposal systems and other needed infrastructure.

The Department also will continue working with the Team PA Agriculture Committee, which includes the Marketing Manager for the Port of Philadelphia, to take advantage of export opportunities for dairy products and foods containing dairy ingredients.

6. *Diversify products to strengthen markets and build resiliency*

Much of Pennsylvania's increase in organic sales has come from dairy, livestock, and poultry, though direct sales of vegetables and fruits remain strong. To seize on this trend and better meet consumer demand from within Pennsylvania, it is necessary to increase our acreage of certified organic feed grains to facilitate more dairy farms' transition to organic milk.

The Department has been working with partners in Western Pennsylvania to reestablish sheep and goats to a region that has historically featured those animals. While the current initiative is focused on meat animals to take advantage of growing ethnic markets in the region, future efforts can include milk and value-added dairy products.

As noted above, I also believe it is time for Pennsylvania to develop its research capacity to identify new dairy products and markets. Other states offer models in this regard. I look forward to working with you on a design that best takes advantage of assets already in Pennsylvania while addressing future needs.

Mr. Chairman, I am sure that you and other members of the Committee have some questions about the issues and recommendations I have addressed, and I look forward to discussing them with you at this time.