

PA Milk Marketing Board
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Another Take on Retail Milk Pricing in PA

Just when I think I have answered the questions about Pennsylvania's retail milk prices enough, I receive another one. This confirms the need for the board and staff to continue its public education programs and commitment to transparency.

The retail price of milk in Pennsylvania is based on the formulas laid out in the board's pricing orders while the requirement to fix minimum prices BY order is contained in the Milk Marketing Law.

Producers receive a minimum price based on Federal Milk Marketing Order (FMMO) prices. Because some Pennsylvania producer milk is not priced by a FMMO, the board calculates the minimum price for that milk using the federally-announced skim and butterfat prices for federally-regulated milk. However, in the commonwealth, all farmers have the benefit of minimum price protections.

Board staff calculate minimum producer prices for each of the six PA Milk Marketing Areas, add the board-approved Over Order Premium (OOP) and publish the information around the 5th of each month. Remember that OOP is based on fluid milk sales (Class 1) only.

Wholesale and retail prices are also calculated on a monthly basis and published around the 23rd. Wholesale prices include the minimum producer prices—which include the OOP—and the costs involved in the processing of the milk and its transportation to the retail outlet. Retail prices include the minimum wholesale prices plus the costs the retailer incurs to cold-store the milk and scan it for sales.

The costs mentioned above are not just submitted by processors and accepted by the board. Once per year, the board holds hearings and we thoroughly examine the actual and documented costs associated with every aspect of purchasing, processing, and transporting milk and these figures are used in the calculation of minimum prices each month.

Unfortunately, there appears to be a misconception floating around out there that because PA exports 60 to 70 percent of its milk that there is a shortage of milk to drink in the commonwealth and that is what is driving up the prices at the retail level. Nothing could be further from the truth!

The argument has always been that milk is cheaper in surrounding states, so why would a processor deliberately sell milk outside PA at lower prices just to drive up retail prices of milk inside the state? That argument doesn't hold water, as they say.

A few years ago we prepared a document for the PA House Agriculture and Rural Affairs Committee that outlined what amount of the retail price of a gallon of milk goes to whom. I thought it would be a good idea to calculate those figures again for this column, using today's

gallon price for Area 4. These figures are based on the items I addressed above: cost of producer milk as paid by processor, addition of OOP, cost to process and transport the milk, and the cost to cold-store and scan the milk for sales, and are taken from our published information.

If a gallon of milk costs \$4.66, 19.64 percent (\$0.9150) goes to the retail outlet; 30.22 percent (\$1.4084) goes to the processor, which includes the cost of the container; and 50.14 percent (\$2.3366) goes to the producer. These figures represent where the consumer purchase money goes if the milk is sold at the minimum price. Keep in mind that stores can sell above the minimum price and the Milk Marketing Board has not chosen to set maximum prices at this time.

And forgive me for breaking conventions of decimal usage, but I wanted the figures to reflect the accuracy of our calculations.

Purchasing a gallon of milk in PA means that the consumer is paying the price of purchasing the milk, its processing and transportation to a store, and the storage and scan at the retail outlet. Anything beyond the minimum price is not set by the board.

Using the example from above, the costs to purchase the milk, and process and transport it for retail sales is \$3.7450; there is no waste reflected in that amount or gross over-profit to anyone, farmer or processor. As for the retailer keeping \$0.9150, the store has electric and labor costs associated with storing and offering the milk for sales.

Having illustrated what are the actual costs associated with a gallon of milk in PA, we assume that these costs do not vary a great deal from state to state. Therefore, if a retail outlet is selling below the PA minimum price, it is losing money on the sales, a “loss leader” if you will, and is betting that the consumer will make up the difference in other purchases. Another scenario would be that the processor is funding the loss by agreeing to sell to the retailer below its cost.

I hope that this discussion sheds some additional light on the cost of buying milk in Pennsylvania. If the board would do away with minimum pricing, we believe (as do several academics that have researched the matter) that many small farms and family-owned processors would go out of business. This is not what the board or I think is in the best interests of the dairy industry in our state.

PMMB is always available to respond to questions and concerns. I can be reached at 717-210-8244 or by email at chardbarge@pa.gov.