

BEFORE THE PENNSYLVANIA MILK MARKETING BOARD

Cooperative Procurement Cost Hearing

(Continued)

ALL MILK MARKETING AREAS

Hearing _____, 2019

Testimony of Troye Cooper

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 morning, my name is Troye Cooper. My business address is 1985 Isaac Newton Square, West, Reston, VA 20190. I am currently the Director of Operations, Milk Marketing and Member Services for Maryland and Virginia Milk Producers Cooperative Association, Inc. I am also the Vice-Chairman of the Pennsylvania Association of Dairy Cooperatives (PADC). Members of the PADC include Maryland & Virginia Milk Producers' Cooperative Association, Inc., Lanco Dairy Farms Co-op, Inc., Dairy Farmers of America, Inc., and Land O'Lakes, Inc.

I am here today to testify in this continuation of the Cooperative Procurement Cost hearing to speak specifically on how this Board could implement recovery of the procurement costs charged by the cooperatives and borne by Pennsylvania milk dealers that they deliver milk to. As I testified to in the earlier portion of this hearing, "... as cooperatives we see the manner of the incorporation of the costs of procurement for cooperative milk to be a technical issue primarily within the province of the Board itself, with the advice of its staff, and subject to comment and input by the milk dealers."

First, however, as requested by Chairman Barley in his Order of January 31, 2019, I will briefly explain what obligation Dealers would have to cooperative suppliers for the procurement charge. The charge would apply as depicted on PADC Exhibits 24 and 26 previously admitted. The basic principle is that the charge would apply to the portion of cooperative-supplied milk originating from Pennsylvania farms according to the Dealer's PA Class I utilization. So, on Exhibit 24 where the Dealer's Class I utilization is 50% and the cooperative PA farm pounds are 3,000,000, the charge would apply to 1,500,000 lbs of cooperative milk. Exhibit 26 expresses the obligation this way: Multiply the pounds of the Dealer's PA Class I utilization by the percentage of the Dealer's total supply (excluding diverted non-Class I milk) which is from PA

cooperative farms. The result in both cases is that 1,500,000 or 50% of the PA cooperative milk is subject to the cooperative procurement charge obligation.

With that obligation established, I will again offer two possible solutions for its incorporation into wholesale and retail minimum prices:

- (1) **Blending directly into Dealer costs.** Each dealer that purchases milk from a cooperative will pay its calculated obligation (see Board Staff Exhibit 6 from the previous portion of this hearing). Those costs would then be reported annually by that dealer as a line item on the schedule B-2 of the PMMB form 60L into its 'receiving, lab, and fieldwork' cost category. This cost would then be blended throughout the cross-section like any other similar procurement related costs that are borne by the dealers.
- (2) **Blending by area purchase percentage.** Another way that the cost could be built into the cost build up sequences would be to calculate it for each Area on the basis of cross-section dealer purchase percentages from the prior year and add that amount to the milk cost before packaging total, similar to the Bulk Sale (Profit)/Loss column. See *e.g.*, PADC Exh. 4.1.A, Staff Exh. 6. So, if an Area cross-section had 50% of its milk from cooperatives, that procurement cost would be blended into the cost-replacement, like all other dealer costs and added to the milk cost schedule: 50% of \$.29 per cwt would be \$.00145 per pound for that Area. A 10% cooperative Area would then include \$.00029 per pound and a 100% cooperative Area would include \$.0029 per pound on its cost of milk before packaging.
- (3) **Consumer impact.** Fundamentally, the costs of procuring milk from cooperative farms should be reflected to the Pennsylvania consumer to the same extent as other costs now reflected. We fully believe that Pennsylvania consumers would and do want it that way.

Undoubtedly, if asked, they would wonder why they would pay costs of milk from some farmers and not others. The precise means of building this equity into the PMMB system we are confident can be ascertained by the Board and interested parties.

- (4) Annual review.** There should be an annual review and update of cooperative costs through an ordinary hearing process similar to the annual cost replacement hearings of each milk marketing area. The information presented would be what has already been presented with costs updated after the submission an audit of the annual PMMB 60C which are to be submitted by each cooperative by May 1 of each year for the previous year's costs.
- (5) Calculation and illustration of wholesale and retail price impact.** PADC Exhibit 28 attached is a chart which shows the impact, using the factors indicated, upon wholesale and retail prices for a gallon of 2% milk in each marketing area. The calculations were made by inputting into the price-calculating spreadsheet on the Board's website for each Marketing Area an assumed, hypothetical percentage of cooperative milk supply and the procurement cost of \$.29/cwt based on the RKL study. The chart has three sets of columns: (1) The status quo mark-up of raw milk prices to wholesale and retail prices; (2) Mark-up to prices resulting from the cooperative costs being included in the dealer "processing costs" e.g. via the receiving lab and fieldwork category; and (3) Mark-up to prices resulting from adding the cooperative procurement charge to the "cost of milk" before processing table in the spreadsheet. The step-by-step methodology for these calculations is at the bottom of the chart.

To reiterate our comments from our previous testimony, "Our point is and remains that these costs for cooperative dairy farmers should be reflected in the PMMB system to the same extent

and with the same annual updating as are the costs related to the dealers' procurement of milk from Pennsylvania farms of non-cooperative members. So long as the system treats the costs the same, the precise methodology is relatively speaking a matter of indifference to us."

PADC respectfully urges the Board to implement this cooperative procurement charge into the calculation of minimum wholesale and retail prices at the earliest possible date.

On behalf of the approximately three thousand three hundred (3,300) Pennsylvania dairy farmers PADC represents, thank you for the opportunity to present this important information to the Milk Marketing Board.