Commonwealth of Pennsylvania

Senate Agriculture & Rural Affairs Committee

Testimony

Pennsylvania State Grange

April 25, 2023

Future of Over-Order Premium Hearing

Matthew D. Espenshade

26 CJEMS Lane

Mifflintown, PA 17059

(717)-737-8855

president@pagrange.org

Majority Chair Vogel, Minority Chair Schwank and Members of the Senate Agriculture Committee, thank you for holding this hearing on the future of the over-order premium.

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. We milk 75 cows, with a 20,200-pound rolling herd average. We farm 260 acres, raising our own forages and replacement heifers as well. In addition, I serve as the Master (President) of the Pennsylvania State Grange, a family-oriented fraternal organization that has advocated for issues important to agriculture and rural communities since 1873. Today, there are approximately 200 county and community Granges located across Pennsylvania.

For the past 14 years, I have represented the State Grange at hearings held by the Pennsylvania Milk Marketing Board (PMMB), sharing the challenges facing of our state's dairy farmers as the Board determined the level and duration of the over-order premium placed on fluid milk that is produced, processed and sold within the Commonwealth.

Our farm is a member of Mount Joy Farmers Cooperative, which is affiliated with *Dairy Farmers of America* (DFA). Today, Mount Joy Farmers Cooperative has 254 members in 12 counties. 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 30 to 35 percent of the milk produced by our co-op members goes to Class I facilities and is sold within the Commonwealth. Several years ago, our local cooperative members made the business decision to become equity partners in *Dairy Farmers of America* (DFA). The over-order premium is shared by our members because we function as one unit, sharing the risks, and sharing the rewards. I believe we have established a beneficial way to distribute the funds generated by the premium, helping to defray costs and bolster bonuses.

The over-order premium has been a part of the Pennsylvania dairy industry for decades. The funds generated by this premium come from consumers making the choice to buy beverage milk in one of its many forms. It does not come from the sale of cheese, yogurt or other manufactured dairy products.

Anyone who has taken part in over-order premium hearings knows that one of the primary factors in setting the level of the premium is that it needs to be a practical level for all parties involved. The Board is focused on setting a premium level beneficial to farmers, yet does not make the importation of out of state milk a financially viable option.

As dairy farmers, each of us has to chart our own pathway to success. Every day on the farm, we make decisions that will impact our bottom line. We make decisions on how to market our milk, where to market our milk, or perhaps even process it ourselves into a value-added product. The cooperative I belong to has made the sale of Class I fluid milk a priority, and with it, taking the risks of competing in a marketplace with a perishable product. Another cooperative may rather choose to focus on Class II or III, opting for products more readily transported and with longer shelf life in the grocery store. All of these options are fine. Each of us, as either as individual farmers or directors of a cooperative, must determine our own business model.

It has often been said that dairy farmers are not *price setters*, but rather *price takers*. However, there is one area in which the farmer does have some input: the over-order premium. At these afore mentioned hearings, the Pennsylvania State Grange has testified regarding the challenges facing our farmers and why the premium is important. The Grange is in a unique position, as its members are not only the farmers producing numerous dairy products, but the consumers purchasing them as well. Time and time again, our members have voiced support for the dairy industry and the over-order premium.

Because of my involvement in over-order premium hearings, I have gained a deep respect for the business model held by independent processors and the farmers that ship their milk to these facilities. In many of these situations, dairy producers have nothing more than a decades-old gentleman's agreement ensuring their milk will be picked up. In addition, many of these independent processors do not have secondary manufacturing capabilities where milk beyond their bottling needs can be redirected. Disruptions in the supply chain between farm and store-font can have serious financial implications.

Many of these same farms are held to quality standards that exceed state requirements. Receiving a significant percentage of the over-order premium is one of, if not the, main incentive these independent processors have to attract and maintain their suppliers. I hope this Committee and parties involved today consider the impact the loss or dilution of the over-order premium would have on their operations. These farms and processors are a vital part of the state's dairy industry, and their unique innovations are critical for the future of fluid milk consumption. Any decision regarding the future of this premium should be taken with utmost caution.

Thank you to this committee for its attention to the future of the over-order premium placed on fluid milk that is produced, processed and sold within the Pennsylvania. While it may not be perfect, it is the position of the Pennsylvania State Grange that the over-order premium continues to serve a purpose, and is of value to the state's dairy industry. The over-order premium is not only an investment in our state's farmers, but the citizens working in the bottling plants, driving the milk trucks, and the countless vital employees between the Pennsylvania dairy barn and the Pennsylvania dairy case. The over-order premium should not be viewed as an entitlement for all. Many have voiced enthusiasm for sharing the rewards of the over-order premium, but few seem eager to share the inherent risk.

As stated numerous times before, the Pennsylvania State Grange will gladly listen to suggestions and ideas for improvement in the premium, but other avenues beyond the over-order premium should be considered for ways to bring financial benefits to all of our state's valued dairy producers.

Respectfully submitted,

Matthew D. Espenshade
Master, Pennsylvania State Grange