Testimony of Chuck Turner
PA Milk Marketing Board Over-Order Premium Hearing August 30, 31 and Sept 1, 2022

My name is Chuck Turner, President of Turner Dairy Farms in Penn Hills, PA. A copy of my *curriculum vitae* is attached hereto as **Turner Exhibit 1.** Our family owned and managed milk business is located in the eastern suburbs of Pittsburgh, where my grandfather started it in 1930. We currently purchase milk directly from about three dozen family dairy farms in Indiana, Westmoreland, Armstrong, and Cambria counties. We process, package, and distribute Turner's Milk throughout western Pennsylvania along with a selection of other dairy products, juices, and other beverages.

I am here today to represent Turner Dairy, as well as the family farms that ship their milk to us and the PA Association of Milk Dealers, in support of maintaining the over-order premium at $1.00 per cwt for six more months. Thank you for the opportunity to testify at this hearing today. I appreciate the PMMB's efforts to listen to the facts and make decisions that are in the best interest of the whole dairy industry, including dairy farmers, milk haulers, co-ops, processors, distributors, retailers, and consumers.

Our family company thinks of our relationship with our producers as a partnership. We are in this together with them and have been blessed, in many cases, to have worked with outstanding dairy farm families for multiple generations. Some of these relationships go back longer than I've been alive and are still based upon a mutual care for and trust in one another. This is a key reason why Turner's Milk regularly wins awards at national product competitions like the World Dairy Expo and the Los Angeles County Fair. Consumer surveys always rank taste as the #1 reason why people buy the products that they do. Great tasting milk starts on the farm. We can't do anything in our processing plant to make milk any better than it is when we receive it. Therefore, so much of our business is devoted to ensuring that we receive the highest quality raw milk.

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Milk needs to taste good the whole way through its best-by date. Last year, the PA legislature changed the product dating laws for milk and allowed processors to use extended best-by codes if we could meet very strict microbiological standards. This was an important move that was supported by Turner Dairy and the Pennsylvania Association of Milk Dealers because it will help our local milk plants to better compete with extended shelf-life products coming from out-of-state. Those products are in competition with our fresh milk products, and consumers can be influenced by longer shelf lives when choosing their milk product. As a result, Turner's was the first milk in the state to achieve these standards. We now have a 21-day code on all of our fresh milk products, including chocolate milk, and 25 days on fresh cream products. As with fresh taste, microbial quality starts on the farm. After 36 years of working on milk quality, I'm convinced that raw milk that only meets the minimum standards of the PMO cannot be made into pasteurized milk that will taste good 21 days after bottling. The extended code now permitted in Pennsylvania has been a good thing for Turner Dairy and our customers. It also reduces our margin for error and tolerance for "off" days. We have had to become more diligent in our plant operations and more stringent about raw milk quality.

So, you can see that the dairy farmers that produce Turner's raw milk are key to our marketing efforts to sell milk. The story behind the product has become increasingly important to consumers. They want to know where their milk comes from, how the cows are treated, and how the land is farmed. They want to know about our plant and the people who make and deliver Turner's milk. They want to know that we support our community and take care of our planet.

We ask a lot from the dairy farms who supply milk to us beyond the standards of the Pasteurized Milk Ordinance (PMO), Pennsylvania Department of Agriculture (PDA), or the Federal Milk Marketing Orders (FMMO). For example, our dairy farmers assist in our goals to:

- Market Turner's Milk, including – hosting farm tours, participating in marketing events and (the thing we all hate most) having our picture or video show up in advertisements.

- Maintain high standards for inspection and sanitation scores.
- Conduct regular screening for Johne's.
- Maintain Animal Welfare and Sustainability Standards.
- Sustain microbiological quality.

