Commonwealth of Pennsylvania

Pennsylvania Milk Marketing Board

Testimony

OVER-ORDER PREMIUM HEARING

Presented by

Pennsylvania State Grange

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To the Members of the Board,

 Thank you for considering my testimony on behalf of the Pennsylvania State Grange. The Pennsylvania State Grange has been an advocate for farmers and rural families since 1873. In light of the challenges facing our dairy industry within the Commonwealth, the Grange is asking the Board to raise the over-order premium to $1.00 per hundredweight on qualifying milk.

For the record, my name is Matt Espenshade. I am a seventh generation dairy farmer from Lancaster County. The farm has been owned and operated by my family since 1867. I am married, and have two sons, ages thirteen and ten. My father and I have no hired help in the day-to-day activities on the farm. We milk 70 cows, with a 19,400-pound rolling herd average. We farm 260 acres, and raise our own forages and replacement heifers as well. In addition, I serve as the Master (President) of Elizabethtown Area Grange #2076, one of more than 230 county and community granges located across Pennsylvania.

As a member of Mount Joy Farmers Co-Op, which is affiliated with Dairy Farmers of America (DFA), my fellow producers and I receive a blended price for shipped milk. The blend price we received for milk on our most recent check was a net of $16.20 per hundredweight. This includes a quality bonus of 20 cents, a volume premium of five cents, and an additional ten cents for being under contract with our co-op.

Because we are part of a co-op, the over-order premium is spread across all members, regardless of the milk’s class, processor location, and final destination. Approximately 15 to 20 percent of the milk produced by our co-op members goes to Class I facilities and is sold within the Commonwealth. Almost all milk within the co-op attains that level of quality.

On our farm’s monthly co-op statements, the over-order premium approved by the PMMB is included among the bonuses and premiums. On our most recent statement, the amount was four and a half cents, which is labeled as “special premium.” In one month on our farm, where we produce about 110,000 pounds of milk, this line contributes approximately $50 to our statement. An additional portion of the premium is used to subsidize quality bonuses.

It is safe to say that 2018 will be a year that will be talked about for generations to come. Record-setting rainfall affected nearly all of agriculture in Pennsylvania. Honestly, it could not have come at a worse time for struggling dairy farmers here in the Commonwealth. We ended 2018 with an average monthly milk price of $14.91, the lowest average of the past three years. This comes on the heels of a challenging 2017, where the year’s average price was $16.67, and monthly IOFC (Income Over Feed Cost) averaged $7.45 per hundredweight. We can look back to 2016, where the year’s average price was $15.54 per hundredweight, and monthly IOFC averaged $6.79 per hundredweight.

We began 2018 in January receiving $15.86 per hundredweight for our milk, with an income over feed cost margin of $7.63. The price we received rose slightly to $16.00 in February. Little did we realize at the time that we would not see the sixteen dollar range again until December. We would see April’s milk price fall to $13.40, with an IOFC margin of just $4.49 per hundredweight. For six consecutive months, between May and October, our price would remain in the fourteen dollar range. It was not until November that our price would reach $15.33, with an IOFC of $8.07 per hundredweight. At 2018 would draw to a close in December, we saw the price we are paid rise to $16.33.

**Some Factors and the Bottom Line**

 Our farm attempts to maximize our forage production capabilities, which makes it necessary to purchase our supplemental energy and protein feeds. Every month, we will order a total of ten tons of flaked corn and ten tons of protein concentrates. Despite our attempts to control input costs, here we are very much at the mercy of the markets.

 Last year, the steam-flaked corn we purchase peaked in May at $209/Ton. By September it was lower, to $194/Ton, and fell as low as $191/Ton in November. Our purchased corn did see a sharp rise in December to $204/Ton, and it has remained above the $200 level so far this year.

Our soybean-based protein concentrate also followed a similar pattern. Costing $505/Ton in April, it jumped to $520/Ton in May. Since then, prices have softened slightly, with the protein concentrate settling in at $489/Ton in September. By November, the price had fallen to $464/ton, but it too saw an increase in December, to $475/Ton, and has remained in the $470 range so far in 2019. It seems our purchased feed costs were at their highest point while our milk price was at or near its lowest. Obviously, this put considerable strain on our bottom line.

Our cooperative is still challenged in finding markets for our milk, and Pennsylvania’s dairy farmers continue to shoulder a significant part of the burden. To help cover balancing costs, in September 2014, our members began to be assessed a “Market Adjustment” fee, which is included on our monthly statements. In April of 2015, it was a deduction of 40 cents per hundredweight. Every month since that time it has been a fluctuating deduction, and reached a high of 80 cents per hundredweight in July of 2017. Our most recent statement showed the deduction currently at 58 cents per hundredweight.

At that level of 58 cents, on a moderate-sized farm like ours that produced 108,000 pounds of milk last month, the market adjustment equates to about $631 in lost revenue for the month. I have no doubt that it is a challenge to find a home for all the milk produced by the members of our cooperative, but I have to wonder if this assessment will ever end, or is this the “new normal”.

