UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE SECRETARY OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

In re: Milk in the Northeast and Other Marketing Areas	7 CFR Parts 1000 *et seq.* Docket No. 23-J-0067; AMS-DA-23-0031

CARMEL, INDIANA
AUGUST 2023

TESTIMONY OF TURNER DAIRY FARMS – PART 1 REGARDING NATIONAL HEARING ON FEDERAL MILK MARKETING ORDER PROPOSALS

September 8, 2023

I. BACKGROUND

Hi, my name is Chuck Turner. I have served as the president of Turner Dairy Farms, my family's milk business, for the past 20 years. Turner Dairy Farms is located at 1049 Jefferson Road Pittsburgh, Pennsylvania 15235. Before that, I spent 17 years in other management roles at Turner Dairy including Quality Control Manager and Vice President of Production. My grandfather, Charlie Turner, started the dairy in 1930 in Penn Hills, a community east of Pittsburgh. We have just started the process of transitioning ownership and management of the company to the fourth generation of my family. We are a small business as defined by SBA for purposes of FMMO proceedings.

In addition to my role at Turner Dairy, I am also president of Titusville Dairy Products Co., a class II plant in Northwestern Pennsylvania that Turner Dairy owns and operates with two partners, and I'm a Member of Pittsburgh Special-T Dairy LLC, a fluid milk plant in the city of Pittsburgh that my family purchased in 2017. I earned a BS in Food Science from Penn State and an MBA from the Katz Business School at The University of Pittsburgh. I currently serve on the Executive Committee of the Pennsylvania Association of Milk Dealers, the Board of the Pennsylvania Center for Dairy Excellence and the Fluid Milk Board at the International Dairy Foods Association, where I also serve on the Economic Policy Committee.

Turner Dairy Farms and Pittsburgh Special-T Dairy are fluid milk plants in Allegheny County, Pennsylvania which means both plants are regulated by Federal Order 33. Turner Dairy is in an eastern suburb of Pittsburgh and Special-T is in the City. The milk supply for our plants is about three dozen farms located in counties just east of Pittsburgh, which is important because milk haulers do not need to sit in traffic to get to our plant. We generally transfer milk from Turner Dairy to Special-T. Our relationships with most of these farm families go back many years; some dating back to the 1950s. Having a direct relationship with independent farms is important to our business because the direct connection enables us to best serve the needs of our customers. For example, strict bacterial quality standards result in bottled milk that tastes great and has a long shelf, BST free agreements provide assurance customers look for, and personal relationships with our dairy farm suppliers give customers confidence that we do things right the whole way through the supply chain. We also work with a couple of farms in Ohio whose milk is regularly diverted to a cheese plant as part of our balancing strategy.

We still compete with several fluid milk plants in Western Pennsylvania including a few family-owned plants like ourselves that are regulated by Federal Order 33. Other competitors are in unregulated territory to the east of us in Pennsylvania. We need to pay our dairy farmers premiums above the Federal Order blend to be competitive in the country with these unregulated plants while still offering wholesale prices that are competitive on the street. The pressure on both sides gets tougher every year. More recently, we find ourselves competing with cooperative-owned plants who, although FMMO regulated, are not required to pay their members the regulated minimum milk price like we must pay our independent farmers. The FMMO playing field has never been level in our part of the country, but it seems to be increasingly tilted against us in both directions.

FMMOs impose a heavy regulatory burden on Turner Dairy Farms as a small business. There is the countless investment of time, dollars, and energy understanding, complying, and reporting according to FMMO rules. That is time, money, and effort that could be better spent creating value for our company, the employees who work for us, the farmers who ship milk to us, as well as our business partners and the consumers who drink Turner's Milk. We are fortunate to be able to participate in this hearing process through our relationships with IDFA and MIG. Despite bearing the financial burden of this system, there is no way that our company could afford to participate at this proceeding on our own.

II. SUPPORT FOR MIG PROPOSALS

A. The following comments are intended to support Proposal 15 offered by the Milk Innovation Group.

I understand that dairy farmers are unhappy with the current formula, but there is a way to fulfill both producer and processors interests here through MIG's proposal. Our proposed Base Class I Skim Milk formula would protect dairy farmers from future unintended and unanticipated losses like those they experienced primarily due to COVID pandemic supply and demand disruptions, while maintaining the benefits of that formula for processing. In particular, averaging the Class III and IV prices has allowed fluid processors the possibility for the first time of risk management strategies likes those used by dairy farmers and manufacturers for the other classes. Averaging also functions to reduce some of the price volatility Class I used to have with the pre-May 2019 "higher of" formula.