Microbiological quality is probably the biggest differentiator, and so I will explain further concentrating on only one test, the Standard Plate Count (SPC), in the hope of making this comparison easier to understand. According to Standard Methods for the Examination of Dairy Products, 16th edition, "The standard plate count (SPC) is suitable for estimating bacterial populations in most types of dairy products, and it is the reference method specified in the Grade A Pasteurized Milk Ordinance to be used to examine raw and pasteurized milk and milk products." Further:

- The PMO requires that the bacterial limit (SPC) of individual producer milk not exceed 100,000 per milliliter tested at least 4 times every 6 months.
- PDA requires the same 100,000 SPC limit tested every month, so 6 times in 6 months.
- Turner's standard is 20,000 SPC limit on monthly PDA test, **AND**
- 20,000 or less for **<u>every load</u>**, when received, **<u>every time</u>** to earn quality premium.
- That's at least **<u>120 samples tested</u>** every 6 months compared to 4 or 6!

As you can see, our business model at Turner Dairy depends on our ability to procure milk from the best dairy farmers who will commit to strict protocols. For this to work, there needs to be and should be a financial incentive for the farmer. Meticulous cleaning and attention to detail alone is not a sufficient reward. You heard from one of our producers in March, who could not be here today due to obligations on the farm, regarding how much work is involved in meeting Turner's rigorous expectations.

Because our processing plant is located in Allegheny County, we are regulated by Federal Order 33, the Mideast Order. (Plants in Eastern PA are regulated by Federal Order 1). "Pooling" by Federal Orders, when they are functioning "normally," generally takes money out of the milk checks of producers shipping to class 1 plants and distributes it to producers who ship to class 2, 3 and 4 plants. All regulated, or pooled, producers get essentially the same milk price regardless of where they ship their milk. Pooling by the FMMO system provides no incentive to do the extra work required for a producer to ship milk to a class 1 plant.

To make matters worse, those class 2, 3 and 4 plants don't have to participate in the pool during months when their class price is higher than the blend price. They have the option to "depool" milk which keeps precious dollars out of the FMMO pool that are thereby not shared among the remaining producers. Producers shipping to class 1 plants are always in this group of remaining producers because class 1 plants do not have the option of depooling. Dairy markets have not operated "normally" the past few years because of the pandemic and resulting supply chain and inflationary issues. This has resulted in several months where milk prices were inverted, and manufacturing plants took the opportunity to depool. Depooling further reduces the incentive for a producer to ship to a class 1 plant. Depooling is a tool that manufacturing plants and cooperatives have available to them to maximize the overall revenue available to their producers. This option is not available to Class 1 plants and their producers.

The largest negative change in producers milk checks over the last decade or so has come from two national sales trends: (1) the decline in fluid milk sales and (2) the increase in milk exports. According to a study conducted by Prime Consulting, US fluid milk sales have dropped 20.3% since 2009. *See* **Turner Exhibit 2,** Prime Consulting, *All Channel Tracking: 2021 Edition: The Projection of Milk Volume by Sales Channel,* at p. 2 (June 2022). That's one gallon in five lost, or one plant out of every five that is no longer needed as compared to 2009. Setting aside the problems for processors, selling less fluid milk means less dollars in the FMMO pools for producers. Increased exports, on the other hand, mean more sales of nonfat milk solids at low prices that are competitive in global markets. The FMMO system is increasingly subsidizing the sale of skim and whey powder on the backs of fluid milk, cheese, butter, and other dairy products. *See* **Turner Exhibit 3**, Professor Marin Bozic, Bozic LLC, and Blimling and Associates, *Modernizing US Milk Pricing: An Exploration,* at p. 4 (Jan. 2022).

Here is the main takeaway regarding the problems in the FMMO system; the Over-Order Premium established by PMMB was created and is intended to sit on top of the FMMO pricing system. The OOP was never intended or imagined as a stand-alone pricing system. Instead, the OOP functions to restore some of the incentive for a producer to ship to a class 1 plant that is lost in the FMMO system, where we are already blending and sharing to the point where it's hurting our industry in my opinion.

The Over-Order Premium, as established by the Pennsylvania Milk Marketing Board, is important to Turner Dairy because it enables us to recruit and reward high quality dairy farmers to ship to us. The OOP is important to our producers so that they can cover the extra costs associated with shipping to us in addition to just making ends meet. The OOP still functions as intended for Turner Dairy and the producers who ship milk to us. This is also true for several other Class 1 processors in Pennsylvania and to hundreds of Pennsylvania producers who ship milk to them.

