

# Chuck Turner Turner Dairy Farms Class I & II Differentials



# Market Forces Must Prevail

- My understanding of the economics:
  - The real (farmgate) milk price is set by economics – milk supply
  - The milk price is the milk price resulting from the collective decisions of 28,000 dairy farms:
    - How many cows will they milk?
    - What are they going to feed?
  - FMMO Class I price about who gets what
- Why I support MIGs position:
  - Higher Class I prices = Lower powder prices
  - Big Farms and Big Plants vs. Small Farms and Small Plants
  - Manufacturing in Rural America vs. Fluid Milk near Population Centers
  - Agrees with our reality in sourcing milk

# Turner Supports Proposal 20

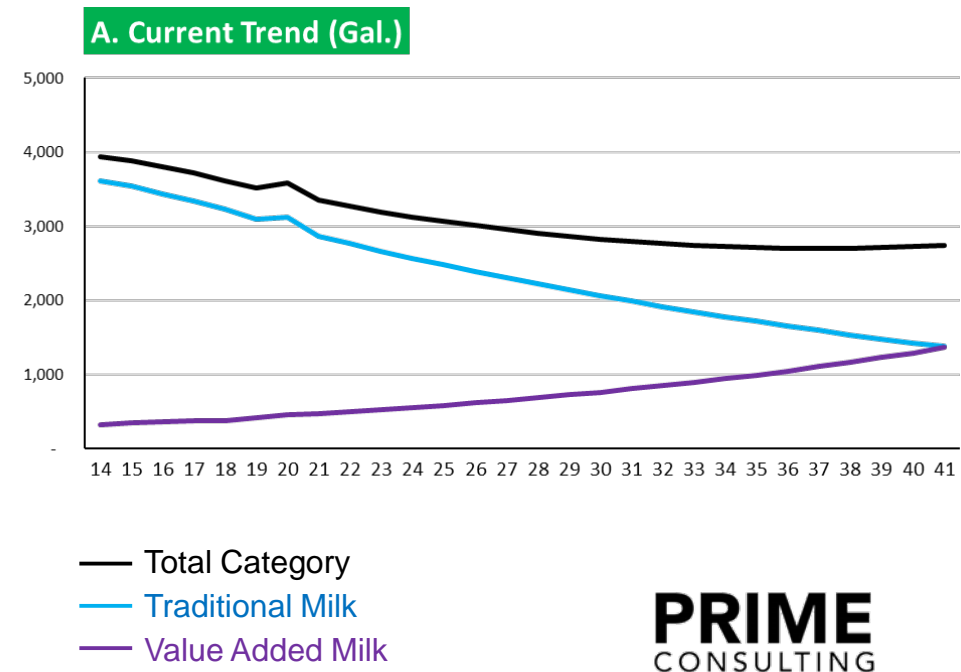
- **Grade A**
  - Essentially all farms meet Grade A standards
- **Balancing**
  - FMMO system doesn't help us balance
  - Our company and independent producers are essentially paying for balancing twice
- **Incentive**
  - Turner Dairy can get all the milk it needs based on our reputation as a good partner and our location
  - We pay over-order premiums to attract the high-quality milk we need





# Turner Dairy Opposes Proposal 19

- Large cost increases will be devastating to fluid milk industry generally
- Losing streak now extended to 14 years
- Higher milk prices will accelerate consumption declines and prolong the losing streak
- Dollars paid into the pool take away from funding innovation which is desperately needed

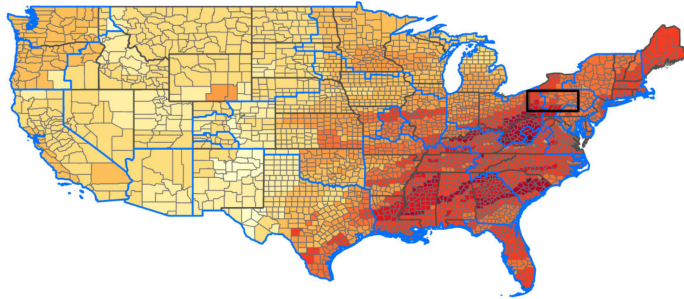


# Class I Differential Comparison: Current, USDSS Model, and NMPF Proposal #19

Fluid Plant, City	County	State	Current	Model Minimum	NMPF #19	#19 – Current	#19 – Model Min.
MI Superior, Canton	Stark	OH	\$2.00	\$3.90	\$3.70	\$1.70	-\$0.20
Turner, Pittsburgh	Allegheny	PA	\$2.10	\$4.00	\$4.20	\$2.10	\$0.20
DFA Dean, Sharpsville	Mercer	PA	\$2.10	\$4.10	\$4.00	\$1.90	-\$0.10

- 30 cent swing to DFA plant advantage when model minimum was adjusted for proposal 19!!
- This is 2.6 cents per gallon
- Contrary to prior testimony:
  - This amount matters
  - DFA's Sharpsville plant has the #1 market share in the Pittsburgh market

