

BEFORE THE PENNSYLVANIA MILK BOARD

OVER-ORDER PREMIUM HEARING

All Milk Marketing Areas

Bulletin No. 1662

June 3, 2026

Rebuttal Testimony of Dairy Farmers of America, Inc.

Presented by Drew Frommelt

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My name is Drew Frommelt, and I am the Dairy Economics and Analysis Manager for the Northeast Area of Dairy Farmers of America, Inc. (“DFA”). DFA is a milk marketing cooperative with approximately 5,000 member-owned farms, of which 971 are in Pennsylvania. DFA also owns and operates ten milk processing plants in the Commonwealth.

Thank you to the Board for the opportunity to provide rebuttal testimony. DFA appreciates the chance to engage in this important discussion.

DFA has come to the difficult conclusion that, after years of waiting for over-order premium reform that has not materialized, it can no longer support a \$1.00 premium that perpetuates a system used to collect and distribute that premium that is not working as intended. At the same time, DFA fully recognizes the challenges facing Pennsylvania dairy farmers today and cannot support bringing the premium to \$0.00, which takes much-needed funds from the pockets of struggling Pennsylvania dairy farmers. DFA therefore cannot take a position in support of any specific premium level.

Mr. Espenshade’s testimony correctly demonstrates many of the challenges Pennsylvania dairy farmers face today. Federal Order 1 blend prices for the first three months of 2026 are down, on average, 17% year-over-year. Diesel fuel prices in the Central Atlantic are up 19% in the first three months of 2026, year-over-year, and were up 32% in March alone. According to the USDA Milk Production report, Pennsylvania milk production for the first quarter of 2026 is 65 million pounds less than in the same period of 2025.¹

¹ Source: USDA, National Agricultural Statistics Service, *Milk Production* (April 22, 2026), <https://esmis.nal.usda.gov/sites/default/release-files/795871/mkpr0426.pdf>.

These data points underscore the difficult environment Pennsylvania dairy farmers are working in and explain why DFA simply cannot support a \$0.00 over-order premium.

However, acknowledging these hardships does not change the underlying issue: the current over-order premium structure continues to fall short of supporting the industry in a fair and effective way. Given the lack of movement on much-needed reform, DFA cannot take a position in support of any specific premium level, as the system does not reliably benefit the farmers it is intended to help.

The current system creates an economic incentive that harms Pennsylvania farms. The over-order premium is tied to the wholesale minimum price and applies only to in-state transactions for fluid milk products. By tying the over-order premium to the wholesale price, the burden to pay farms the qualifying premium falls on the processor. This creates an incentive for processors to move milk across state lines. In a competitive setting, processors would optimize their milk movements by considering factors such as customer demand locations and transportation costs.

The existing system can make it cheaper to move products out of state and move raw milk in from other states, not because that is what the market is calling for, or because it better serves the consumer, but because crossing the state line before milk goes to a retailer or before raw milk goes to a processor eliminates the burden of the over-order premium. DFA has consistently supported legislative reform as long as the bill mandates the premium is collected at the point of retail sale, rather than at wholesale. This is a crucial element of reform to over-order premium collection as it eliminates the incentive for processors to avoid the premium by moving milk across state lines and eliminates stranded premiums that never make their way back to Pennsylvania dairy farmers.

Another issue with the current over-order premium structure is that not all premium dollars are distributed to Pennsylvania dairy producers in a fair and equitable manner. Today, many factors such as distance to the market, marketing arrangements, or seasonal demand will impact how much, if any, of a dairy farmer's milk reaches a Class I processor that will qualify for over-over premium payment. It has been well documented that Class I utilization has decreased in Pennsylvania and across the Northeast. In the Northeast Federal Order 1, average annual pooled Class I pounds declined by 26 percent in 2025 compared to 2000. A decrease in Class I delivery locations results in fewer opportunities for Pennsylvania dairy producers to receive the over-order premium.

This decline in Class I utilization does not affect all Pennsylvania farmers equally. The milk of a Pennsylvania dairy farmer located near a fluid milk processing plant, which consistently qualifies for Class I use, could accrue the full benefit of the over-order premium. The milk of a Pennsylvania dairy farmer that happens to be further from the market, which, through no fault of the farmer's own, is most efficiently routed to a manufacturing facility because no Class I outlet is easily accessible, would accrue little to none of that same premium, depending on the producer's marketing arrangements. There is then a disparity in premium payment determined not by the quality of a producer's operation or the volume of their production, but rather by the geography around them and the marketing decisions of their cooperative or dealer.

The over-order premium is collected uniformly from Pennsylvania consumers, and it should be distributed uniformly to Pennsylvania dairy farmers. This can be accomplished through legislative reform. The Senate bill introduced by Senator Elder Vogel, Jr., would give the Pennsylvania Milk Board the authority to collect the over-order premium at the point of retail

sale and distribute it in a fair and equitable manner to all Pennsylvania dairy farmers, regardless of where their milk is delivered, regardless of the milk's end-use classification, and regardless of the farmer's marketing arrangement.

The challenges facing Pennsylvania dairy farmers are real, with volatile milk prices and rising input costs impacting and often devastating Pennsylvania farms, leading to declining milk production in the Commonwealth. However, the current over-order premium structure is not delivering on the promise of its concept, instead further exacerbating the challenges faced by Pennsylvania dairy farmers, processors, and consumers.

For these reasons, DFA cannot responsibly take a position in support of any specific premium level at this hearing. Endorsing any premium level above \$0.00 would continue to validate a system that is outdated and inequitable, and which cannot guarantee that the premium Pennsylvania consumers pay reaches every Pennsylvania dairy farmer in a fair and equitable manner. Yet DFA also cannot support a \$0.00 premium knowing the immense hardships faced by Pennsylvania dairy farmers who rely on the premium to offset some of their rising costs.

Senator Vogel's bill provides the appropriate framework for much-needed reform through retail, not wholesale, collection, and the direct and equitable distribution of premium dollars to all Pennsylvania dairy farmers. DFA fully supports Senator Vogel's bill. The over-order premium system needs this structural reform before any premium level can be responsibly endorsed.