You may be asking yourself why we couldn't pay premiums without the mandated over-order premium. The short answer is that we could, and we would. The more complicated answer (and everything is complicated with milk regulation) is that we would probably not be able to recover the full amount of premium we pay in our wholesale prices. This would put downward pressure on the amount of premium we could pay to our producers and hurt the profitability of class 1 plants. The practical reality is that almost all our sales are at the PMMB minimum wholesale price less applicable discounts so our bottom line will suffer if we pay premiums to producers in another way.

Secretary Redding rightly discusses in his testimony about the covenant between Pennsylvania producers and consumers. The word covenant is heavy. It implies that we have a responsibility to pay what we collect. I agree and hope you can see that Turner Dairy thinks connecting producers and consumer is good business. What more could we have going for us than to have dairy farmers who want to ship milk to us, employees who want to work for us, and customers who want to buy from us? I respectfully differ from Secretary Redding, however, in that I believe that paying the premium to the dairy farmers whose milk is in the bottle is the most obvious, direct, transparent, and fair way to keep that covenant between producer and consumer. More blending is not the answer. Every dollar of premium that Turner Dairy collects is paid to our PA producers. Indeed, Herbein & Company performed a study that also shows the vast majority of Pennsylvania milk dealers also take the obligation seriously.

Based on that study, it is clear that the milk dealers as a whole don't shy away from the responsibility to pay what we collect. The Herbein & Company study shows, just as it did in 2010, when Carl Herbein first presented a similar analysis with similar results, that our members processing Class I milk in Pennsylvania are paying out more in premiums than they recover in premiums from the wholesale prices.

As I indicated previously, the fluid milk industry is struggling with declining sales volume. It should be obvious, but it still needs to be said that fluid milk can't bear the burden of premiums that will be paid to producers of milk used to make other dairy products. The Over-Order Premium is working for many of us. I believe the benefits still greatly outweigh any gaps in the system and, therefore, recommend that the PMMB maintain the current Over-Order Premium system at $1.00 per Cwt plus fuel adjuster for the next six months. Why dismantle something that is working for a critical component of the Pennsylvania dairy industry? If something more is needed, I submit that the Federal Orders should be the first place to start, but after that, if something more is needed, it should complement or supplement the Over Order Premium, not destroy it.

Thank you for the opportunity to testify before this Board today.

Submitted: August 12, 2022

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♦ WORK EXPERIENCE

2003 - Present ***President, Turner Dairy Farms, Inc.***

1994–2002 ***Vice President – Production, Turner Dairy Farms, Inc.***
Executive Committee
Responsible for all plant operations.

1986-1994 ***Quality Control Director, Turner Dairy Farms, Inc.***

2020-Present ***Member, Pittsburgh Special-T Dairy LLC***
- Managing Member 2017-2020

2009-Present ***President, Titusville Dairy Products Co.***
- Director since 1999

♦ ASSOCIATIONS

2018-Present ***Board Member, Pennsylvania Center for Dairy Excellence***

1990-Present ***Pennsylvania Association of Milk Dealers***
- Member of Executive Committee.
- President 2001-2003, 2018-2019

2020-Present **Member, Fluid Milk Board of International Dairy Foods Association**
Member of Economic Policy Committee and Class I/Class II Working Group

1991-2019 ***Board Member, Dairy Industry Association of Western Pennsylvania***
- President 1995-1997.

