

BEFORE THE PENNSYLVANIA MILK MARKETING BOARD

PENNSYLVANIA DAIRY MARKET ISSUES

May 2, 2018

Testimony of Troye Cooper

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.

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

My name is Troye Cooper. I am providing some brief preliminary comments on behalf of the Pennsylvania Association of Dairy Cooperatives (PADC) regarding the specific "Recommendations for Statutory Changes" found in the Pennsylvania Department of Agriculture petition filed with the Board on April 5, 2018.

We appreciate the concerns raised by the Department regarding the current state of the entire Pennsylvania dairy industry. We are faced with unprecedented market conditions that the Department has outlined quite well in its petition. The recent studies of Drs. Novakovic, Stephenson and Nicholson have highlighted some of the dynamics that Pennsylvania dairy farmers are facing and will be facing in the years to come. We agree that it is going to take some creativity, innovation, and real changes to come out the other side. An adjustment to the mandated over-order premium is not going to make the difference that is required today. Adjustments to dealer and retailer costs are not going to correct the problems. A holistic look at the current Milk Marketing Law, what it was intended to do, and what some of the unintended consequences of its 80 plus years in existence are, is appropriate. Today, the benefits of the Board's programs and the burdens of the marketplace are not equitably shared by all in the industry. While the virtually unchanged Law itself is not the sole reason for the current market challenges that exist today, the widely dynamic marketplace has evolved significantly. We agree that bigger changes to the Law will be necessary to level the playing field for all facets of the dairy supply chain, while providing more transparency to dairy farmers, dealers, distributors,

retailers and consumers alike. This will also establish a more stable backdrop to regulated milk pricing going forward.

Today, my comments will specifically pertain to paragraph 15, Licensing of Retailers; paragraph 16, Title to Milk; paragraph 17, Reasonable Return, and paragraph 18, Returning to Producers the Benefit of Minimum Wholesale Pricing of the Pennsylvania Department of Agriculture's recent petition. PADAC may provide further comments on these issues (or others) at a later date when more detailed information is available concerning these topics.

Paragraph 15, Licensing of Retailers:

The PADAC supports an amendment to the current Law which would enable the Board to require licensing of milk retailers. This regulation should include mandatory reporting of volumes (and origins) of fluid milk purchased and volumes of fluid milk sold by retailers in Pennsylvania. This would allow the Milk Marketing Board and staff to quantify retail sales volume information and close the current gap in the data which is necessary to fully understand and evaluate the effects of the PMMB pricing programs in Pennsylvania. Any additional costs in administration of this licensing and data collection should be supported by associated fees to those licensees. The lack of such information was noted by Drs. Novakovic, Stephenson, and Nicholson in their recent study of the Board's impact and was a significant impediment to their further analysis of the impact of the PMMB.

Paragraph 16, Title to Milk:

The issue of where title to raw milk passes, and to whom, is a complex and often contentious topic. When a more detailed proposal becomes available, PADAC will review it and provide any comments which we may have.

Paragraph 17, Reasonable Return:

PADAC absolutely supports a fair return for our members and supports the stated objective of the Milk Marketing Law to further that goal. In addition, the Pennsylvania Department of Agriculture observation that guaranteed percentage profit margins to processors and retailers without a guaranteed margin to dairy farmers seems unfair is hard to dispute. We would further note that current PMMB programs do not treat all Pennsylvania dairy farmers the same and do not treat the identical marketing and balancing costs of milk dealers and farmer cooperatives in the same manner.

The number one objective for all milk marketing cooperatives is to return as many dollars that are available from the marketplace back to their respective members. Recently net returns to many cooperative member dairy farmers have often been less than the Federal Order minimum blended price. This is partially due to market premiums virtually disappearing while also absorbing significant increases in balancing costs, often selling excess milk and milk products at

a discount to the market or even discarding milk when there is not enough capacity to process the excess production. PADC members have been bearing the cost burden of "...handling constant surpluses to meet the emergency requirements of normal variations in fluid consumption and to meet seasonal variations in production..." PADC is interested in evaluating all proposals which might provide the PMMB with additional tools to enhance fair returns to producers and equitable treatment among producers and between dealers and cooperatives.

Paragraph 18, Returning to Producers the Benefit of Minimum Wholesale Pricing:

It's been observed that the price of a gallon of milk on a Pennsylvania retail-shelf is often higher than in stores in surrounding states and that a portion of this retail price is ostensibly earmarked for dairy farmers via the PMMB over-order premium. PA consumers are paying the higher price, even if the raw milk delivered to the processor is from farms located outside the Commonwealth. When a retailer is paid the minimum price for a gallon of milk by the consumer and the raw farm milk was produced or processed outside of PA, the retailer or processor has the ability to keep the premium. This is commonly called "stranded premiums". The PADC agrees that this should be reviewed by the PMMB. We believe the intent of the PMMB minimum retail price is for the "stranded premium" to go back to producers. PADC would support proposals to address this issue, legislatively or via PMMB regulations or orders.

On behalf of the approximately three thousand five hundred (3,500) Pennsylvania dairy farmers I represent, thank you for the opportunity to provide comments on these important issues to the Milk Marketing Board.