FOLLOW THE MONEY or LEVEL THE PLAYING FIELD
WRITTEN COMMENTS -- PMMB HEARING MAY 16, 2018

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After the December PMMB hearing, the producer over-order premium was dropped from $1.60/cwt to 75 cents due to increased pressure of out-of-state milk. Dean Foods and the Pennsylvania Association of Milk Dealers testified about potential loss of contracts or changes to plant "mix" of in- and out-of-state milk to secure retail contracts as retailers grow accustomed to waging milk price wars elsewhere.

They testified to prices as low as 87 cents per gallon in other states. I, myself, have seen it as low as 67 cents in Walmart stores in Kentucky, Indiana, and Illinois. These are states, like most of the nation, with no loss leader protection.

In fact, when the new Walmart plant in Fort Wayne, Indiana was being planned, supermarket industry analysts talked about retailer vertical integration in the milk bottling space because fresh fluid milk is still a ubiquitous item found in nearly every shopping basket passing through their checkout scanners. Discount stores, big box stores and chain supermarkets have identified milk for price-discounting as a method of loyal customer acquisition.

Those analysts referred to the dairy case as one of the most lucrative and important. People pick up milk where they shop and they may decide where to shop, based on the milk they can pick up.

The question is: What guides them? Price only? Local source? Animal care? Quality?

Milk is Milk, right? Wrong. The days of commoditizing milk are over, my friends. To succeed and grow sales in this space requires branding.

Who does that? The plant folks plagiarizing the good name of milk. Those 'milks' have cheaper costs, wider profit margins, and attract investor capital. They are not regulated, and they compete directly with dairy milk. This is another wrinkle for milk price regulation to deal with as the plant-based frauds get to do their own thing. No regulation, no pricing controls, no FDA standards of identity, and yet they are priced HIGHER than dairy milk. As their rate of growth slows, the imposters are featuring lower prices and supermarket advertising.

Within the regulated dairy industry, however, milk source consolidation is underway to compress margins and fund retail milk price wars to win loyal customers and category market share.

In the changing dairy landscape, the current milk marketing law in Pennsylvania feathers some nests in the supply chain while leaving others bare.

Increasing numbers of reports have surfaced among industry sources that we will see Walmart's milk-sourcing strategies with the Midwest and Mideast supply chain making its way to Pennsylvania where Dean Foods' plants can stamp it with a Pennsylvania plant code. How pervasive will this be? That may depend on regulatory premiums to offset what those producers will pay to transport the milk.

Remember, farmers pay the milk transport costs.

PMMB approved a milk dealer license for Walmart in 2013. On the PMMB website, the list breaks Walmart's license into six locations, each associated with a Dean Foods plant: five plants in Pennsylvania

– including Lebanon and Sharpsville where 42 dairy farms were terminated as of May 31 – and a sixth location in New Jersey.

The PMMB says milk dealer licenses are needed to buy and process milk in Pennsylvania.

Walmart's milk dealer license is ambiguous, suggesting it may procure the milk and pay Dean Foods for the bottling, but the dealer to dealer relationship is unclear.

Meanwhile, in an interview with Walmart, a spokesperson says: "The sourcing strategy in Pennsylvania remains unchanged since the Fort Wayne plant is not supplying any of our stores in Pennsylvania." She declined to address questions about this milk sourcing strategy further east.

Walmart desires a more direct relationship with the Midwest supply chain, and the plant in Fort Wayne is sourcing a combination of co-op and farm-level milk in single-source loads and from farms that meet their quality and animal care requirements, including use of the National Dairy Farmers Assuring Responsible Management (FARM) program initiated by National Milk Producers Federation, a milk cooperative membership organization, and Dairy Management Inc., an organization funded by the mandatory milk promotion checkoff.

In addition, a New York milk cooperative purchased a Pennsylvania bottling plant in 2015 and is supplying it – as you would expect – with its own milk.

Is the Valley Farms brand still bottled from milk produced in Pennsylvania's Susquehanna Valley? Does Turkey Hill still "Import from Lancaster County?" What business decisions would be made differently in the future without a producer over-order premium to collect and appropriate?

Much of Pennsylvania's milk goes out of state. Some say those markets will dwindle if there are no incentives for milk to come into the state. But would more Pennsylvania milk stay home?

This leads me to my two main points:

1) **If retail volumes are not followed via retailer licensing, then a distributor license is needed to see the pass-through of volume at the warehouse delivery level.**

2) **Improve transparency; see system effects on the entire supply-chain, including the farms.**

3) **Address unlevel playing field with loss-leader protection at the national level so PA no longer sticks out like a sore thumb – a magnet for out of state milk in tankers and bottles.**

We are seeing the economic warfare.

Milk sourcing is consolidating from wider distribution channels, and Walmart has fired a big shot across the bow with its first plant in Fort Wayne, Indiana.

What if we could have a simple low line in the sand on milk loss-leading at the retail level as a federal law (coupled with ending the Pennsylvania state mandated minimum retail and wholesale price)?

Not complicated, not meant to pretend to cover all the costs in the supply chain.

Just a threshold under which the retail milk price could not fall – a way to stop the extreme price wars that give more market power to those in the market that already have the most power.

Maine has an enforced minimum price that works for their dairy farms because Maine is more naturally isolated from national consolidation by virtue of its geography.

But for Pennsylvania, our minimum retail price is a liability to our farms in the modern age of transport and logistics. It's hard to argue that the warnings given over the past decade are coming true today.

Yes, despite what Dr. Andrew Novakovic said in a Pennsylvania House Ag hearing just days before the termination letters: There are literal losers and they are Pennsylvania farms!

Pennsylvania farms, however, are winners when the PA Preferred seal is used.

Yes, the PMMB system allows small bottlers and small retailers to avoid price wars. But this paradigm is shifting at the milk-sourcing level and it is difficult to imagine a future where Pennsylvania can be an island not flooded by the storm around it.

My thought for national loss-leader protection is this: Set a $1.25, $1.50, 1.75 or $2.00/gal loss-leader minimum on milk at the retail level nationwide. Just an arbitrary level to prevent extreme price wars. And, at the same time, end the separate Pennsylvania system.

This would prevent large players from extracting dollars from Pennsylvania and other randomly-placed states (somewhat strategically placed actually) that have loss-leader protection. These entities would then be unable to use the money found here to fund ultra-low pricing of 67, 79, 87 and 99 cents per gallon that have been found and testified about in other states within the corridor from which Walmart will begin operating its new vertical integration structure from its Indiana bottling plant with a second plant reportedly eyed for Texas, Missouri or Arkansas.

At the very least, the state of Pennsylvania needs to re-evaluate its PMMB because it is indeed fast becoming a liability to Pennsylvania dairy farmers even though Pennsylvania bottlers and retailers say they need it.

To be good for Pennsylvania, it needs to work for all segments of the supply-chain. A new milk flow structure is emerging that is changing the game and building on regulatory incentives.

Are we going to be ready? Or will we keep our heads in the sand thinking we can protect our shrinking piece of the pie? Without a level playing field, will Pennsylvania farms be able to compete into the future?

We see so much promotion by states known for their cheese brands, and yet, fluid milk is treated as a commodity. Meanwhile, the federal orders and PMMB place the value in the fluid milk causing raw milk to move around in search of it.

It is time for extreme loss-leading – nationwide – to end, just as it is time for Pennsylvania's state-minimum retail pricing deal to end or be significantly changed. Let's meet in the middle, while we still can.