

PA Milk Marketing Board  
Carol A. Hardbarger

*About OOP and Minimum Pricing*

One of the most important aspects of my job, in fact it has been a goal, is to increase the amount and types of MMB outreach to our constituents—farmers, processors, retailers and consumers. The articles I write each week for Lancaster Farming help me do that and I enjoy getting feedback from my readers.

My articles often serve to provide facts based on credible research to dispel any myths and disinformation “out there” about various facets of the commonwealth’s unique dairy industry and pricing system.

This week I was surprised to learn that PA Farm Bureau members at their recent annual meeting voted to support elimination of both the over order premium (OOP) and minimum wholesale and retail pricing in Pennsylvania. Based on phone calls and emails received by Board Chair, Rob Barley, and myself, we believe that these decisions were a result of personal concerns of cooperative members related to distribution of the premium by cooperative administration.

We also believe that concerns over OOP are related to milk coming into a processing plant in the northern part of the state from New York.

I wrote an article many months ago titled *Be Careful What You Wish For*, in which I addressed this long-standing issue among some dairy farmers. The current situation requires another presentation of facts about what I and others believe would be the impacts of these policies.

Elimination of the Over Order Premium. The PA over order premium is paid for Class 1 milk that is produced, processed, and sold in Pennsylvania. It is paid at the retail level by the consumer and is built into the minimum wholesale price received by processors. These processors, in turn, pay additional amounts per hundredweight (cwt) to their producers, both independents and cooperatives. The farmer (In this case, the cooperative counts as a single producer.) receives a prorated amount based on the percent of sold milk that is used as Class 1.

As an example, an independent PA farmer with 50 percent of sold milk used as Class 1 at a PA processing plant, and with the milk subsequently sold at a PA retail outlet, would receive 50 percent of the OOP amount adopted by the Board for that time period. Currently, the OOP is set at \$1.00/cwt plus an added fuel adjustment.

The greatest impact I foresee with elimination of the OOP is that many of our independent farms would go out of business. Time after time we hear testimony from organizations and individual farmers that tells us how the OOP is a key part in maintaining stability of income for their members or themselves.

Remember that the average milking herd size in PA is 84 cows and 85 percent of our farms milk fewer than 100 cows. At the end of June 2021, there were 1,047 independent farms reported to

us as having sold milk to processors—641 of those sold to a PA processor, their milk utilized as Class 1 and subsequently sold within PA.

Those 641 farmers received a total of \$2,918,482 in OOP payments for the first six months of this year. Of course, we can't assume all these farms were the same size, but if they are close in size the average payment was \$4,553 or \$759 per month. The OOP payments by cwt paid by PA processors during this period of time ranged from \$0.08 to \$0.93 (Remember, the amount is based on the plant's Class I utilization.).

The Board stands behind the OOP as a valuable addition to the income of Pennsylvania's independent farmers and believes its elimination would seriously impact the chance for many of those farmers to remain in business.

In regard to cooperatives that received PA OOP payments, the six-month premiums paid to them totaled \$3,619,636 and these were distributed to respective members based on individual cooperative policy. The Board has no legal authority to regulate how a cooperative distributes OOP payments or any other income to its members. Changes would have to be made by members, who own the cooperative, or via the legislation route.

We hope that cooperative members realize that elimination of the OOP does not benefit any dairy farmers in Pennsylvania, including them. While cooperative members receive \$0.03/cwt to \$0.06/cwt OOP payments, certainly lower than independent farmers, the resulting loss of substantial income for the cooperatives would lead to increased operations' deductions from member checks.

#### Elimination of Minimum Wholesale and Retail Prices.

I had been hopeful that through communications we had been able to address the statements related to buying milk in another state at a cost substantially lower than milk in PA.

Unfortunately, farmers across the country are going out of business including in states where milk can be bought at much lower prices than in Pennsylvania. People are buying less fluid milk, and this has a tremendous impact on the demand and the price paid for milk. Even with a national trend toward loss of farms, we have lost fewer, by percentage, than the other large dairy states--much of this is directly attributable to Pennsylvania's milk pricing system.

As set forth in the Milk Marketing Law, the Board sets minimum wholesale and retail prices to guarantee that Pennsylvania dairy farmers produce enough milk to meet the demands of consumers. Minimum wholesale prices are based on the average costs to purchase, process, package, and deliver the milk to stores. Minimum retail price is based on the wholesale milk price plus what it costs to handle and sell the milk in stores.

If a store is selling milk for a lot lower than Pennsylvania prices, we know that someone is losing money, most likely the retailer, a practice known as "loss leader pricing." It is used to attract customers into a store with the hope the consumer will buy other products that are sold at much

higher profit margins. On average the retailer's overall margins usually stay the same and the customer often pays similar total amounts for their basket of goods purchased.

I also need to mention that milk is a "non-elastic" commodity as classified by economists—people usually buy what they need, rarely more or less. Milk is also perishable and not able to be stored as other goods might be.

Through producer, wholesale, and retail minimum pricing, the Board supports all levels of the dairy industry. Currently Pennsylvania ranks 4<sup>th</sup> in the nation in the number of dairy processing plants, which provide efficient local markets for our dairy farmers.

In addition, I recently compiled data on the number of employees in each of our licensed dealers' plants. Fluid milk processors in PA employ approximately 5,300 people. If the Milk Marketing Law didn't require minimum pricing, the result would be price wars that could put 50% of Pennsylvania's processors out of business, ultimately harming Pennsylvania dairy farmers including those that are cooperative members.

PMMB is always supportive of valid research and discussion of the facts. We recognize that some Milk Marketing Laws are old and may no longer serve well today's dairy industry; those should be reviewed and revised, a process we have already undertaken. What we do not support are regulation and legislative changes that are not based on sound and solid evidence and that we believe would harm many if not most of our farmers.

I can be reached at 717-210-8244 or by email at [chardbarge@pa.gov](mailto:chardbarge@pa.gov).