

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

December 6, 2017

**Presented by Glenn Stoltzfus
Dairy Farmer, Pennwood Farms
Chairman, PFB Dairy Committee**

This testimony is offered on behalf of Pennsylvania Farm Bureau, an organization representing more than 62,000 farm and rural family members throughout Pennsylvania. Dairy farmers are the largest segment of producers within Farm Bureau membership.

My name is Glenn Stoltzfus. I operate Pennwood Farms in partnership with my three brothers, Don, Dwight and Duane, in Berlin, Somerset County. We milk just shy of 600 Holsteins. We also raise all of our heifer calves, and have a custom grower who feeds approximately 250 of those heifers. Our milk production per cow averages 80 pounds per day. We ship our milk to Maryland & Virginia Milk Producers Cooperative Association, Inc. Eighty to ninety percent of our income comes from our milk check.

My brothers and I farm approximately 1,300 acres (700 owned acres), growing corn, soybeans, alfalfa and grass hay. We grow all of our forages and high moisture corn, and we often sell our excess corn.

In addition to helping operate and manage Pennwood Farms, I currently serve on Pennsylvania Farm Bureau's Board of Directors, as well as chairing Farm Bureau's State Dairy Committee.

At the Board's August 30 hearing to consider the base level of over-order premium, I testified about the financial challenges I face on my farm and the serious financial challenges that Pennsylvania dairy farmers are facing, due to the steep and prolonged drop in producer milk prices. Mike Evanish, also provided testimony and analysis on behalf of Farm Bureau. His testimony painted a pretty clear picture of how bad the financial situation has been for typical Pennsylvania dairy farm operations.

At the August 30 hearing, Pennsylvania Farm Bureau recommended that the Board continue the base level of mandated over-order premium at \$1.60 per hundredweight through March.

In preparation for this hearing, PFB's State Dairy Committee very seriously and deliberately considered the recommendation made by the hearing petitioners to reduce the base-premium level to 75 cents per hundredweight from the current level of \$1.60. We understand and appreciate the significant excess in milk supply present in the marketplace – particularly in the Northeast region. We also understand and appreciate the serious challenges faced by the processing side of the dairy industry in handling and finding a profitable home for Pennsylvania-produced milk because of this excess supply.

In past recommendations for level of over-premium, Pennsylvania Farm Bureau has sincerely tried to offer to the Board recommendations that balanced price needs for Pennsylvania dairy farmers with the marketing pressures that too-high a premium level may cause. To put it another way, we at Farm Bureau want the highest mandated premium level for Pennsylvania dairy farmers, but we don't want a level that will likely prompt Pennsylvania processing plants to massively replace Pennsylvania-produced milk with milk produced out-of-state.

Given the level of excess in current milk supply and comparatively low voluntary premiums being paid in Pennsylvania and surrounding markets, our Dairy Committee recognizes that a substantial reduction in level of base premium from the Board's current level of \$1.60 is necessary.

However, dairy farmers are also facing very real challenges on the farm, with significant drops in milk prices in 2015 and 2016. As Mr. Evanish testified in the August 30 hearing, MSC client dairy farms averaged losses in four of the last eight years and these losses were significantly higher than the average gains during three of the profit years. It is worth mentioning again the testimony and supporting data provided by Mr. Evanish at that hearing that MSC client dairy farms lost, on average, over \$92,000 during the 2015-2016 period.

Dairy farmers continue to operate on razor thin margins, making the over-order premium that much more important in helping dairy farmers deal with these serious financial challenges. Having to deal with these challenges is mentally taxing as well. Mr. Evanish was correct when he testified at the August hearing that dairy farmers' recent experience of prolonged and unprofitable prices has had a depressing impact on farmers' willingness take on additional debt to modernize operations, and on the willingness of future generations to stay in business.

Please keep in mind that before October 1, the level of total premium – base premium plus premium add-on – was \$1.85. And it was as high as \$2.00 during the period of October 2016 through January 2017. That increase was provided largely in response to 2016's depressed price levels and producers' price needs.

The Board should also appreciate that there has already been a lowering of total mandated premium because of its recent action on the fuel premium add-on. The Board's recent of the fuel add-on formula has already caused a reduction of 19 cents in total premium to \$1.66, based on the Board's November price sheet.

If the Board follows petitioners' recommendations, the level of total premium would drop more than a dollar from the \$1.85 level in just a couple of months. Whether you use the pre-October total premium level of \$1.85 or the post-September

reduced premium level of \$1.66, petitioners' recommended level is a severe slash in level of premium currently provided by the Board.

We are concerned about the financial impact that such a severe drop in premium cut recommended by petitioners will have on dairy farmers who most depend upon that premium. We are also concerned about the impact that such a drop will have on the already low morale that many farmers are experiencing right now.

Reducing the over-order premium may improve marketing conditions for those who market milk in Pennsylvania. And because of that, Pennsylvania Farm Bureau is willing to support a reduction of the over-order premium, in hopes that it may boost utilization of Class I milk in Pennsylvania, and improve the bottom line for dairy farmers. However, in light of the challenges facing dairy farmers today and have faced for so long, we cannot support such a drastic cut in premium in base premium to 75 cents per hundredweight being recommended by the petitioners.

Instead, Pennsylvania Farm Bureau asks the Board to consider only reducing the base premium level by 60 cents, to \$1.00 per hundredweight.

We are not excited about recommending to the Board a premium level that will cause many producers on January 1 to get paid substantially less in mandated premiums than what they were getting paid on December 31. But we also recognize that substantially reducing the base premium level at this time is a necessary

response to the credible risk of complete or serious loss of current marketing opportunities that the Board's current level of premium poses for many Pennsylvania producers.

We believe a base premium level of \$1.00 strikes a better balance, between the needs of those who market milk and the dairy farmers who produce milk.

Thank you. I'd be happy to answer any questions you may have.