Testimony -USDA Federal Order Hearings- proposal #19 United Dairy

My name is Joe Carson, President and Owner of United Dairy Inc. As quick background I am a 1986 Miami University graduate of business where upon I worked for Proctor and Gamble for several years, before joining my father in the family business he started back in the late 60's early 70's. My brother James, a University of Michigan graduate joined the company in the early 90's and together we run the business along with our long time CFO George Wood.

We started with one small fluid milk processing plant located in Martins Ferry, Ohio. We have been fortunate to grow the business to 3 processing plants (Charleston, West Virginia and Uniontown, Pa. as indicated by the stars on Attachment 1) as well as 8 branch depots throughout 5 states. (as indicated by the blue dots on Attachment 1). The three plants are regulated under Order 33. The primary geographic areas where our products are marketed are as follows:

West Virginia,
Ohio,
Western Pennsylvania,
Eastern Kentucky,
Western Maryland,
Western and Southwestern Virginia,
North Carolina, and
South Carolina

While we distribute a full line of milk, juices, drinks, cultured products, UHT products and ice cream we are strictly Class I Fluid Processor and therefore have a major stake in proposal #19. United Dairy processes approximately 62 million lbs. of milk per month. We service major national grocery chains, independent supermarkets, convenient stores, hospitals, institutions, restaurants and schools.

These schools should be of concern as many are in the Appalachia region where the population is decreasing every year and our trucks drive into very remote rural mountainous areas that are difficult to access. As you are aware NMPF proposals #19 calls for higher prices to the Class I Plants and therefore to the consumers and school children in these areas which should be a major concern to USDA as well as the constituents and their Representatives in these states.

As a note, we participate in the monthly USDA bids for food banks and as a company made the decision to invest heavily in the automated corrugated packaging area with the intention of packaging for USDA several years ago. To date we have supplied over 3 million units to the USDA food bank program mostly in our region of the country.

Our three plants are all located in Federal Order #33 and have similar differentials which have been in place for almost all my career.

Charleston $2.20
Martins Ferry $2.00
Uniontown $2.30

Our milk supply comes mostly from independent producers located on average within a 175 mile radius from our plants. They vary in size from smaller 50 cow farms to 500 plus cow independent farmers. We supplement our raw milk needs with several coops and work well with the local milk shed to help balance the supply. When milk is tight as it tends to be in the fall the market will adjust through increases in Class I over order premiums. When there is an abundance of milk then typically Class I premiums decrease. United has had no problem getting milk as the over order premium ensures movement to the processing plants that need the milk.

I would like to point out that any change in the current differential structure would be a major problem for my company. We have lived with the current differentials for many years and our farmers know what to expect from us. Also, our customers have programs and pricing (including contracts) based on this current cost structure. United does not believe the current system should change but any deviation from what is in place should absolutely be equal to all Class I plants, whether it be cooperative, proprietary, or private family owned. Failing to do so would lead to be major disruptions and market chaos at the farm levels, to the marketplace and ultimately to the consumer.

I would like to stress the following points in opposition to NMPF proposal #19

1. The current differentials have attracted plenty of milk for our customers and ultimately our schools and local consumers. United services over 500,000 children in over 1,400 school buildings from Columbus Ohio school district, south and east in Ohio, Eastern Kentucky to Southwest Virginia and West Virginia. In times of need if farm milk is short, we pay to get the raw to our plants in the form of higher over order premiums. In my 35-year career we have never shorted a customer for lack of milk because the premium system works. Drastically adjusting differentials is not the answer to attract milk to far away milk sheds because the market premiums will take care of that. When I read the Federal Order system is broken or archaic my first thought is they aren't taking into account how market over order premiums work as they certainly have worked through the years. They have evolved over time, and they adjust when there is too much or too little milk in certain milk sheds, enticing milk to where it needs to go.

