The Economic Regulation of Milk
University of Connecticut
Dairy Summit, November 18, 2003

Protecting the Milk Industry Through Regulation

Dave DeSantis – Chief, Enforcement & Accounting
Pennsylvania Milk Marketing Board

11/30/2003
Goal of Economic Regulation of Milk

- Provide a regulatory environment that facilitates a safe, adequate supply of milk; security for dairy farmers and milk dealers; profitability for dairy farmers, milk dealers, and retailers of milk; and the best price possible for consumers within an orderly market.

Milk Marketing Before Government Regulation

AND HOW WOULD YOU LIKE TO PAY FOR THIS TODAY?
Milk Marketing Before Government Regulation

Before federal and state regulatory mechanisms, the milk industry was plagued by:

- unsanitary conditions
- fraud
- defaults and bankruptcies
- inconsistent milk supplies

Characteristics of Milk Production and Marketing

- Inflexible production
  - Continuous daily harvest
  - Production lags due to breeding (22 months for calf to produce milk)
- Seasonal variations in:
  - Milk production
  - Consumption patterns
- Perishability
  - Short refrigerated shelf-life
  - Expensive procedures for extending shelf-life of fluid products or for manufacturing non-fluid or value-added products.
Economic Regulation

- Protection and Price Enhancement for Producers
- Price Strategies for Licensed Processors
- Fair Prices for Retailers
- Great Milk Prices for Consumers

Protection for Producers
Protection for Producers

- **Minimum prices**
  - Cost plus profit
    - Federally regulated
    - State regulated
  - Market conditions
  - Premium pricing
    - Over-order premiums (market influence)
    - Over-price premiums (resale price implication)

11/30/2003

Protection for Producers Cont’d

- **Quick response to market conditions**
  - Out-of-state competition
  - Unusual events
- **Auditing**

11/30/2003
Protection for Producers Cont’d

► Farm pickup procedures
  ▪ Tank calibrations
  ▪ Weigher/Sampler certification
► Bonding
  ▪ Full coverage
  ▪ Security fund
  ▪ Waivers

Price Strategies for Processors

► Wholesale Minimum
  ▪ Cost plus profit
    ► Farm milk cost
    ► Processing, packaging & delivery cost
    ► Cost-based discount structure
► Subdealers
  ▪ Subdealer bonding
► Quick response to market conditions
  ▪ Illegal pricing
  ▪ Unregulated competition
  ▪ Unusual events
► Incentive for the efficient processing of milk
Fair Prices for Retailers

- Cost-based retail price
  - Farm milk cost
  - Processing cost
  - In-store handling cost
- Elimination of price wars that cause backward price pressure and destructive competition
- Incentive for the efficient handling of milk

Great Prices for Consumers

- Surveys establish that the prices our consumers pay for milk are comparable to, or lower than, prices in surrounding markets.
Goal of Economic Regulation of Milk

► Provide a regulatory environment that facilitates a safe, adequate supply of milk; security for dairy farmers and milk dealers; profitability for dairy farmers, milk dealers, and retailers of milk; and the best price possible for consumers within an orderly market.

Results

► Healthful milk products produced by economically viable dairy farmers
► Plentiful supplies of milk in a variety of sizes
► Stable, predictable and fair milk prices
► Competitive consumer milk prices
### PENNSYLVANIA MILK MARKETING BOARD