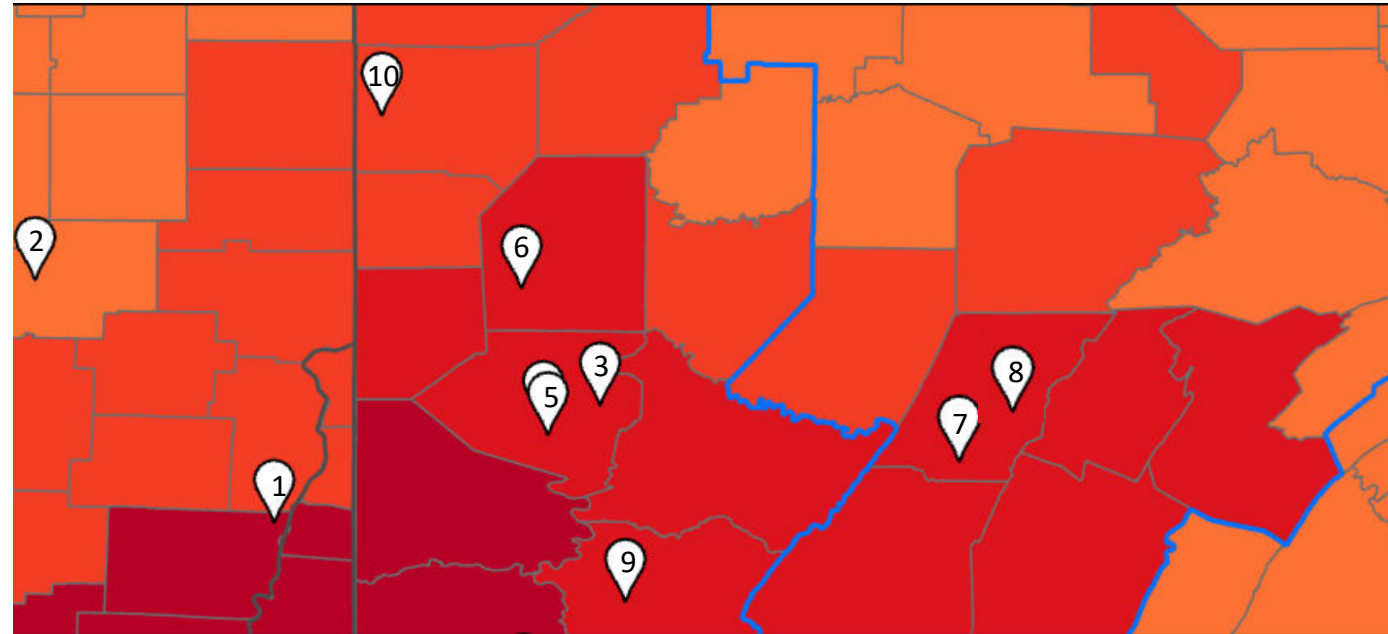
# Proposal 19 vs. Current Class I Differentials



Difference (\$/cwt)

\$0.25 - \$0.50	\$1.26 - \$1.50	\$2.26 - \$2.50
\$0.51 - \$0.75	\$1.51 - \$1.75	\$2.51 - \$2.75
\$0.76 - \$1.00	\$1.76 - \$2.00	
\$1.01 - \$1.25	\$2.01 - \$2.25	

- 1) United, Martins Ferry OH
- 2) MI Superior, Canton OH
- 3) Schneiders, Pittsburgh PA
- 4) Special-T, Pittsburgh PA
- 5) Turner, Pittsburgh PA
- 6) Marburger, Evans City PA
- 7) Galliker, Johnstown PA
- 8) Vale Wood, Loretto PA
- 9) United, Uniontown PA
- 10) DFA Dean, Sharpsville PA



- Proposal 19 seeks a large increase in Class I differentials
- Pittsburgh (Allegheny County) would increase \$2.10 / cwt
- This is \$0.18 / gallon







# Proposal 19 Would Be Devastating To Turner Dairy

- Large Class I increase puts us at a big disadvantage when competing with unregulated handlers for good dairy farms
- Cooperatives favored their own bottling plants Western PA (and Eastern OH) from a competitive standpoint
- Non-member producer milk was not considered
- Why are we paying for their “stair-stepping” strategy?



# Turner Dairy is also Opposed to:

- Raising Class II differential (proposal 21)
  - Incentivizes use of NFDM
  - Titusville Dairy Plant would need to reevaluate sources
- Elimination of Advance Pricing for Class I (proposals 16, 17, 18)
  - Would be a CATASTROPHE for fluid milk!
- Returning to Higher of Base Class I Skim Price (proposals 13, 17, 18)
- Increase Class I Price for Nonfat Solids (proposals 1, 2)
  - Can't recover the cost in the market
- Regarding Proposal 15 – IDFA will do a seminar on risk management at Dairy Forum next week in Arizona

# 1937 AMAA – We Are at an Inflection Point

- Dairy exports have grown dramatically while fluid milk sales have declined.
- US domestic policy could (maybe) justify damage to small farms and rural economies because US consumers benefited from inexpensive dairy products.
- This policy is harder to justify when we are subsidizing exports of NFDM and Whey.

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