

**BEFORE THE PENNSYLVANIA MILK MARKETING BOARD**

**HEARING**

**AMENDMENT TO 7 PA. CODE CHAPTER 143**

**TRANSACTIONS BETWEEN DEALERS AND PRODUCERS**

**May 1, 2019**

**Testimony of Dean Ellinwood**

Good afternoon, my name is Dean Ellinwood. My business address is 5001 Brittonfield Parkway, Syracuse, New York, 13221. I am the Director of Operations for Dairy Farmers of America Northeast Area (DFA).

Thank you for the opportunity to testify today on behalf of DFA's Northeast Area Council. The Council is comprised of dairy farmer members that provide policy for management to work within. Each Council member represents a geographic area and is voted into his / her seat directly by the cooperative members within their respective area. In addition, there are currently at – large Council members that are farmer members.

This specific proposed Amendment was reviewed and discussed by the Council on April 23, 2019. After deliberation, the Council generally views this legislation as unnecessary, and potentially divisive to dairy producers and the dairy industry in Pennsylvania.

Why doesn't our Council support the proposed Amendment?

In an effort to show transparency and accountability, DFA sends a letter on a routine basis that summarizes the income attained through the PMMB over order premium, through an audited number, to the DFA members in Pennsylvania.

Attached, as Exhibit 2, please find the letter that was mailed to our Pennsylvania members dated January 21, 2019. Also in our mailing to members, we include a letter from Tim Moyer (Exhibit 3) that provides an overview of the Over Order Premium along with an update on Class I milk sales. He goes on to state that the PMMB staff determined the value of the Over Order Premium

to cooperative Pennsylvania members during the timeframe of April, May and June 2018. DFA began sending these periodic updates to our Pennsylvania members in December 2015. We just received the latest audited information from the PMMB staff on April 19, 2019, for the July, August and September 2018 timeframe. We mailed this information to our Pennsylvania members this past Friday, April 26. We believe this is very transparent, accurate, and provides the real components for the Pennsylvania DFA members to understand the benefit from the PMMB premium.

Furthermore, proponents of this legislation need to realize that this PMMB income is already built into our ability to pay milk proceeds to members in Pennsylvania. Simply put, the PMMB income gets factored into our ability to pay premiums (quality, base, volume, etc.) to our Pennsylvania members. All else being equal, if this premium is broken out as a line item, then another premium needs to be reduced by a like amount.

Finally, to accomplish breaking out the premium as a line item would take extensive computer re-programming to line out the premium, as well as make changes to the other premium categories for the offsetting reductions.

Why isn't the value of the Over Order Premium shown for the most recent month?

In summary, it takes time for the PMMB staff to audit the numbers.

Each month Pennsylvania fluid plants fill out a PMMB form detailing their packaged milk sales. Cooperatives that deliver milk to the plants are told how much PMMB Over Order Premium to invoice, based on the PMMB Class I utilization of the plant. On occasion, after audit, there may be a correction to the pounds of milk that should have received the value of the Over Order Premium.

The PMMB staff provides us with audited numbers on a quarterly basis. There can be up to a six month lag to audit after the milk is delivered during the last month of a quarter. For example: April, May and June 2018 milk deliveries to plants were audited later in 2018.

## SUMMARY

The proposed Amendment creates additional extraordinary costs to our Pennsylvania dairy farmer members. There are alternative methods to communicate the value of the PMMB Over Order Premium that are much cheaper and also, audited.

Some Pennsylvania members are asking questions once they receive the letter. They are hearing that independent farms that ship to fluid dealers in Pennsylvania are receiving much more premium per cwt. and the value to cooperative members is much less. Questions that pop up include:

- Why shouldn't all Pennsylvania farms receive the same amount per cwt?
- Why is the cost of a gallon of milk much higher in Pennsylvania compared to surrounding states?
- Where is all the other money going that is not paid back to Pennsylvania cooperatives to pay their members?
- Is the PMMB tracking the retail milk sales to determine how much Over Order Premium money is being collected from consumers? If not, why not?

DFA is already providing transparency and accuracy to its Pennsylvania dairy farmers about the value the PMMB Over Order Premium is bringing to our members. There is no need to create additional costs by the PMMB that ultimately get passed back to the dairy farmers, and also restrict how the communication is handled between a cooperative and its member owners.