**OVER-ORDER PREMIUM EFFECT**

**SEPTEMBER 1988 THROUGH OCTOBER 2003**

<table>
<thead>
<tr>
<th>OGO</th>
<th>HEARING CALL</th>
<th>PERIOD</th>
<th>MONTHS</th>
<th>RATE</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-856</td>
<td>DROUGHT</td>
<td>09/01/88 THROUGH 02/28/89</td>
<td>4</td>
<td>$1.00</td>
<td>$10,080,000</td>
</tr>
<tr>
<td>A-857</td>
<td>DROUGHT</td>
<td>03/01/89 THROUGH 08/31/89</td>
<td>6</td>
<td>$1.05</td>
<td>$10,080,000</td>
</tr>
<tr>
<td>A-858</td>
<td>DROUGHT</td>
<td>09/01/89 THROUGH 04/30/90</td>
<td>8</td>
<td>$1.05</td>
<td>$13,440,000</td>
</tr>
<tr>
<td>A-861</td>
<td>DROUGHT</td>
<td>05/01/90 THROUGH 06/30/91</td>
<td>12</td>
<td>$1.05</td>
<td>$23,520,000</td>
</tr>
<tr>
<td>A-865</td>
<td>DROUGHT</td>
<td>07/01/90 THROUGH 06/30/91</td>
<td>14</td>
<td>$1.05</td>
<td>$20,160,000</td>
</tr>
<tr>
<td>A-867</td>
<td>FUEL COST</td>
<td>12/01/90 THROUGH 06/30/92</td>
<td>7</td>
<td>$0.30</td>
<td>$3,360,000</td>
</tr>
<tr>
<td>A-868</td>
<td>DROUGHT</td>
<td>07/01/91 THROUGH 06/30/92</td>
<td>12</td>
<td>$1.05</td>
<td>$20,160,000</td>
</tr>
<tr>
<td>A-869</td>
<td>FUEL COST</td>
<td>02/01/92 THROUGH 06/30/92</td>
<td>5</td>
<td>$0.25</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>A-872</td>
<td>MARKET CONDITIONS</td>
<td>07/01/92 THROUGH 06/30/93</td>
<td>10</td>
<td>$0.80</td>
<td>$15,360,000</td>
</tr>
<tr>
<td>A-877</td>
<td>MARKET CONDITIONS</td>
<td>07/01/93 THROUGH 06/30/93</td>
<td>25</td>
<td>$0.80</td>
<td>$32,000,000</td>
</tr>
<tr>
<td>A-889</td>
<td>MARKET CONDITIONS</td>
<td>09/01/93 THROUGH 07/31/95</td>
<td>25</td>
<td>$0.80</td>
<td>$11,520,000</td>
</tr>
<tr>
<td>A-892</td>
<td>MARKET CONDITIONS</td>
<td>08/01/95 THROUGH 08/31/95</td>
<td>3</td>
<td>$0.50</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>A-899</td>
<td>PRODUCTION COST</td>
<td>09/01/95 THROUGH 08/31/96</td>
<td>10</td>
<td>$1.00</td>
<td>$27,065,000</td>
</tr>
<tr>
<td>A-901</td>
<td>PRODUCTION COST</td>
<td>09/01/96 THROUGH 08/31/97</td>
<td>3</td>
<td>$0.70</td>
<td>$6,998,585</td>
</tr>
<tr>
<td>A-908</td>
<td>PRODUCTION COST</td>
<td>09/01/97 THROUGH 08/31/98</td>
<td>2</td>
<td>$1.40</td>
<td>$17,068,585</td>
</tr>
<tr>
<td>A-909</td>
<td>PRODUCTION COST</td>
<td>09/01/98 THROUGH 08/31/99</td>
<td>4</td>
<td>$1.00</td>
<td>$14,452,953</td>
</tr>
<tr>
<td>A-912</td>
<td>PRODUCTION COST</td>
<td>09/01/99 THROUGH 08/31/00</td>
<td>2</td>
<td>$0.60</td>
<td>$7,642,243</td>
</tr>
<tr>
<td>A-914</td>
<td>PRODUCTION COST</td>
<td>09/01/00 THROUGH 08/31/01</td>
<td>4</td>
<td>$0.50</td>
<td>$11,582,085</td>
</tr>
<tr>
<td>A-915</td>
<td>PRODUCTION COST</td>
<td>09/01/01 THROUGH 08/31/02</td>
<td>2</td>
<td>$0.80</td>
<td>$10,043,528</td>
</tr>
<tr>
<td>A-916</td>
<td>PRODUCTION COST</td>
<td>09/01/02 THROUGH 08/31/03</td>
<td>4</td>
<td>$1.00</td>
<td>$16,782,903</td>
</tr>
<tr>
<td>A-918</td>
<td>PRODUCTION COST</td>
<td>09/01/03 THROUGH 08/31/04</td>
<td>2</td>
<td>$1.50</td>
<td>$20,160,000</td>
</tr>
<tr>
<td>A-920</td>
<td>PRODUCTION COST</td>
<td>09/01/04 THROUGH 08/31/05</td>
<td>2</td>
<td>$1.40</td>
<td>$9,735,634</td>
</tr>
<tr>
<td>A-922</td>
<td>PRODUCTION COST</td>
<td>09/01/05 THROUGH 08/31/06</td>
<td>2</td>
<td>$0.15</td>
<td>$774,968</td>
</tr>
<tr>
<td>A-923</td>
<td>PRODUCTION COST</td>
<td>09/01/06 THROUGH 08/31/07</td>
<td>4</td>
<td>$1.00</td>
<td>$17,920,000</td>
</tr>
<tr>
<td>A-924</td>
<td>PRODUCTION COST</td>
<td>09/01/07 THROUGH 08/31/08</td>
<td>2</td>
<td>$1.25</td>
<td>$11,520,000</td>
</tr>
<tr>
<td>A-925</td>
<td>PRODUCTION COST</td>
<td>09/01/08 THROUGH 08/31/09</td>
<td>2</td>
<td>$1.00</td>
<td>$14,452,953</td>
</tr>
<tr>
<td>A-926</td>
<td>PRODUCTION COST</td>
<td>09/01/09 THROUGH 08/31/10</td>
<td>2</td>
<td>$0.60</td>
<td>$7,642,243</td>
</tr>
<tr>
<td>A-927</td>
<td>PRODUCTION COST</td>
<td>09/01/10 THROUGH 08/31/11</td>
<td>4</td>
<td>$0.50</td>
<td>$11,582,085</td>
</tr>
<tr>
<td>A-928</td>
<td>PRODUCTION COST</td>
<td>09/01/11 THROUGH 08/31/12</td>
<td>4</td>
<td>$0.80</td>
<td>$10,043,528</td>
</tr>
<tr>
<td>A-929</td>
<td>PRODUCTION COST</td>
<td>09/01/12 THROUGH 08/31/13</td>
<td>4</td>
<td>$1.00</td>
<td>$16,782,903</td>
</tr>
<tr>
<td>A-930</td>
<td>PRODUCTION COST</td>
<td>09/01/13 THROUGH 08/31/14</td>
<td>4</td>
<td>$1.50</td>
<td>$20,160,000</td>
</tr>
<tr>
<td>A-931</td>
<td>PRODUCTION COST</td>
<td>09/01/14 THROUGH 08/31/15</td>
<td>4</td>
<td>$1.40</td>
<td>$9,735,634</td>
</tr>
<tr>
<td>A-932</td>
<td>PRODUCTION COST</td>
<td>09/01/15 THROUGH 08/31/16</td>
<td>4</td>
<td>$0.15</td>
<td>$774,968</td>
</tr>
<tr>
<td>A-933</td>
<td>PRODUCTION COST</td>
<td>09/01/16 THROUGH 08/31/17</td>
<td>4</td>
<td>$1.00</td>
<td>$17,920,000</td>
</tr>
</tbody>
</table>