Member of Westmoreland County Farm Bureau

- ***MBA, Katz Graduate School of Business at the University of Pittsburgh***
- ***BS Food Science, with Highest Distinction The Pennsylvania State University***

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TURNER EXHIBIT 2

Modernizing US Milk Pricing: An Exploration

WORKING PAPER

January 2022

Professor Marin Bozic/Bozic LLC
& Blimling and Associates

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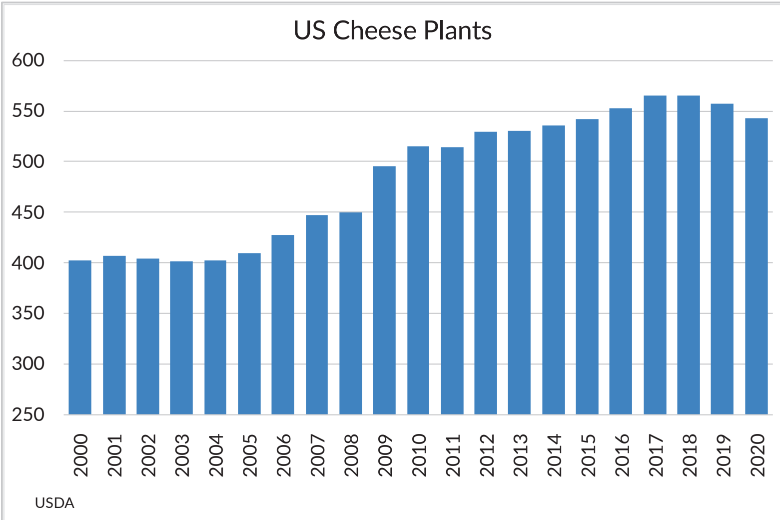
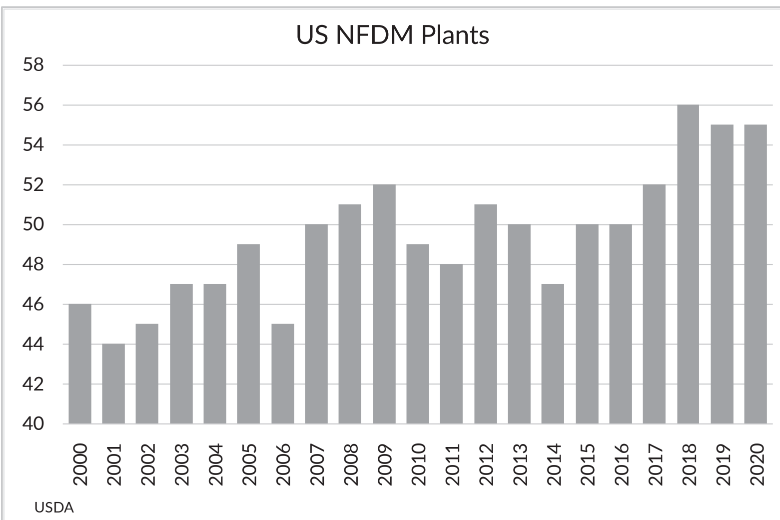
Regulation vs "Free Market"

- There are also examples where the FMMO system is openly hostile to free market outcomes.
    - Classified pricing discriminates on price by assigning differential costs for milk based on the products made.
    - A free market would establish one price for milk of like quality and manufacturers would buy more or less based on their ability to profitably convert that milk into dairy products.
- Free markets do a remarkable job of allocating resources to their highest value use.
    - Allowing resources to find their highest value use ensures maximum revenue available to reward the entire supply chain.
    - By taking revenue from manufacturers achieving higher returns and using those dollars to subsidize the production of lower value products, FMMOs change the risk/reward profile of alternative products, thus actively discouraging value-added production. In fact, by providing these subsidies, FMMOs encourage additional production of the least valuable products in the marketplace. Nonfat dry milk, for example.
    - This may be the biggest structural shortcoming of the FMMO system.

Regulation vs "Free Market"





- Product price formulas and make allowances tend to distort the backdrop against which market participants make decisions.
  - The US market features a lot of specialization. Many companies focus on making just cheese or just butter or just yogurt. Would US manufacturers be as specialized in an unregulated market where lower-value users weren't subsidized by value-added buyers through the pool? Or would cheese/whey or butter/powder manufacturers need to invest in higher valued products as well in order to compete effectively for farm milk?
  - Would the US produce as much milk powder as it currently does if it weren't subsidized through FMMO pools?
  - Would the product mix of cheese makers be different if cheddar prices weren't the basis for price regulation?
- Product price formulas and fixed make allowances shift the vast majority of commodity price risk to dairy producers.

