

**BEFORE THE PENNSYLVANIA MILK MARKETING BOARD**

**Cooperative Milk Procurement Costs Hearing**

**ALL MILK MARKETING AREAS**

**October 5, 2020**

**Surrebuttal Testimony of Sharad Mathur**

Presented on behalf of the Pennsylvania Association of Dairy Cooperatives:

Dairy Farmers of America, Inc.,

Lanco Dairy Farms Co-op, Inc., Land O'Lakes, Inc., and

Maryland & Virginia Milk Producers' Cooperative Association, Inc.

Good Day. My name is Sharad Mathur. I am Director of Operations and Projects at Dairy Farmers of America- Northeast Council. Thank you for the opportunity to rebut the testimony provided by PAMD representatives. My surrebuttal is on behalf of the Pennsylvania Association of Dairy Cooperatives (PADC) whose members are: Dairy Farmers of America, Inc.; Lanco Dairy Farms Co-op, Inc.; Maryland & Virginia Milk Producers' Cooperative Association, Inc.; and Land O' Lakes, Inc., ("The Cooperatives"). Together these cooperatives represent more than one-half of the Commonwealth's dairy farmers.

I have been with Dairy Marketing Services (DMS) and Dairy Farmers of America (DFA) for over nineteen years. I am involved with membership, transportation, and raw milk sales. Before my retirement from full time work, I served as Chief Operating Officer for DMS from August 2011 to April 2018. Prior to DMS, I worked at Parmalat USA, Wallington, New Jersey, for two years, where I had full responsibility of purchasing all raw milk for the company. Prior to Parmalat, I spent eighteen years with the Sunnyside Farms, Brooklyn, New York where I rose to the position of Chief Financial Officer after holding a variety of positions in finance, procurement, and production. I have earned a Bachelor of Science Degree and M.Sc. from the University of Rajasthan in India, and a Master's Degree in Business Administration from Long Island University in New York City. I currently reside in Cazenovia, New York with my wife.

During my career, I have been responsible for procuring the raw milk supply for 25 or more fluid milk processing plants in the various capacities I have noted above. The supply to these plants involved solely independent producer supply, solely cooperative producer supply, and various combinations and ratios of cooperative and independent producer supplies. The plants were located in Pennsylvania and other states in the northeast and the farms, both independent and cooperative, have also been in Pennsylvania and throughout the northeast. My

testimony today and all of the statements and opinions I give is based on this experience over more than 40 years in raw milk procurement.

### **Processor Procurement Costs vs Cooperative Procurement Costs:**

The rebuttal testimony of Mr. Ron Mong dated October 5, 2020 mentions that the only thing common between processors' milk procurement costs and cooperative procurement costs is field services and producer payroll costs. To understand the similarities, we must go back 25 years in history and review all the costs that cooperatives inherited, as the processors have tried to become efficient which has meant laying off as much expense as possible to the cooperatives.

- Balancing was and is the largest cost. When I started in the dairy industry fresh out of college many New York City processors, who are a major part of Pennsylvania processing plants' business, owned balancing plants *e.g.*, Queens Farms in Pierrepont Manor, NY; Elmhurst in Prattsburg, NY; Dellwood Foods; etc. These plants were eventually shut down and the costs passed on to the cooperatives. Balancing plants are a cost center and not a profit center as Mr. Mong has tried to suggest. These balancing plants are used to balance varying daily volume demands, weekend milk, seasonal balancing, demand surges and daily last-minute demands.
  - The plants which at one point received milk from independent farms 7 days a week now receive milk 4 to 6 days per week from cooperatives.
  - While Pennsylvania cooperative farms supply less than 50% of the total milk supply to the cross-section dealers, the cooperatives provide essentially 100% of the balancing services to Pennsylvania's largest Class I plants which have the greatest balancing needs.

- Tailored milk supplies come with a cost that is borne by the cooperative farmers.
  - The processors with independent farms bring most of their milk to one plant. Cooperatives on the other hand have to go to multiple plants in order to sell the milk not received by the processing plant
- As processors started getting tailored supplies from cooperatives their demands inevitably resulted in costs for cooperatives. Many of these costs grew out of processors' efforts to gain a competitive edge.
  - Processors demanded better quality milk *e.g.*, 100,000 DMC instead of 300,000 in order to get better shelf life for processed milk. As one of our customers commented, "it is the cost of entering the market". In other words, it was a farmer cost, as far as the processors were concerned.
  - rBST free milk was demanded to get a marketing edge. The farmers lost a technology and cooperatives inherited the cost of tracking rBST free milk and proving certificates to processors.
  - Preincubated Tests (PI) were required in order to get better shelf life.
  - Some of our largest customers forced us to use third party computer companies so that they could get reports that would reduce their administrative cost. All this at the farmer expense.
  - In order to ward off animal activists, processors demanded programs like FARM from the cooperatives.
  - And now many states are requiring phosphorus (PFA) tests due to issues created by army bases.

The list will continue to grow, and the cooperative member cost will continue to rise. The cooperatives try to recover these costs through premiums and handling charges but there are no guarantees. Compensation depends on competition and processors will pay only if they have to pay. In recent years, we have seen more and more processors require annual requests for proposal (RFP) to buy the milk at the cheapest possible price.

The PADC cooperatives and their farmer members request that the PMMB provide for recovery of a portion of the costs involved in providing Pennsylvania processors and consumers with the quality milk they require, when ordered, as ordered.

Thank you for the opportunity to testify today.