**TOTAL** $316,360,170
The Best Regulation is the one that regulates the other guy and not me!

The Road to Regulation

What do you want to regulate?

Producer Issues:

- Weighing & Sampling Programs
- Minimum Class & Component Pricing
- Auditing for timely and accurate payment
- Bonding
- Over-Order Premiums
**Processor Issues:**
- Licensing Requirements
- Reporting Requirements
- Auditing for Timely and Accurate Payment *(Records located in the state)*
- Bonding Programs
- Over-Order Premiums
- Cost-Based Minimum Wholesale Pricing
- Service Contracting or Tolling

**Retailer Issues:**
- Cost-Based Minimum Retail Pricing
- Service Contracting or Tolling
What it Takes - Legislative Authority

- Scope of program
  - Regulation of the milk industry
  - Hearings
  - Enforcement tools (penalties, subpoenas, entry & inspection, enforcement on entities not licensed)
  - Adoption of Orders
- Licenses
  - Haulers
  - Weigher/Samplers, Testers
  - Milk Dealers (Classification System)
  - Sub-dealers

What it Takes - Legislative Authority Cont’d...

- Pricing Milk
  - Producer Price
  - Wholesale Price (Minimum/Maximum)
  - Retail Price (Minimum/Maximum)
- Budget
  - Funding (General Fund vs. Fees)
- Bureaucracy
  - Staff to implement and maintain program
Cooperative Pricing Strategy

The New England Milk Market
► Several Smaller States
► Relatively Low Production
► Milk Moves Freely Between States
► Key Supply From New York

The Goal
Increase income for New England dairy farmers
Key Elements

► Premium on Class I producer milk sold within the state in each of the states independently
► Where does possession of the producer milk transfer?
► Where was the Class I milk utilized?
  ▪ Home state?
  ▪ Other state with premium?
  ▪ Other state with no premium?

Key Elements

► Regulated producer price
► Regulated wholesale price
► Regulated retail price
► ENFORCEMENT WITH *TEETH*
► *Talented Legal Teem*