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NEW STUDY POINTS TO INCENTIVES FOR ADDITIONAL DAIRY PROCESSING

Additional Dairy Processing Could Yield Returns for State, Producers, Investors

Harrisburg, Pa. – An investment in additional dairy processing capacity in Pennsylvania could generate \$34.7 million annually in combined revenue generation and cost savings, according to an “Analysis of Economic Incentives for Additional Dairy Processing Capacity in Pennsylvania” study released by Drs. Chuck Nicholson, Mark Stephenson and Andrew Novakovic. The study was commissioned by the Pennsylvania Department of Agriculture and the Center for Dairy Excellence as part of a comprehensive look at competitiveness and growth opportunities within Pennsylvania’s dairy industry.

“Substantial incentives appear to exist for additional processing capacity to locate in Pennsylvania,” said the three authors of the study. “Based on our findings, an investment in two cheese plants – one in the State College area and one in the Reading area – may result in the largest reduction in supply chain costs, offering the strongest incentives for the new processing capacity.”

Based on dairy product demands and 2016 milk production capacity, Nicholson, Stephenson and Novakovic found that investing in two plants processing volumes of 4 million pounds of milk per day and producing non-American types of cheese (Italian and specialty cheeses) would result in the largest reduction in supply chain costs. These plants would reduce hauling costs for Pennsylvania dairy producers by an estimated \$5.9 million per year, based on the study findings.

“Pennsylvania is one of the few major dairy states that are net exporters of raw milk,” explained Stephenson at a recent Dairy Listening Session where he discussed the study findings. “Having additional dairy processing in the state would markedly increase the marginal value of milk produced in Pennsylvania now being shipped out-of-state. That would generate economic benefits for the state, while enhance the marginal value of milk for Pennsylvania dairy producers by about \$28.8 million annually, according to our findings.”

An investment in dairy processing would also reduce hauling costs for Pennsylvania dairy producers, with the Reading and State College plant scenarios proposed in the study reducing hauling costs by an estimated \$5.9 million per year. The combined estimated returns generated by the increased marginal milk value and reduced hauling costs would support a plant investment of about \$433 million per year, according to the study.



The dairy processing analysis study is the first released from a series of information resulting from the Pennsylvania Dairy Industry Study being conducted by Nicholson, Stephenson and Novakovic. The Pennsylvania Department of Agriculture and Center for Dairy Excellence have commissioned the three researchers to provide insight on opportunities and inhibitors to growing and strengthening Pennsylvania's dairy sector, which serves as the largest segment of Pennsylvania's agriculture industry, generating about \$6 billion in annual economic returns.

The authors of the study are Dr. Nicholson, former Clinical Associate Professor of Supply Chain Management, Penn State University and now an adjunct associate professor at Cornell University; Dr. Stephenson, Director of Dairy Policy Analysis at the University of Wisconsin Madison; and Dr. Novakovic, E.V. Baker Professor of Agricultural Economics at Cornell University.

A complete copy of the dairy processing analysis, along with other information about the comprehensive Pennsylvania dairy study, is available at centerfordairyexcellence.org. Click on "Dairy Information," then on "Pennsylvania Dairy Study 2017." To learn more, call the Center for Dairy Excellence at 717-346-0849.

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The Center for Dairy Excellence is a non-profit organization initiated by the Pennsylvania Department of Agriculture in 2004. Bringing together people from more than 40 different dairy organizations in Pennsylvania, the center's mission is to enhance the profitability of the dairy industry by empowering people, creating partnerships, and increasing the availability and use of resources. Learn more at centerfordairyexcellence.org.