Thank you for the opportunity to provide this important information to the Milk Marketing Board. DFA appreciates the openness for dialogue and the time each of you provide to the Commonwealth for the betterment of our dairy industry.

I am here to help answer any follow up questions on this subject.

January 21, 2019

Dear Member:

As you know, we collect many over order premiums from customers and pay them out in the form of market driven premiums to you. One of the premiums in Pennsylvania is regulated by the Pennsylvania Milk Marketing Board (PMMB).

We calculated the value of the PMMB premium for DFA members by taking the total amount of PMMB premium collected from the sale of DFA member milk and dividing it by the total pounds of milk produced by Pennsylvania DFA members. This amounted to \$0.05 per hundredweight in April 2018, \$0.05 per hundredweight in May 2018 and \$0.05 per hundredweight in June 2018. This averaged \$0.05 per hundredweight. This premium is used to support quality premiums, volume premiums, transportation costs of delivering milk and help pay the seasonal, daily and holiday balancing costs of our fluid customers in Pennsylvania.

As a comparison, we requested the same calculation from PMMB for all cooperatives who sell their member milk in Pennsylvania. Please see enclosed letter. For the same three month period, the value of the PMMB premium to all cooperatives averaged \$0.05 per hundredweight, which is the same as our average of \$0.05 per hundredweight.

If you have any questions on the PMMB or would like additional information, please call John Siglow at 1-800-926-2667, ext. 5525.

Sincerely,



Karen Cartier  
Director, Membership  
Northeast Area  
Dairy Farmers of America, Inc.





Commonwealth of Pennsylvania  
Milk Marketing Board

SECRETARY

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John Siglow  
Dairy Farmers of America, Inc.  
Northeast Council  
5001 Brittonfield Parkway  
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Dear Mr. Siglow:

The only transactions the Board is permitted to regulate are those that occur within our borders. Therefore, the over-order premium is payable on only that milk which is produced, processed, and sold as beverage milk in Pennsylvania. Generally, 15% - 20% of the milk produced in Pennsylvania is then processed in Pennsylvania and sold in Pennsylvania as beverage milk. This means that Pennsylvania dairy farmers would not be expected to receive the entire over-order premium, which is currently \$0.91 per hundredweight.

The primary reason that not all Pennsylvania-produced milk is directly impacted by the over-order premium is that Pennsylvania dairy farmers produce much more milk than Pennsylvania consumers drink. We do not have a Pennsylvania specific per capita milk consumption, but think it is safe to assume it would be close to the United States per capita milk consumption of 149 pounds (around 1.5 gallons per month) in 2017, which is the latest available data. Pennsylvania production in April 2018 was 8.6 gallons per Pennsylvania resident. For May 2018 Pennsylvania production was 8.8 gallons per resident and June 2018 production was 8.3 gallons per resident. So, for those months, Pennsylvania dairy farmers produced over five times the amount of milk that Pennsylvania consumers drank. The Pennsylvania-produced milk that is not bottled and drunk by consumers in Pennsylvania goes to other uses, including the manufacture of cheese, butter, and powder, with some also being sold as beverage milk outside Pennsylvania – none of those uses qualifies for an over-order premium payment.

It has also been well-documented that milk consumption continues to decline. United States fluid milk consumption declined over 3% between 2016 and 2017, and just over 18% between 2007 and 2017. The decrease in consumption has contributed to lower over-order premiums. In addition, effective October 2017 the mandated over-order premium fuel adjuster was reset at a significantly lower level and effective January 2018 the base over-order premium level was reduced from \$1.60 per hundredweight to \$0.75 per hundredweight – this resulted in mandated over-order premium rates of \$0.87 per hundredweight for April, May, and June 2018.

With the majority of Pennsylvania-produced milk going to uses other than consumption as beverage milk in Pennsylvania and decreased overall milk consumption, the average over-order premium rate payable to cooperatives based on their Pennsylvania production was \$0.05 per hundredweight in April, May, and June 2018.

Please contact us if you need further information or clarification.

Sincerely,

A handwritten signature in black ink that reads "Tim Moyer".

Tim Moyer