2. United has been very fortunate to survive in a segment of dairy that shrinks 2-4% each year for the last 20 years or so. So much has changed, the family unit is smaller. People eat their meals out, on the go and don't sit down for dinner and pour a glass of milk. Same with breakfast as cereal sales are down double digits the last 5-7 years. Alternative beverages such as almond and soy milk have also severely cut sales of Class I fresh milk. Basically, Class I sales are down and forecasted to continue to drop so now NMPF wants to increase costs another $2.00 / CWT on average? This makes no sense. Higher prices for consumers for milk will just slow down sales even more. Milk is not 100% inelastic contrary to popular belief. Perhaps it is between $2.00 and $3.00 a gallon at retail, but not $5.00, my experience is when milk reaches these heights the Class I fluid plants suffer as does the consumer, especially those that can't afford the current higher price of everything: gas, electricity, their mortgage payments. Staples like milk should not arbitrarily be raised to suit the needs of the large coops who in turn would be the

only beneficiary of their proposed changes. This of course should not be at the expense of the consumers especially those residing in the rural areas of Appalachia.

3. United has competed with the coops and prior to the 2019-2020 bankruptcy the Dean food plants for many years. Independent family-owned plants have shrunk mightily in the 35 years that I have been involved in managing United Dairy. While we have been fortunate to survive and grow thanks to our customer base and our over 500 employees (70% of which are union) the proposal by the NMPF would be the death knell of our company. I cannot stress this more. Attachment 2 shows the location of fluid milk plants in our region, mostly Federal Order 33 pool plants but also several other fluid milk plants we compete with in surrounding Federal Orders (Orders 1 and 5 specifically). Attachment 3 is a chart that shows the disparity and inconsistency of proposal #19 as it relates to United Dairy's 3 processing plants. This is shown on a per hundred weight and per gallon basis. As you can see United Dairy's costs increase compared to EVERY OTHER competitor plant in our region. In fact, as per the IDFA/MIG study on differentials, United Dairy's 3 plants would receive the highest increases in the country! This proposal is completely unfair and blatantly gives an advantage to our competitors. The NMPF proposal raises our Charleston, WV plant which is that last HTST fluid milk plant in West Virginia, by $2.50 cwt, an increase of 130%! Also, our two northern plants would increase 110% and 120% respectively. This is much higher than the cooperative plants that we have competed with through the years. United's Martins Ferry, Ohio plant has a proposed differential increase of $2.40 while most all other plants in Ohio increase only by $1.70. The DFA Springfield plant would gain a $.06 per gallon advantage over our plant and we definitely compete in Columbus, Ohio and surrounding areas for business. What happened to keeping plants that compete at the same levels? Wasn't that the NMPF decision making process per Dr. Erba's testimony? The same applies to our Uniontown, PA plant that competes in the Pittsburgh/western PA. markets. DFA's Sharpsville, PA plant gains $.20 cwt on our PA plant and $.50 cwt on our Martins Ferry, Ohio plant on the border. This proposal is simply an attempt to make United Dairy uncompetitive with the Co-op plants! There would be no benefit to the farming communities around us or the farmers that ship to us in the long run. Without our plants the cost to the farmers to ship their milk elsewhere would increase as they would have to drive more miles to the next Class I plant. And please understand we would not be able to pass on these higher costs to our customer base without the risk of losing them. Therefore, we would need to try to absorb them (which would be economically not possible) or risk passing along higher market increase that coop competitors aren't experiencing. In the end adoption of NMPF's proposal would **<u>seriously threaten the viability of our company</u>!**

To reiterate there will be no benefit to the farmers that currently ship to United Dairy and without our plants being financially sound and able to operate profitably I only see market turmoil for my independent farmers who ship to us. One such supplier, Joe Shockey, is a great farmer who has shipped to our plants for many years. He is here today with me and will be sharing his own thoughts on how Proposal 19 will impact his farm.

In summary:

NMPF proposal #19 has no merit. It is purely a market share grab and targets competitors' Class I plants unfairly.

-The Mideast order has more than enough milk to support the dairy industry and any geographic shortages of raw are handled by over order premiums to the farmers. United has never had a problem attracting milk for production and when supplies are tight, we pay more for the milk to attract supply.

-The last thing Class I milk needs is higher prices. Higher prices would slow the consumption even more than changing consumers trends and habits exacerbating the decline. This adds more pressure to the long-term viability of Class I plants which will eventually lead to less plants and less outlets for farmers' milk.

-Proposal #19 also puts an undue burden on United Dairy's consumer base which is demographically poorer declining population throughout Appalachia with higher retails for a staple item like fluid milk.

Therefore, it is my recommendation that this proposal be rejected outright, and the current federal order differentials be left as is.

Thank You

Joe Carson
President and CEO
United Dairy Inc.