



Commonwealth of Pennsylvania  
Milk Marketing Board

CHAIRMAN

2301 North Cameron Street  
Harrisburg, Pennsylvania 17110-9408  
717-787-4194

July 10, 2013

The Honorable John A. Lawrence  
Commonwealth of Pennsylvania  
House of Representatives  
PO Box 202013  
Harrisburg, PA 17120-2013

Dear Representative Lawrence,

Thank you for your continued interest in Pennsylvania's dairy industry and the Milk Marketing Board's role. We have compiled more detailed information for you based on your May 6, 2013, requests.

You requested information regarding retail transactions, wholesale transactions, and Pennsylvania's milk production.

Retail transactions and the over-order premium

You asked for information regarding retail sales and the over-order premium. The Board does not have data relative to retail-level transactions, so we cannot tell you either the dollar amount of over-order premiums paid at retail or the volume of Class I milk sold at retail.

The Milk Marketing Law was amended effective January 1, 1985. One of the changes to the Law at that time removed stores from the definition of "milk dealer." With the exception of those stores that were licensed as milk dealers on January 1, 1985, the Board cannot now license stores as milk dealers. Since stores are not licensed as milk dealers, they are not required to file reports, so the Board does not collect retail-level milk sales data.

Wholesale transactions and the over-order premium

You asked for information regarding the total dollar amount of the over-order premium collected at the wholesale level, the total volume of Class I packaged milk sold at the wholesale level in Pennsylvania, and the total dollar amount of the over-order premium paid to producers.

The Board licenses milk dealers that sell packaged milk in Pennsylvania. Milk dealers are required to file reports with the Board regarding their packaged milk sales in Pennsylvania and their payments to Pennsylvania producers. The table below summarizes the data we have collected through the required reporting. The table shows the over-order premium rate (base over-order

premium plus variable fuel adjuster), the volume (expressed as pounds) of Class I packaged milk sold in Pennsylvania by all licensed milk dealers, the dollar amount of over-order premium collected on those sales, and the dollar amount of over-order premium paid to Pennsylvania producers.

Month	Over-Order Premium Rate	Pounds of Milk Sold in Pennsylvania by all Dealers	Total Over-Order Premium Dollars Collected	Total Over-Order Premium Dollars Paid to PA Producers
January 2012	\$2.95	163,804,919	\$4,832,245	\$3,744,703
February	\$2.92	159,103,596	\$4,645,825	\$3,474,477
March	\$2.95	169,754,230	\$5,007,750	\$3,746,992
April	\$2.98	157,922,868	\$4,706,101	\$3,498,751
May	\$3.01	161,499,889	\$4,861,147	\$3,692,694
June	\$3.01	148,590,349	\$4,472,570	\$3,282,074
July	\$2.98	151,730,155	\$4,521,559	\$3,296,556
August	\$2.89	159,262,666	\$4,602,691	\$3,396,477
September	\$2.69	157,170,927	\$4,227,898	\$3,080,966
October	\$2.75	174,515,252	\$4,799,169	\$3,556,836
November	\$2.78	164,457,329	\$4,571,914	\$3,455,977
December	\$2.78	170,506,237	\$4,740,073	\$3,430,160
January 2013	\$2.63	164,671,886	\$4,330,871	\$3,178,449
February	\$2.63	151,774,021	\$3,991,657	\$2,958,426
March	\$2.60	147,199,701	\$3,827,192	\$3,096,090
April	\$2.71	142,482,614	\$3,861,279	\$3,232,316
May	\$2.68	148,026,051	\$3,967,098	\$1,969,156

Total 2,692,472,690 \$75,967,038 \$56,091,100

It is critically important to understand what information is represented by the “over-order premium dollars paid to Pennsylvania producers” column. These are mandated payments made by Pennsylvania dealers to Pennsylvania producers and reported by the dealers as part of the minimum payment due to the Pennsylvania producers. This is not the only amount paid to producers from the money collected by milk dealers and represented in the “over-order premium dollars collected” column. Other voluntary premium payments are also paid by milk dealers to producers.

The difference between the “total over-order premium dollars collected” at wholesale column and the “total over-order premium dollars paid to Pennsylvania producers” column is attributable to two factors. First, out-of-state milk dealers selling packaged milk in Pennsylvania collect over-order premium in the mandated minimum wholesale price, but those out-of-state dealers are not required to pay that money to producers. Second, in-state milk dealers that purchase milk from out-of-state producers are not required to pay any over-order premium to those out-of-state producers. