

**Comments for the Joint Informational Meeting of the  
Pennsylvania House Agriculture and Rural Affairs Committee and  
The Senate Agriculture and Rural Affairs Committee  
Pennsylvania Ag Progress Days, Rock Springs, PA,  
Wednesday, August 17, 2016**

Good Morning Chairman Causer, Chairman Vogel and Committee Members,

Thank you for inviting Land O'Lakes, Inc. to participate in this joint informational meeting. My name is Thomas Wegner. I am the Director of Governance and Leader Development for Land O'Lakes. Previously, I served as the Director of Economics and Dairy Policy for ten years from 2005-2015. Land O'Lakes thanks the Chairmen of the House and Senate Ag Committees for inviting us to participate in this meeting.

Land O'Lakes (LOL) is a dairy cooperative with 2200 dairy farmer member-owners. Land O'Lakes has a national membership base, whose members are pooled on five different federal milk marketing orders and several state milk marketing orders. Land O'Lakes members own several cheese, butter-powder and value-added plants in the Upper Midwest, East and California. Currently, our 1070 Pennsylvania dairy member farms produce over seven million pounds of milk per day most of which get processed at our Carlisle plant where we make butter and dried milk powders; we also market our members' Pennsylvania milk to third party customers.

## Land O'Lakes History in Pennsylvania

Land O'Lakes has had a long standing business proposition in Pennsylvania; for over thirty-five years we have made Land O'Lakes' branded butter at our plant in Carlisle; prior to merging with the Atlantic Dairy Cooperative in 1997, we contracted directly with Atlantic Dairy Cooperative to make our butter at the Carlisle plant. Since merging, we have invested significant dollars to expand the plant's butter production capacity, double its dried powder packaging capacity and enhance its water filtration process. In total we have invested \$118 million in the Carlisle plant since 1998. The Carlisle plant has served as an important asset to Pennsylvania employing 200 people; it has provided a critical regional function in balancing milk supplies and represents one of Land O'Lakes most indispensable dairy assets. Including our Purina locations, Land O'Lakes provides 382 jobs with an annual payroll of \$25.5 million dollars. Additionally, the Land O'Lakes Foundation has contributed over \$2.5 million dollars to worthy causes in Pennsylvania since 2000.

## Current Market Conditions

Today and throughout 2015-16, the U.S. dairy market has been negatively impacted by market factors outside the country; the growth of milk in the European Union combined with less demand for dried proteins by international customers has kept milk prices low. Pennsylvania's all-milk prices have weakened to levels \$1 lower than 2015 and over \$9 lower than the peak milk prices of 2014.

Despite this period of lower milk prices in 2015-16, Northeastern dairy farmers continued to increase milk production. For example, during May 2016, Pennsylvania's dairy farms collectively produced twenty-one more loads per day than they did in May 2014; additionally, New York's dairy farms, over the same two-year period have added 158 more loads of milk to the regional supply. In total, the two states have added slightly more than 6.1 million pounds to the regional supply each day.

This huge surge in regional growth created an imbalance of milk supply and market demand putting a huge amount of pressure on the dairy plants in the Northeast resulting in the dumping of over thirty million pounds of milk in May as reported by the Market Administrator of FMMO 1. This significant volume of milk growth, combined with less demand for class I, lack of regional processing capacity, and miserable economics in moving milk out of the region have put significant stress on our Carlisle facility as it is being asked to process more milk than ever before especially on weekends and holidays.

### Land O'Lakes Base Program

As you know, Land O'Lakes implemented a milk base program this year across all of its milk sheds. Implementing a base plan has been an important part of our strategy to address our marketplace back philosophy and members' desire to grow their production. We have discussed the base plan with our Pennsylvania dairy members and have used the plan to implement more discipline and communication into the dairy supply chain to better capture market opportunities to maximize the value of members' production. This is not a new approach to Land O'Lakes members; we have had similar programs in place for California members since 2008 and for Bismarck, North Dakota members since September 2006.

### Position on HB 1265

Land O'Lakes is neutral on HB 1265; we neither oppose nor support the bill; during meetings this spring with our Pennsylvania members, we discussed the PMMB over-order premium's contribution to our Pennsylvania members' premium revenues. We showed members how much is collected from our class I customers and thereby subject to PMMB pricing. We then divided this dollar value by our Pennsylvania members' total milk production. The PMMB revenues represented less than 10% of our Pennsylvania members' premium revenues.

Now that all of our Pennsylvania member milk is rbST free since late 2015, we share the PMMB premium with all of our Pennsylvania dairy farmers; currently the Land O'Lakes' premiums paid to our Pennsylvania dairy members far exceeds the PMMB premium that we receive for member milk produced, processed and sold into the class I market in Pennsylvania. If HB 1265 becomes law, we will comply with its provisions.

I would also like to restate our support for the Pennsylvania Association of Dairy Cooperatives regulatory proposal to include cooperative's procurement costs into the PMMB minimum prices. Specifically we are very supportive of the new Section 149.46. This regulation will enable the Board to collect data which will quantify and recognize costs borne by cooperatives in the procurement of fluid milk which parallel costs incurred by dealers. When these costs are borne by processing dealers they are considered in the price build-up; when these same costs are borne by cooperatives, however, they are not presently included. The proposed Section 149.46 establishes the frame work for collecting this cost data from cooperatives and we are totally supportive of this action by the Board.

That concludes my prepared comments. I look forward to answering any questions that you may have and thank you again for the opportunity to participate in this information session today.