

**Testimony Offered for  
Pennsylvania Farm Bureau  
Before the Pennsylvania Milk Marketing Board  
Regarding the Level of Over-Order Premium**

**December 4, 2013**

**Presented by Richard Ebert  
Dairy Farmer, Will-Mar-Re Farms  
Chairman, PFB Dairy Committee**

This testimony is offered on behalf of the Pennsylvania Farm Bureau, an organization representing more than 58,300 farm and rural family members in 63 counties. Dairy farmers are the largest segment of producers within Farm Bureau membership.

My name is Richard Ebert. My brother and I operate Will-Mar-Re Farms in Westmoreland County. We milk approximately 90 Holsteins, and grow corn, alfalfa hay, and soybeans. Eighty-five percent of our income comes from our dairy operation. In addition to my on-farm activities, I am the Vice President for Pennsylvania Farm Bureau (PFB) and also serve as the chairman of PFB's Dairy Committee.

Farm Bureau would like to thank the Pennsylvania Milk Marketing Board (PMMB) for providing the opportunity to offer testimony today regarding the over-order premium. The objective of our testimony is to offer evidence in support of our recommendation that the Board continue the current Class I over-order premium of \$1.60 for six months. We also support continuation of the fuel adjuster.

#### *The Need for the Requested Premium*

As I've stated before, Pennsylvania's dairy farmers have been living through a drastic and difficult economic roller coaster. For the last seven years or so, the dairy industry has seen high levels of volatility. We've seen spikes in input costs,

extremely low milk prices, extremely high feed costs and significant weather challenges. Fortunately, we've also seen milk prices increase and feed prices stabilize – and even drop, but times certainly haven't been easy.

We work hard to efficiently manage our farm, to manage those highs and lows as best as possible, but you can see in **Table 1** (page 8) that, as recently as last year, our cost of milk production was still significantly higher than it was in 2009. While I am not able to yet calculate our average cost of production for 2013, I would generally estimate that my production costs for this year will be comparable to 2012.

The forces of price and cost that have occurred in recent years have subjected Pennsylvania dairy farmers to tight profit margins, making each penny a farmer receives important. Because of the tightness in producer margins, the PMMB's over-order premium remains an important part of a dairy operation, both directly when the premium is paid to dairy farmers for milk that qualifies for the premium, and indirectly in the effect of the level of premiums paid voluntarily to farmers.

In my testimony today, I will offer a snapshot of the price and cost conditions that we have experienced on Will-Mar-Re farms, in terms of income over feed cost, and individual input costs.

## *Conditions on Will-Mar-Re Farms*

I've talked previously about the importance of margins in helping to measure the strength of economic conditions on farms. I believe income over feed costs (IOFC) provides a good snapshot of the conditions on Will-Mar-Re Farms and, today, I'll offer figures for September and October 2013, and an October to October comparison from 2011 through 2013.

As you can see on **Table 2** (page 9), my IOFC for September 2013 was \$8.44 while my IOFC for the following month, October 2013, rose to \$9.14. This \$9.14 IOFC is a welcome 53 percent increase over October 2012's low IOFC of \$5.96, but is only a two percent increase over October 2011. This means that our IOFC has finally returned to the point it was two years before – prior to 2012's spike in feed prices.

As I've mentioned previously, at Will-Mar-Re, our costs are fairly evenly split between feed and other costs. If you look at **Tables 3** and **4** (pages 10 and 11), you can see there was a very small drop in price for feed concentrate and a modest dip in the price of soybean meal when looking at the months in question. **Table 3** shows that feed concentrate dipped less than a percent, when comparing the average purchase cost between 2012 and 2013 for the three months in question (August, September and October).

We did, however, see a larger drop in soybean meal prices as you can see in **Table 4**. Based on an average of the two-month (August and October) comparison we saw a drop of 12 percent in the cost of soybean meal between 2012 and 2013. Looking at those prices, I would caution that even with these reductions in prices, costs for feed concentrate and soybean meal are still very high compared to what I would have paid only a few years ago. For example, in October 2011, I paid \$430 per ton for soybean meal.

