

Rep. John Lawrence, Prime Sponsor of HB 1265

June 17, 2015

Good morning Chairman Causer, Chairman Carroll, and esteemed colleagues. I appreciate the opportunity to speak on HB 1265 regarding transparency and accountability for state-mandated milk premiums for dairy farmers.

Milk pricing is an extremely complicated subject, and after five years of research on the topic I can say with authority that one could spend a lifetime on the issue and still have more to learn.

The bill before us today, HB1265, is narrowly tailored with one goal - to ensure Pennsylvania family farmers know what's in their milk check.

To provide a brief background, the Pennsylvania Milk Marketing Board traces its origin to the 1930s. Today, the Milk Marketing Board licenses and regulates the dairy industry in the Commonwealth, and among other things, sets the minimum price for milk in the Commonwealth.

In 1988, the Milk Marketing Board established the "Over-Order Premium," a fee assessed on every gallon of Class 1 fluid drinking milk sold in Pennsylvania. The fee has varied over the years and is currently set at \$1.85 per hundredweight or \$0.16 per gallon.

The idea behind the Over-Order Premium is simple: Pennsylvania consumers would be willing to pay a little more per gallon if they knew that they were helping out the Pennsylvania dairy farmer, and thus ensuring a steady, reliable source of local milk. As we all know, milk pricing is fickle, and trying to make a living as a small dairy farmer is harder than ever. The intent of the premium was to cushion the blow that national or even global economic forces might have on the small family farmer. This fee is built-in to the price consumers pay for milk at the grocery store, and is to be paid back to the producer on milk that is produced, processed, and sold in Pennsylvania.

For decades now, this state-mandated over-order premium has been collected on each gallon of milk sold in Pennsylvania. Yet many family farmers do not know how much, if any, of that state-mandated money is actually getting back to them. Many have said to me that the money is "lost in the system." How can this be?

Current law and regulation requires payment and full disclosure of this state-mandated milk premium when a "milk dealer" makes a payment to a "producer." As anyone

involved in the legal process knows, defining terms is very important. One might imagine that the family dairy farmer is the “producer.” But how is the term “producer” defined in state law?

As defined in the Milk Marketing Law:

"PRODUCER" means a person producing milk.

This seems straightforward enough. Let us also look at the definition of a dairy cooperative according to state law:

"COOPERATIVE" means a cooperative agricultural association or corporation of producers organized under the laws of this Commonwealth or of any other state and engaged in making collective sales or in the marketing of milk for producers under contract with it. A cooperative shall not be deemed a milk dealer or handler, *but shall be deemed a producer*, except as otherwise provided herein. (emphasis added)

Under current Pennsylvania law, both a family farmer and a dairy cooperative are defined as a “producer.”

Therefore, according to current law and regulation, we can know the following:

Milk dealers paying family farmers (producers) must include a line-item on the milk check showing the specific amount of state-mandated premiums contained in the check.

Milk dealers paying cooperatives (producers) must include a line-item on the milk check showing the specific amount of state-mandated premiums contained in the check.

Cooperatives paying family farmers are under no obligation to disclose anything on the milk check showing the specific amount of state-mandated premiums contained in the check.

HB 1265 seeks to correct this issue. A Pennsylvania family farmer has the right to know how much of the payment he is getting for the milk sold off his farm comes from a state-mandated premium, regardless of whether that farmer sells his milk to a cooperative or a milk dealer. The state-mandated over-order premium should be transparent at all levels but particularly to the family dairy farmer. Certainly, every family farmer in Pennsylvania should know what it is in their milk check.

Cooperatives play a vital and critical role in the dairy industry. As private, member-based organizations, they should be free from government getting involved in contract issues between management and membership. It is not my business, nor do I believe it is the business of this committee, to dictate the terms by which a cooperative and a dairy farmer interact with each other. However, when a state-mandated premium enters the equation, certainly this committee and even more so the family farmer should know if that state-mandated premium is achieving the desired outcome.

I would encourage the members to review the submitted written testimony of Secretary Russell Redding. To briefly quote from his remarks, the *“value placed on Pennsylvania milk and our dairy farmers should be recognized, and be made transparent on all cooperative member’s milk checks. In the spirit of transparency, disclosure, and accountability, this seems like the right thing to do. It is important that our cooperative members, who benefit from the over-order premium, are able to clearly see that benefit.”*

I would like to sincerely thank Chairman Causer for the scheduling a hearing on this bill, and I would be happy to take any questions from the members.