

PA Milk Marketing Board  
Carol A. Hardbarger and Doug Eberly

### *Distribution of the Over Order Premium*

Questions about Pennsylvania's Over Order Premium (OOP) comprise about one-half of all the questions the Board and Staff receive, usually accompanied by additional questions about cooperatives' distribution of the premium. As I have stated many times, the Board has no authority under the Milk Marketing Law to tell cooperatives how to distribute any revenues they receive, including the OOP. I am, consequently, going to address OOP distribution from the perspective of independent processors.

The OOP, first implemented in 1988 as a response to drought conditions, is an amount paid to PA dairy farmers over the federal milk order price. It is calculated at the retail level as part of the minimum retail price and is paid to the milk processors as part of the minimum wholesale price—Processors then carefully calculate the amount of premium to be paid to farmers.

The OOP is paid on Class I milk that is produced, processed and sold in PA (what is referred to as a plant's Class I PA utilization). If a plant buys all its milk from PA farmers and sells all its packaged milk in PA, its Class I PA utilization is 100%; a plant's Class I PA utilization decreases if milk is bought from out of state farmers or if its packaged milk is sold outside PA. OOP is not paid on milk that is utilized to make ice cream, butter or other manufactured products.

It is important to note that only about 20 percent of PA-produced fluid milk is utilized as Class I within the state, automatically reducing the positive impact of the OOP. The other 80 percent is either manufactured into various dairy products or transported out-of-state.

To illustrate how these facts impact the individual farmer, I will use the April OOP established by the Board of \$1.10 per hundredweight (cwt), which includes a \$0.10 fuel adjuster premium.

- Farm ABC shipped 1800 cwt in April. The receiving plant's Class I PA utilization was 100% because all its milk was purchased from PA farmers and all its packaged milk was sold in PA – all of Farm ABC's milk was produced, processed and sold in PA. Farm ABC would receive an OOP of \$1,980.00.
- Farm XYZ shipped 1800 cwt in April. Ninety percent of the receiving plant's utilization was Class I, and all was produced, processed and sold in PA. Farm XYZ would receive an OOP of \$1620.00.
- Farm 123 also shipped 1800 cwt in April, with 90 percent of the receiving plant's utilization as Class I. It was all produced and processed in PA but was all sold out-of-state. Farm 123 would receive no OOP.

Board staff audit milk processors every month to ensure that the OOP is being paid accurately and appropriately to farmers.

Consumers can be sure that the maximum amount of OOP possible is being paid to PA dairy farmers by purchasing locally sourced and PA Preferred products. A PA Preferred logo or other markings on a container of milk is a guarantee to the consumer that the milk is produced, processed and sold in Pennsylvania, entitling the milk producers to an OOP.

I am happy to learn from recent news bulletins that whole and 2 percent milk consumption have increased in Pennsylvania! It also appears that the trend may be ongoing for a while so buying PA products will only help our farmers and keep dairy as our most important agriculture sector.

PMMB is always available to address concerns and questions. I can be reached at 717-210-8244 or by email at [chardbarga@pa.gov](mailto:chardbarga@pa.gov).