At the last over-order premium hearing in May, we heard testimony about how feed prices were going to fall during the last six-month premium period. But, in reality, I haven't seen prices for feed start to come down until October, when the new crop was harvested. This means that, for much of the last six-month period when the premium had been lowered 25 cents to its current level, we were still seeing high feed prices.

While these changes in feed prices are helpful, we still need to pay careful attention to our feed costs and the rations we feed our cows. If you recall, during the last hearing, I spoke about my desire to see my son join our operation. I'm proud to say that we've finally achieved our goal. Having Josh as an extra hand on the farm means we've been able to complete the field work in a more timely fashion, resulting in higher protein levels in the feed we grow on the farm.

With Josh's help, we have been better able to monitor our rations more closely, making decisions based on our higher protein levels. We're trying to find the right balance of feed – dry matter especially – in an effort to get the most production out of each cow. If we short a cow just a little, we see a corresponding drop in milk production and that negatively impacts our bottom line.

In addition, earlier I mentioned the need for continuation of the fuel adjuster. I believe the information provided in **Tables 5, 6 and 7** (pages 12, 13 and 14) gives reason for maintaining the fuel adjuster at least at the revised level established by the Board as a result of the May hearing. While the total fuel costs at Will-Mar-Re have swung both upward and downward since 2009, even the fuel cost for the lowest year since then (2013) was still 20 percent or \$1,775 more than 2009 (see **Table 5**).

Between 2011 and 2013, the average prices per gallon that we paid for fuel during our “busy season” – May, July and September – have remained fairly stable. Comparing our average cost per gallon of diesel fuel during the same months, we've seen a 1.4 percent drop from 2011 and a very slight increase from last year (**Table 6**).

Finally, let's look at the cost of Will-Mar-Re's farm insurance (**Table 7**). Between 2009 and 2013, the cost of our farm insurance rose by \$3,425 or 42

percent. Fortunately, we only saw a slight increase of \$25 dollars between 2012 and 2013.

### *Conclusion*

My testimony today should illustrate for the Board two main themes: price recovery and continuation.

On the price recovery side, we've seen prices recover from the impacts of the drought in 2012. We've seen moderate recovery in items such as soybean meal, a more hearty recovery looking at my IOFC from October 2012 to October 2013, and recovery in 2013 from the stinging spike in fuel prices that occurred in 2012.

On the continuation side, we've really seen more of the same. High, but fairly stable input costs, manageable and steady milk prices, and fairly flat farm insurance costs. When considering the economic rollercoaster we've seen in years past, I can't help but be glad for this relatively steadier financial period in dairy. But, like any seasoned dairy farmer, I know that a future period of volatility may be just beyond the horizon. In preparation, I'll continue to watch my income over feed costs, monitor that critical margin and do my best to secure the future of Will-Mar-Re Farms for my son, Josh, and my family.

I hope that my testimony today has illustrated that Pennsylvania's dairy farmers continue to need the premium. As a result, Pennsylvania Farm Bureau strongly recommends that the Board adopt an order that sustains the current level

of over-order premium at \$1.60 per hundredweight for the next six months, as well as continuing the fuel adjuster.

Again, thank you for considering our request and my testimony today. I'd be happy to answer any further questions.

**Table 1 – Annual Average Cost of Milk Production Per Hundredweight  
*Will-Mar-Re Farms***

<b>Year</b>	<b>Total</b>
2009	\$18.61
2010	\$20.03
2011	\$24.34
2012	\$22.70
2013	N/A
<b>Change from 2009 to 2012</b>	<b>+\$4.09</b>
<b>Percent Change from 2009 to 2012</b>	<b>+22%</b>