**Help for Dairy Farmers Over the Longer Term**

Reducing the financial stress dairy farmers are having involves actions way beyond the authority of the Pennsylvania Milk Marketing Board or any individual farmer to resolve. Part of promoting a solid economic base for rural Pennsylvania is making the climate for business investment more desirable. On one side, it is increasing demand for product. Hopefully, legislation sponsored by PA congressman G.T. Thompson allowing whole milk to be provided in school meal programs will help. Actions by USDA to have higher fat content in flavored school lunch milk also help. The main way to turn the market around will be a re-education of the American public that milk is not only nutritious, but appealing to the palate. Hopefully, we can get a new generation to appreciate milk’s value in promoting and maintaining their health.

Until that day comes, there is another issue that, if resolved, can help dairy farmers. Building up processing facilities right here in the Commonwealth means reduced transportation costs. We are fortunate to have a sizable number of dairy farms throughout our state. Having numbers of smaller regionalized processors seems to me to be a goal that we can achieve to promote Pennsylvania’s rural development, with an added benefit of reducing costs for dairy farmers. As a dairy farmer, I know that distance means something and processing closer to production would be of benefit to all of us involved in the dairy industry.

**A Year Like No Other**

As I mentioned before, weather during the past year has been a factor that has impacted dairies of all sizes. For us, it seemed like very little went right in our cropping system. Rain during the spring delayed our ryelage harvest, pushing the crop past the proper maturity stage, resulting in lower available protein levels. Being unable to harvest that cover crop also meant planting corn would be delayed as well. Our financial standing did not allow us the opportunity to side dress the corn with nitrogen, which could have increased growth and yield. Making quality hay during the summer was very difficult, and cuttings were unable to be made at the proper stage of growth.

Our one bright spot was our early silage corn, which did rather well under the circumstances. In an attempt to make up for shortfalls in ryelage and hay, we attempted to plant a stand of forage oats on that ground, in hopes of harvesting in October. For us, it was a gamble that came up short. Growing conditions were not favorable, and in the end, the “oatlage” was unable to be made at all. Considering oats are not very tolerant of cold weather, the acres planted will probably not survive the winter.

The same wet conditions prevented the later corn silage from being harvested in time. As a result, we are seeing poor fermentation in what we are feeding, which leads to lower production in our cows. Because of the corn coming off so late, and the persistently wet fields during the autumn months, we were unable to plant any rye or triticale that would normally be taken off in the spring and used as heifer feed for the upcoming year. It is a precarious situation to be in, and we are hoping the weather this spring is more conducive. Shortages in quality and quantity of our homegrown forages will lead to increased feed purchases during the upcoming year, putting even more strain on already tight margins.

**Conclusion**

Our co-op prides itself on producing high quality milk. It is a point that is made over and over by our leadership in newsletters and at annual meetings. Quality bonuses and premiums are a significant motivation and this financial reward for diligence cannot be understated. During an average month on our farm, picking up an additional 10 cent bonus somewhere will add approximately $125 to our monthly statement.

Mount Joy Farmers Co-op has a Board of Directors which is elected by our membership, and is comprised of member dairy farmers. They have a tremendous responsibility in managing the milk markets of the 316 member farms. I trust them to continue to work in the best interest of our members, and our co-op manager has always been willing to answer my questions in preparation for my testimonies before the PMMB. There is also trust in the decisions made by PMMB to do the right thing in helping ease the plight of the dairy farmer. The decision you make on over-order premium is certainly not a panacea. Rather, it is a prudent way to help dairy farmers in Pennsylvania. On behalf of the Pennsylvania State Grange and the dairy farming community, I ask the Pennsylvania Milk Marketing Board to increase the over-order premium to $1.00 per hundredweight. This decision would certainly support the dairy farmer in an immediate and tangible way.

The money you choose to invest in the over-order premium does not just support the local farmer, but the businesses they depend on as well. To be honest, the premium you approve today will not spend much time in the pockets of the average farmer. This premium will help dairy producers to maintain farm equity and pay down accumulated debt. The decision you make today will have a direct impact on my family, and other farm families across the state.

I am grateful for the opportunity to share with you just a partial snapshot of the economic challenges facing Pennsylvania dairy farmers. Being a part of these hearings over the past ten years has given me a greater appreciation of the challenges all segments of the industry are facing.

It is good to remember that all of us in this room want the same thing; that Pennsylvania milk is the first choice to be served on Pennsylvania dinner tables. I hope you will continue to recognize the plight of our farmers as you set the over-order premium for fluid milk produced, processed, and sold within Pennsylvania. Thank you to this Board for its assistance to dairy farmers in the past and your consideration of the matter before you today. I appreciate the parties present allowing me an opportunity to testify on behalf of the Pennsylvania State Grange and on behalf of dairy farmers like myself. I am happy to answer any questions you may have at this time.