

BEFORE THE PENNSYLVANIA MILK MARKETING BOARD
OVER-PRICE PREMIUM HEARING, 2nd PART
ALL MILK MARKETING AREAS

June 4, 2014

Testimony by Dean Ellinwood

**Presented on behalf of the Greater Northeast Milk Marketing Agency:
Dairy Farmers of America, Inc., Dairy Marketing Services, LLC, Land O'Lakes, Inc.,
Maryland and Virginia Milk Producers Cooperative Association, Inc. and
Upstate-Niagara Cooperative, Inc.**

My name is Dean Ellinwood. My business address is 5001 Brittonfield Parkway, Syracuse, New York, 13221. Through my career I have been involved in many different aspects of the dairy industry. I began my career growing up on a dairy farm located in Candor, NY, just north of the Pennsylvania, New York State line.

After graduating from the State University of New York at Morrisville with a degree in Agricultural Engineering, I worked at the Crowley Foods fluid bottling plant in Binghamton, NY. From there I moved to Upstate Milk Cooperative in Western NY and worked with dairy farmers as a field representative for ten years. I was then hired by Eastern Milk Producers Cooperative as their Quality Assurance Manager, overseeing twenty-five field representatives. Eastern Milk Producers merged into Milk Marketing Inc. and eventually, Dairy Farmers of America, where I became the Director of Milk Sales and Marketing for their Northeast Area.

I have held various dairy industry licenses, including testing of milk for components, milk sampling and receivers licenses, both Pennsylvania and New York State inspectors licenses.

Currently, I am the Vice President of Sales and Marketing for Dairy Marketing Services, or DMS, a cooperative venture that markets approximately fourteen billion pounds of milk annually, representing approximately 5,500 dairy farms throughout the Northeast and Mid-Atlantic areas. DMS works with approximately 150 independent milk haulers that pick up milk from our farms and deliver to our customers. I am testifying today on behalf of GNEMMA whose cooperative members with producers in Pennsylvania include Dairy Farmers of America, Inc., Dairy Marketing Services, LLC, Land O'Lakes, Inc., Maryland and Virginia Milk Producers' Cooperative Association, Inc. and Upstate-Niagara Cooperative, Inc.

The cost of maintaining our farms - both cooperative members and independent farms managed by DMS¹ - to meet increased quality demands along with servicing and balancing the fluctuating daily demands of our Class I customers are considerable and should be included in the PMMB Class I price buildup.

Overview

Every dairy farmer in the Commonwealth is General Manager of his or her own farming operation. Many have made the decision to work together and form their own cooperatives. Through a cooperative entity, they share the costs of hiring employees to manage the business of marketing their milk.

The cooperative incurs costs as a normal course of business, in order to provide the high quality milk required by fluid bottlers. These costs include employees that maintain farm inspections, follow-up on any milk quality issues, provide information, and help the farmer owners meet new and ever changing environmental and milk quality requirements. The cost of laboratory testing of milk for components and milk quality is an additional cost that continues to escalate. Particularly, many Class I processors now require milk to meet Preliminary Incubation (PI) criteria. This is an additional quality test cost that has been added as a requirement in order for the cooperatives to sell milk to most fluid bottling plants.

Farmer cooperative costs also include employees and computer programs to track and qualify farms on the federal order or to maintain an unregulated contingent of farms to meet our Class I processor requirements in Pennsylvania. The costs of writing farm checks and computer

¹ For DMS, the costs of servicing and supplying Class I milk from independent farms and cooperative farms are identical for Order 1 and non-federally regulated milk supplies. The services provided by the Order 1 Market Administrator for independent producers do not eliminate any testing or other costs for those farms. In Order 33 in western Pennsylvania, the Market Administrator does test independent farm milk for components, reducing DMS's costs for that testing, but does not test for PI or perform other tests required by buyers.

programs for producer payroll, the dispatching of farm milk to milk plants and hauler rate negotiations are all direct costs of maintaining our farm supply and moving the milk from the farm gate to processing plants.

Additional costs include but are not limited to the management employees that run the day to day business of the cooperative along with the sales and marketing employees that procure sales for our farmers' milk and work with our customers to supply their needs.

Selling Milk to Fluid Bottling Operations

Our Class I processing customers do not receive the same number of loads every day. As an example, a typical processing plant requires more milk on a Thursday and much less milk on a Sunday. Consumers flock to grocery stores on Saturday creating a situation that calls for processors to bottle more milk on Thursday and deliver it ahead of the onslaught. This then creates a cause and effect of very little milk required by the processors on Sunday. The bar graphs in GNEMMA Exhibit 7, as prepared by the RKL accounting firm, show the actual daily fluctuations in delivery of our farm milk to five individual Pennsylvania fluid processing plants. This daily fluctuation of servicing the fluid market creates balancing costs for our dairy farmer owners. The cooperatives must maintain a farm milk supply to meet the peak fluid processing demand day. So, what happens to the milk other days of the week?

Additional Transportation Costs

When milk is re-directed away from our fluid bottling customers, our farmer owners incur additional costs to move the milk to the closest balancing plant. Thus, this is a cost of providing balancing to the Class I plant. It is important to note that as part of the cost buildup, the dairy farmers that own the cooperatives within GNEMMA are including ONLY the added net transportation cost of re-directing the balanced milk away from our Pennsylvania fluid

processing customers, when it is not needed. We are not including any costs incurred in the building of, or operating of, balancing plants.

The Pennsylvania dairy farmers represented by GNEMMA, specifically Land O' Lakes, Inc., Dairy Farmers of America, Inc. (DFA), Dairy Marketing Services, LLC (DMS), Dairylea Cooperative (which will have merged with DFA effective April 1, 2014), and Maryland and Virginia Milk Producers' Cooperative Association, have individually and confidentially, submitted a full year of information regarding the costs associated with maintaining the milk supplies of Pennsylvania dairy farms and the additional transportation costs incurred when we are required to re-direct the milk away from our Pennsylvania fluid bottling customers. This information was sent to Reinsel Kuntz Leshner, LLP, Certified Public Accountants and Consultants (RKL) for a full review of all data. RKL then aggregated the information to determine a weighted average overall cost to be included in the PMMB price buildup. John Stoner, CPA, CVA, Partner, Business Consulting Group, will testify on behalf of our Pennsylvania dairy farmer owners, that our weighted average costs are \$0.2783 per hundredweight. As a result of his analysis, this amount should be included within the PMMB Class I price cost buildup, the same as the fluid dealers' cost build up is included within the PMMB price.

Summary

On behalf of the thousands of Pennsylvania dairy farms I represent, the Greater Northeast Milk Marketing Agency is requesting \$0.2783 per hundredweight be included within the PMMB Class I price buildup. This cost is incurred as a normal course of business for our cooperative Pennsylvania dairy farmers. The cost buildup should be completed in the same manner that Pennsylvania fluid dealers include costs incurred on their independent milk supplies.

These costs for both fluid processors and cooperatives, along with the \$0.20 per hundredweight paid by fluid processors into the Milk PEP program, should be moved out of the Over-Price-Premium and into the PMMB Class I price buildup. As Troye Cooper will further discuss, there is no need to continue an Over-Price-Premium category, which just unnecessarily increases costs to Pennsylvania consumers.

On behalf of the Pennsylvania dairy farm owners that I represent, thank you for the opportunity to present our information here today. I believe you will find it succinct, straight forward and present a compelling case to include these costs in the PMMB Class I price buildup.