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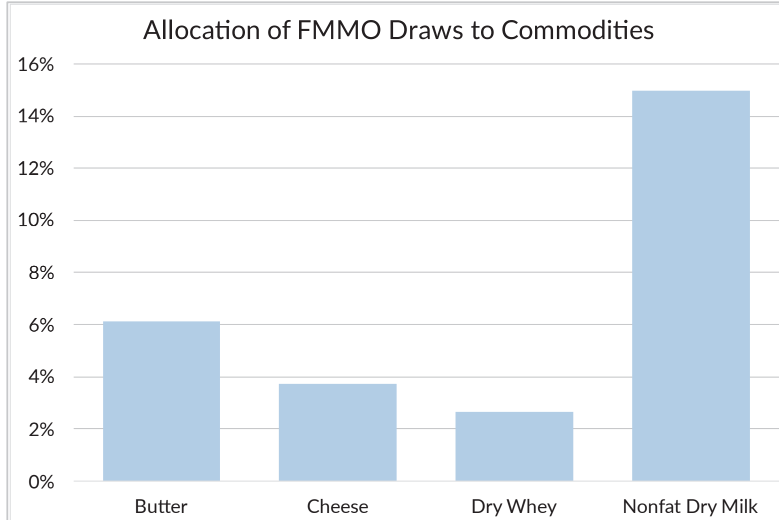
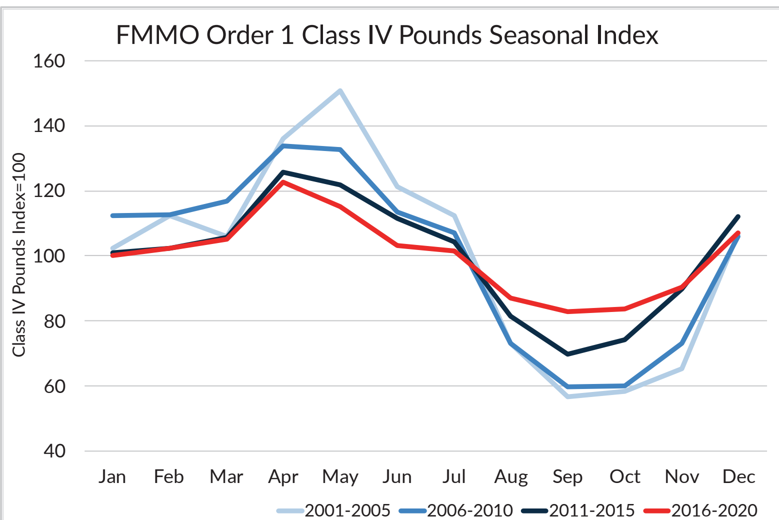
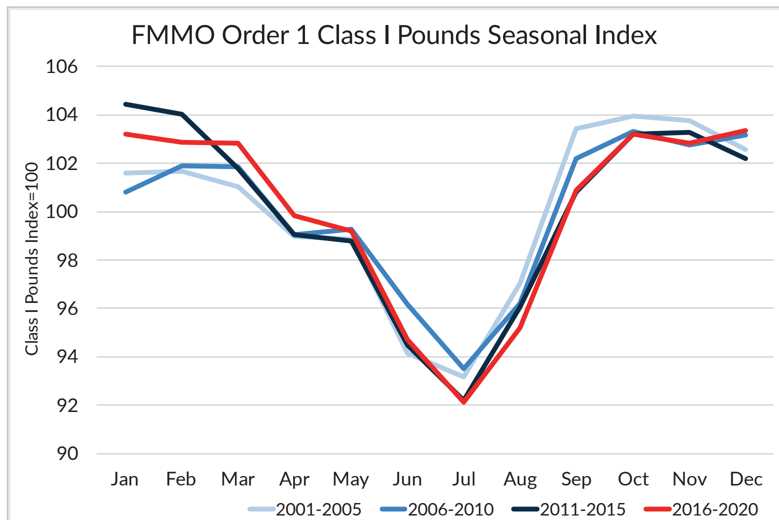
TURNER EXHIBIT 2

FMMOs Subsidize Powder Output

- Classified pricing and revenue pooling have resulted in considerable subsidies to producers of butter and nonfat dry milk.
  - For example, allocating net draws from FO 1 to four basic commodities, we find that NFDM price was subsidized at 15% of market price, vs less than 4% for cheese.
- "Balancing" dynamics have changed. Over the past 20 years, Class IV products have become much less seasonal.







