

**Testimony
before the
United States Department of Agriculture
Agricultural Marketing Services
September 14, 2006**

Presented by
**Dennis C Wolff, Secretary
Pennsylvania Department of Agriculture**

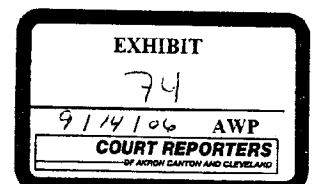
Regarding
**Docket No. AO-14-A74, et al.; DA-06-01
Milk in the Northeast and Other Marketing Areas;
Reconvening of Hearing on Proposed Amendments to
Tentative Marketing Agreements and Orders**

On behalf of Governor Rendell, I want to extend our appreciation to Secretary Johannes for extending an invitation to the Commonwealth of Pennsylvania to attend today's national public hearing regarding Class III and Class IV milk price formula manufacturing allowances. This reconvened hearing to consider the information compiled by Cornell University and others will provide the Agriculture Marketing Service pertinent information to fully consider the merits of the proposal prior to a final decision. As a national issue, this will undoubtedly be a difficult decision. I want to underscore the concern we have about making any changes in the "make allowance" that will cause further decline in Pennsylvania dairy farm families' milk checks, given the very difficult financial environment in which they presently find themselves.

Agriculture is Pennsylvania's number one industry, with dairy contributing 42% of the agricultural revenues. Pennsylvania has 8,600 dairy farm businesses that produce over 10.6 billion pounds of milk annually. The income from this milk is very important to the state's economy, and this volume of milk is important to feeding the United States population on the east coast.

Cornell University data shows a deficit of 8 billion pounds of milk in the Northeastern U.S., and over 20 billion pounds in the Southeastern U.S. when you compare current production and per capita consumption of dairy products. It is critical that we grow milk production in this region.

During the past ten years Pennsylvania has lost over 2,000 dairy farms and 75,000 dairy cows. This trend has been driven by low profitability within the industry. Initiatives have been established in the state to improve profitability and there are positive results. However, those results are thwarted when milk prices decrease by 17% at the farm gate, as they have during this past year. The U.S. all-milk price for 2005 was \$15.15 per hundredweight. Dr. Ken Bailey and other agriculture economists are projecting 2006 to be around \$12.60. This change totally removes any farm profit level that was there in 2005 and forces most farms to operate in the red.



Cyclical changes in farm milk prices have been more frequent and in greater magnitude. Pennsylvania dairy producers had record low milk prices in 2002 – 2003. The state's dairy farms had not recovered from that when the current cycle of low prices hit.

In May, June, July, and August all milk prices were at or below \$12 per hundredweight. With the cost of production exceeding \$13.50 per hundredweight, our dairy producers are losing at least \$1.50 for every hundred pounds of milk they produce. The month-after-month negative cash flows they are experiencing make it imperative that the "make allowance" increase not be granted.