

**Testimony of Chrissie Dewey on behalf of
Harrisburg Dairies and the Pennsylvania Association of Milk Dealers
National Producer-Handler Proceeding – May 2009
Cincinnati, OH**

My name is Chrissie Dewey. I am testifying today on behalf of my family's business, Harrisburg Dairies and on behalf of our trade association, the Pennsylvania Association of Milk Dealers, in support of their proposal to eliminate the producer-handler exemption and increase the exempt plant provision from 150,000 pounds per month to 450,000 per month.

Harrisburg Dairies was founded by my great grandfather, Ben Wolfe, in 1931. We started as a small operation with all home delivery customers and have grown and changed a great deal since our start. We currently purchase milk from 40 independent farmers in Central Pennsylvania and deliver milk to institutional, commercial and retail customers in 13 states. We process fluid milk, iced tea and fruit juices as well as distribute other dairy bi-products. Approximately 70% of our current milk sales are to customers located outside of Pennsylvania. I currently serve as the Marketing Manager at Harrisburg Dairies.

The hallmarks of our business are our independence, respect for our employees and dairy farmers and the quality of our milk.

Harrisburg Dairies is a fully regulated fluid milk distributor located in FMMO 1. That means that every month we have to endure the worry and uncertainty that many fully regulated handlers must endure while waiting to receive the bill for their pool payment. For us the pool payment determines whether we make money, break even or worse.

All fluid milk processors operate on thin margins, but when you are small like Harrisburg Dairies, which is approximately 4-6 million pounds a month, that pool payment really makes a difference. Due to the way our financials are calculated each month, all other costs and expenses are calculated before we receive the pool payment invoice. So each month, our bottom line is calculated and we simply wait for that invoice to determine how much profit, if any, we have left after the pool payment is made. From month to month our pool payment fluctuates and if we have a month when it is much higher than the average, it often completely eliminates any profit we may have made. If we didn't have to make the pool payment each month, like some of our competitors, we could use those funds for advertising and public relations to help us be more competitive in the marketplace. We could also offer lower pricing on out of state accounts to make us more price competitive.

Harrisburg Dairies is not here to complain about its pool payment. We recognize that it is part of doing business in such a highly regulated industry, but we are extremely concerned that the producer-handler exemption provides privileges to producer-handlers that place companies like us at a competitive disadvantage. Presently, we are not

experiencing direct competition from producer-handlers, but we are extremely concerned that there is a trend developing. We are aware of the producer-handlers out west that are serving the kind of retail chains that we compete for and we would not survive in our current form if that trend moves east. I have calculated that producer-handler status for a company that is comparable in size to Harrisburg Dairies would give them a minimum regulated raw milk cost advantage of an average of \$100,000 per month or slightly more than 17 cents per gallon on the purchase of 5 million pounds. This calculation is derived from what Harrisburg would save if it didn't have to contribute the pool.

This would be devastating for us since raw milk is such a significant portion of our costs. I have calculated that raw milk is between approximately 61 and 66 percent of our costs. In my experience accounts are won and lost based on 1/100th of a cent per gallon. It is true that Harrisburg Dairies prides itself on quality and in fact we have won a number of recent bids based on taste tests, but if we were 1/100th of a cent higher than our competitors, we would never get to that tasting competition. In several instances, you must be among the lowest 3 bidders to be given the opportunity to even bring your product in to be sampled. If we are going head to head with a competitor that has a raw milk cost of over 17 cents lower than ours, we can in no way be as price competitive as they can.

I am not even confident that we could survive by converting to producer-handler status. We have been approached recently to become a producer-handler and declined. We declined for a number of reasons including on principle alone. We couldn't see doing that to our dairy farmers, many of whom have shipped to us for three and four generations and count on us for their livelihood. For us, this would mean putting 40 farm families out of work. Even if we would consider making the move to converting to a producer-handler, in our particular situation, it is very difficult to believe that it would be a viable option for us at all. The urban location of our plant leaves us no where to place a farm or herd of milking cows nearby. Thus I do not even see that processors like ourselves, if faced with competition from producer-handlers, can reasonably expect to adopt the producer-handler status as their salvation. We do not believe that some companies should have regulatory privileges that others cannot. In a business that operates on such thin margins and incredible price pressure to begin with, its hard to imagine that we could withstand direct competition from a handler is allowed this regulatory privilege.

Thank you for the opportunity to testify here today.