**Table 2 – Monthly Average of Income Over Feed Costs**  
*Will-Mar-Re Farms*

	<b>September 2013</b>	<b>October 2013</b>	<b>October 2012</b>	<b>October 2011</b>
<b>Milk Check<sup>1</sup></b>	\$20.93	\$21.47	\$20.78	\$23.18
<b>Milk Income per Cow<sup>2</sup></b>	\$15.69	\$16.10	\$14.54	\$16.22
<b>Feed Cost per Cow</b>	\$7.25	\$6.96	\$8.58	\$7.30
<b>Income Over Feed Costs</b>	<b>\$8.44</b>	<b>\$9.14</b>	<b>\$5.96</b>	<b>\$8.92</b>
	<b>Change from October 2012 to October 2013</b>		<b>+ \$3.18</b>	
	<b>Change from October 2012 to October 2013</b>		<b>+ 53%</b>	
	<b>Change from October 2011 to October 2013</b>		<b>+ 22¢</b>	
	<b>Change from October 2011 to October 2013</b>		<b>+ 2%</b>	

<sup>1</sup> Milk check includes the PMMB over-order premium and processor-paid quality premiums.

<sup>2</sup> Based upon an approximate average of 70 lbs of milk for October 2011, 70 lbs milk for October 2012, and 75 lbs of milk for September and October 2013.

**Table 3 – Feed Concentrate<sup>3</sup> for Select Months**  
*Will-Mar-Re Farms*

<b>Month</b>	<b>2012</b>	<b>2013</b>
August	\$539	\$524
September	\$520	\$524
October	\$508	\$503
<b>Average</b>	<b>\$522</b>	<b>\$517</b>
	<b>Change from 2012 to 2013</b>	<b>- \$5</b>
	<b>Percent Change from 2012 to 2013</b>	<b>-.09%</b>

<sup>3</sup> All prices per ton and based on a mix of 32-33 percent protein.

**Table 4 – Soybean Meal<sup>4</sup> for Select Months**  
*Will-Mar-Re Farms*

<b>Month</b>	<b>2012</b>	<b>2013</b>
August	\$623	\$568
October	\$608	\$516
<b>Average</b>	<b>\$616</b>	<b>\$542</b>
	<b>Change from 2012 to 2013</b>	<b>- \$74</b>
	<b>Percent Change 2012 to 2013</b>	<b>- 12%</b>

<sup>4</sup> All prices per ton and based on a mix of 48 percent protein.

**Table 5 – Total Annual Fuel Cost  
Will-Mar-Re Farms**

<b>Year</b>	<b>Total</b>
2009	\$9,000
2010	\$11,300
2011	\$12,300
2012	\$17,200
2013	\$10,775
<b>Change from 2012 to 2013</b>	<b>- \$6,425</b>
<b>Percent Change from 2012 to 2013</b>	<b>- 37%</b>
<b>Change from 2009 to 2013</b>	<b>+\$1,775</b>
<b>Percent Change from 2009 to 2013</b>	<b>+20%</b>

**Table 6 – Fuel Costs Per Gallon During Busy Season**  
*Will-Mar-Re Farms*

	<b>2011</b>	<b>2012</b>	<b>2013</b>
May	\$3.43	\$3.32	\$3.35
July	\$3.40	\$3.15	\$3.34
September	\$3.39	\$3.51	\$3.39
<b>Average</b>	<b>\$3.41</b>	<b>\$3.33</b>	<b>\$3.36</b>
	<b>Change from 2012 to 2013</b>	<b>+ 3¢</b>	
	<b>Percent Change from 2012 to 2013</b>	<b>+.09%</b>	
	<b>Change from 2011 to 2013</b>	<b>- 5¢</b>	
	<b>Percent Change from 2011 to 2013</b>	<b>- 1.4%</b>	

**Table 7 – Farm Insurance<sup>5</sup>**  
*Will-Mar-Re Farms*

<b>Year</b>	<b>Total</b>
2009	\$8,200
2010	\$9,600
2011	\$10,500
2012	\$11,600
2013	\$11,625
<b>Change from 2012 to 2013</b>	<b>+ \$25</b>
<b>Percent Change from 2012 to 2013</b>	<b>+.02%</b>
<b>Change from 2009 to 2013</b>	<b>+ \$3,425</b>
<b>Percent Change from 2009 to 2013</b>	<b>+ 42%</b>

<sup>5</sup> No claims or major coverage changes in years cited.