

BEFORE THE PENNSYLVANIA MILK MARKETING BOARD
OVER - ORDER PREMIUM HEARING
ALL MILK MARKETING AREAS

December 6, 2017

Testimony of Dean Ellinwood, Troye Cooper and Kurt Williams

Presented on behalf of the Pennsylvania Association of Dairy Cooperatives,
Dairy Farmers of America, Inc., Dairy Marketing Services, LLC,
Lanco Dairy Farms Co-op, Inc., Land O'Lakes, Inc., and
Maryland & Virginia Milk Producers' Cooperative Association, Inc.

Good morning, my name is Dean Ellinwood. My business address is 5001 Brittonfield Parkway, Syracuse, New York, 13221. I am Chairman of the Pennsylvania Association of Dairy Cooperatives (PADC). I am joined today by Troye Cooper, Director of Operations, Milk Marketing for Maryland & Virginia Milk Producers' Cooperative Association, Inc. and Kurt Williams, General Manager of Lanco Dairy Farms Co-op, Inc. Mr. Cooper and Mr. Williams are the representatives of their respective Cooperatives for PADC.

We thank you for the opportunity to testify today on behalf of the PADC and specifically, on behalf of approximately three thousand five hundred (3,500) producers in Pennsylvania who market their milk through PADC members.

The Pennsylvania Association of Dairy Cooperatives does not oppose the Pennsylvania Association of Milk Dealer's (PAMD) request to reduce the Over-Order Premium by \$0.85/cwt. to \$0.75/cwt. for the January 1, 2018, through September 30, 2018 timeframe.

Northeast Milk Marketing Conditions

Over the past three plus years the Northeast milkshed has been in an oversupply milk situation when compared to customer milk requirements. This situation was exacerbated earlier this year with the discontinuation of ultra-filtered milk deliveries to Canadian markets. This alone placed approximately one million pounds of milk per day back into the Northeast marketplace. These supply-demand conditions have placed significant pressure on the ability to collect premiums from the marketplace.

As a normal trend throughout the years, milk produced by dairy farmers located in the Northeast milkshed increases and decreases. Customer plants close and open. The marketplace is never stagnant. Construction of new plant capacity is in progress by Cooperatives and private milk processors in the Northeast and will come on-line throughout 2018. This may help support stronger premiums in the future to all farms, regardless of affiliation. However, one should expect Pennsylvania to continue to be in an oversupplied market into the third quarter of the next year.

The sustained oversupply situation has added complexity to our marketplace as it changes the way our customers view their milk supply. When market supply and demand are in balance or even slightly tight, customers are comfortable, even anxious, to lock in medium to long term supply commitments and prices. However, when supplies are long and prices are soft to declining, the buyers want to regularly ‘shop’ more for better deals and are reluctant to commit to purchases or prices over any substantial period of time. These dynamics make it extremely difficult for a supplier to make and execute a marketing plan for any substantial period of time, much less three to five year plans. Milk hauling companies are caught up in the same conditions, not knowing what volumes and to where they will be delivering from year to year, even month to month, makes their business planning problematic.

In sum, for the PADC cooperatives as the major marketers of milk in the Commonwealth, recent and reasonably foreseeable market conditions have been, and are expected to continue to be, quite challenging.

Over-Order Premiums

Given these supply-demand conditions, markets in the Northeast, along with surrounding markets, have experienced significant reductions in premiums collected from customers. Indeed, there are some sales in surrounding markets which are taking place at very low prices due to distress milk supplies looking for a home. Nevertheless, up until this time, the PADC has supported the \$1.60/cwt. level of the PMMB premium in order for more dollars to flow to our producers to help pay the bills. Every penny counts in our members' paychecks. At the same time, we must keep in mind that our Pennsylvania dealer-customers cannot be placed in an unmanageable competitive disadvantage with out-of-state competitors.

The PMMB Over-Order Premium must balance protecting farmers from unprofitably low milk prices with requiring processors to pay competitive rates relative to surrounding markets. As we have acknowledged, we are unapologetic for advocating for our member farmers' interests by supporting higher milk prices. We recognize, however, that the PMMB cannot serve its vital function if there is a significant gap between the Over-Order Premium and the prevailing milk price in surrounding markets. Such discordance incentivizes milk processors to bring milk into Pennsylvania from outside the state. In this situation, the Pennsylvania farmers do not receive the intended benefit of the premium, dealers incur greater transportation costs, and the market as a whole is made less efficient.

We believe strongly that PMMB has played a critical role in maintaining the stability and strength of Pennsylvania's dairy industry. While lowering the Over-Order Premium is not to our benefit, we believe the request made by the PAMD is reasonable given current market conditions and that maintaining the current price gap would undercut the PMMB, which is ultimately not in the interest of either the farmers or the processors.

Summary

All of us need to understand the decrease in the Fuel Adjuster combined with the proposed large decrease in the Over-Order Premium is a loss of millions of dollars from our members' paychecks. However, with continued decreases in fluid milk sales coupled with the loss in sales of ultra-filtered milk into Canada, there remains significant pressure on the ability to collect premiums from customers in the Northeast market. Therefore, at this time we do not oppose the PAMD's request.

On behalf of the approximately three thousand five hundred (3,500) Pennsylvania dairy farmers we represent, thank you for the opportunity to present this important information to the Milk Marketing Board.

The three of us are available to answer any questions you may have.

CERTIFICATE OF SERVICE

I, Marvin Beshore, Esquire, certify that on November 7, 2017, I served true and correct copies of the foregoing to the following interested parties, all of whom accept service by email:

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Respectfully submitted,



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