When the new "average of" formula was announced in 2018, I was intrigued by the idea of being able to hedge as a way to protect our margins. There is a lot to learn and I was, unfortunately, interrupted by COVID for a couple years. For the past couple years I have been using butter futures to hedge or protect our cost on cream products. This allows our company to quote prices on Class II cream products to our customers with less risk of losing margin between the time the price is quoted and when the Class II butterfat price is announced after the fact. My intention is to use Class III and IV milk contracts in a similar way to hedge contract prices for fluid milk in cases where our foodservice accounts want to know prices several months (or a year) ahead of time.

The "new" Base Class I Skim Milk formula that averages class III and IV has the unintended benefit of reducing volatility in Class I prices. One problem with the "higher of" formula, in addition to incompatibility with hedging, was that the Class I price went up with every spike in butter, cheese or powder markets. But short-term changes in those product prices have no bearing on the actual Class I market. So we were left having to raise our prices to cover cost, but with no reasonable or market-based explanation to offer our customers. These resultant spikes in the cost of fluid milk definitely hurt milk sales over the 18 years that the higher of formula was used.

In addition to the butter contracts I mentioned earlier, I currently use hedges or forward contracts to manage our costs for energy (electric and natural gas) and ingredients like sugar, high fructose corn syrup, and orange juice. My goal is not necessarily to get the lowest possible cost, but rather to lock in a cost that fits into our budget and can be built into our pricing structure because it is known ahead of time. My goals for fluid milk are similar.

In most of these transactions either the buyer or seller is leaving money on the table and not getting the best possible price. The point is that both parties get a price they can live with and, as importantly, that price is known in advance so that both parties can manage their businesses. Ideally, we would be able to protect the prices on a school bid quoted in April for milk to be delivered the following school year (September through May).

Adopting NMPF's Proposal 13, instead of MIG's Proposal 15, will dramatically increase the volatility of my milk prices. We are now competing with fluid milk plants owned by cooperatives that have the option of reblending to reduce volatility for their customers. The very cooperatives that own the fluid plants that I compete with are now proposing to raise Class I prices that will dictate the prices of their competitors, like me. As a small, family-owned business, this is difficult to compete with.

III. CONCLUSION

In conclusion I am offering some comments on the tenuous state of the fluid milk business in this country.

Michael Porter, of the Harvard Business School, is famous for his work on business strategy. Porter says that there are really only two strategies for businesses to be successful in the broader market: a low cost or low price strategy and a differentiation strategy. In the first case, a low cost strategy, an organization gets its product to market at a lower cost that its competitors is able to and is, therefore, able to sell profitably at a low price. With a differentiation strategy, on the other hand, the organization needs to add value in the form of features and benefits to its product so that it is able to sell profitably at a higher price.

Over the past several decades, industry and regulatory roadblocks have made it very difficult to succeed with a differentiation strategy for fluid milk. Several examples readily come to mind:

- Standards of identity for milk and dairy products. The word “Milk” cannot be used on a product label unless the product meets strict standards for composition, ingredients and other attributes. (unless, of course, the product does not contain milk in which case the word “Milk” may be used?!?)

- Generic advertising for dairy products which producers are required to fund. Generic advertising for fluid milk which processors are required to fund.

- Grade A standards in the PMO which prohibit the marketing of milk that is superior to Grade A. All milk that meets the minimum standards is the same.

- FDA required disclaimer for Milk or Dairy Products labelled BST or Hormone Free.

- Pressure to use FARM as the animal welfare standard for the industry.

Hopefully, you can see the trend. We cannot stand the idea that someone would market milk that’s better, in any way, than the milk the rest of us market. The key to all of the above, of course, is the Federal Milk Marketing Order system where all dairy farmers in an order area get the same exact price for their milk regardless of what it is used for or how it is marketed.

At Turner Dairy Farms we attempt to be profitable by executing a differentiation strategy and I can tell you that it’s not easy. We bear the costs of participation in the FMMO system which not only isn’t helpful to our efforts but rather is an obstacle. We pay into the pool for Class I but still pay quality premiums directly to our producers to get the caliber and milk quality we are looking for. We pay into the pool but still have to use our own tank trucks to haul surplus milk from our silos or subsidize milk haulers to divert surplus milk.

Going back to Porter, if we give up on differentiation strategies, we are left with only a low price strategy. And the only way to win the low price strategy in this industry is to grow – and grow big. The dairy industry needs to find a way to support small farmers and small processors, but we are setting them up for failure with today’s FMMO system. Are we willing to try something different?

There are about 330 million people in this country. Every one of us thinks that we are special and should eat and drink food and beverages that are special. We need to make milk special if we are going to reverse the continuing decline in fluid milk sales. To do that we need to remove the regulatory obstacles currently in place that act as a bulwark against innovation. It probably won’t happen during my career at Turner Dairy but I have hope that milk sales will start to grow again for the next generation of my family.

Thank you for the opportunity to testify before you today.

DATED this 7th day of September, 2023.

By *<u>/s/ Chuck Turner</u>*
CHUCK TURNER