

# REPORT HIGHLIGHTS

## A Study of Pennsylvania's Dairy Industry

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Senate Resolution 384 (2018 session) directed the Legislative Budget and Finance Committee (LBFC) to conduct a study on the past, present, and future issues impacting dairy producers and the dairy industry. Our report reviews the historical context of milk regulation (federal and state), and the key difficulties confronting the dairy industry. We also make recommendations to improve the fairness, potential, and oversight of Pennsylvania's milk market. Highlights of the report include the following:

- ❖ **Pennsylvania dairy producers are experiencing an ongoing crisis.** Dairy producers (farmers) are paid on a "hundred weight" basis, which is approximately 11 gallons of milk. Dairy pricing has always been cyclical, but over the past five years—the longest period in recent memory—dairy producers have faced continuous low milk prices for their product.



Note: Depicted trend lines are not linear.

- ❖ **Low dairy prices can be attributed to oversupply.** It is difficult to identify any one factor that is leading to oversupply. Experts agree that there is too much supply for existing demand. Demand is weak as a result of declining consumption of fluid (beverage) milk, which is likely attributable, in part, to the upsurge of plant-based milks. International trade practices also contribute to the weak demand for dairy-related products. Supply is high because of modernization and efficiencies in production and processing. Additionally, in Pennsylvania, despite low producer prices, production actually increased as producers tried to recoup previous losses. Although this trend ceased in 2018, it also contributed to the oversupply of milk.
- ❖ **The dairy industry is very complex and involves a complicated interplay between federal and state orders, regulations, and laws.** Historically, dairy producers were subject to unfair business practices, which created instability in the market. To protect producers and ensure a steady supply of milk at fair prices, the federal government created a series of Federal Milk Marketing Orders (FMMOs). Portions of Pennsylvania are covered by two separate FMMOs. Additionally, in 1937 Pennsylvania enacted the Milk Marketing Law (Law), which provides additional regulatory protections for milk transactions occurring within Pennsylvania's borders. The Law is administered by the Pennsylvania Milk Marketing Board (PMMB), a three member board, which sets minimum milk prices at the producer, processor (wholesale), and retail level. Another important aspect of the PMMB, is the setting of the over-order premium

(OOP), which is an additional fee payable to Pennsylvania dairy producers on fluid milk. Pennsylvania is the only state with this type of added premium on fluid milk sales. We found the PMMB provides an important and necessary function for Pennsylvania producers.

- ❖ **Pennsylvania's dairy industry is important to the state's economy.** The dairy industry is the number one segment of Pennsylvania's agricultural economy. We calculated various economic impacts and found that every cow generates approximately \$16,864 in direct economic benefits. Further, the industry supports more than 45,000 jobs, with total wages of over \$1.8 billion.

### RECOMMENDATIONS

1. **Regulate Plant-based Milks as a Class V Milk Product.** Federal product identity requirements are not enforced—a significant unfairness to dairy producers. The Law may provide a pathway to correct this unfairness, and a fee would also provide needed revenue to fund the PMMB's duties.
2. **Clarify Milk Date Coding Requirements.** Fluid milk in Pennsylvania currently has an unnecessary 17 day "sell-by" date—the second strictest of any state.
3. **License Milk Retailers to Capture More Detail About Milk Sales in Pennsylvania.** Actual data on retail sales would better inform future decision-making.
4. **Expand Existing Research and Development Assistance for the Dairy Industry.** New products will improve demand for dairy-based products.
5. **Aid the Development/Construction of Cheese Plants.** Large leads in capacity are already held by Wisconsin and California, but if Pennsylvania can attract new plants, the potential exists to increase demand for milk.
6. **Further Develop Pennsylvania's Identity and Uniqueness for Fluid Milk.** Recent efforts are a good first start, but a broader campaign is also necessary.
7. **Expand the Size of the Milk Marketing Board.** Expanding to five members would allow more inclusivity from all segments of the dairy industry.
8. **Change the Name of the Milk Marketing Board.** Milk Control Board better suits the duties of the Board.
9. **Improve the Transparency and Distribution of the PMMB's Over-Order Premium.** Many producers are unsure how much of the OOP they actually receive. Further, some of the OOP may be "stranded" because the milk originated, or was sent for processing, outside of Pennsylvania's borders.

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