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ALL CHANNEL TRACKING: 2021 Edition

The Projection of Milk Volume by Sales Channel

June 2022

PRIME CONSULTING

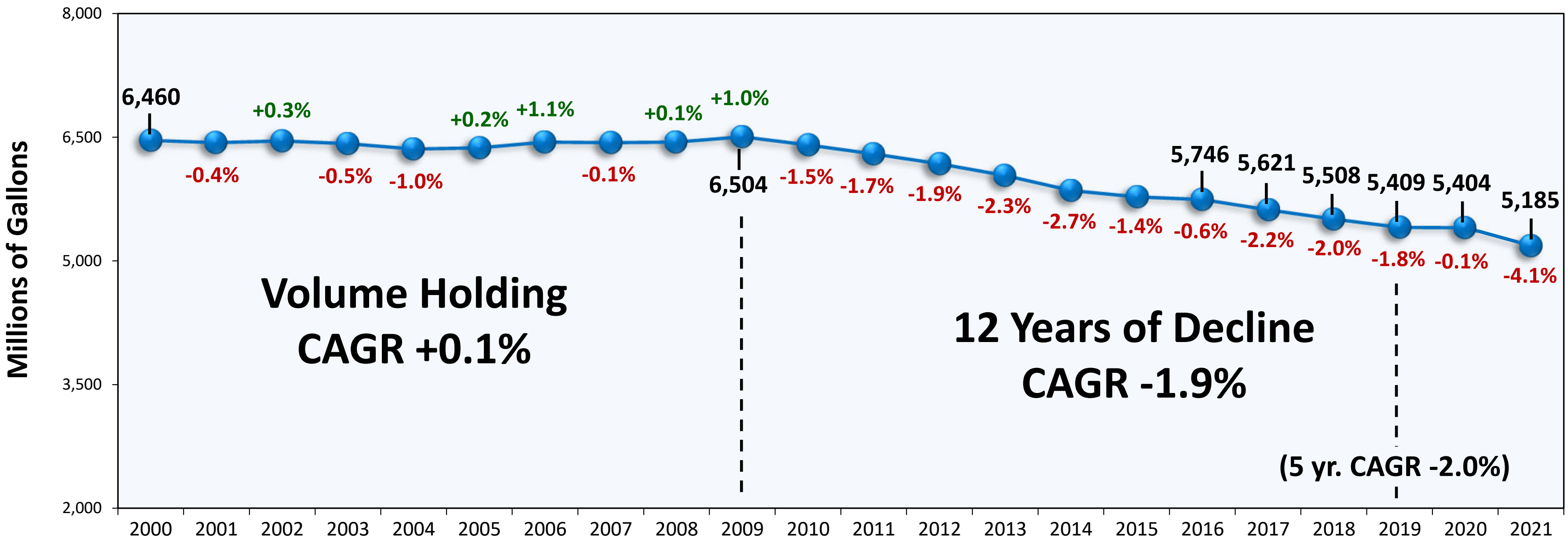
847.945.1155 ♦ www.primeconsulting.biz

Submitted: August 12, 2022

Total Milk Sales (in Gallons) by Year: *2000-2021*

Following the Covid driven volume spike in 2020, volume settled to finish 2020 essentially flat vs. 2019. In 2021, volume declined -4.1% to 5,185 MM, as consumers were able to return to many pre-Covid activities.

Over the 2 years of Covid (2020-2021), the uptick followed by larger decline, averages to nearly the same decline as the past 12 yr. CAGR decline.



Source: USDA AMS, pounds converted to gallons by Prime

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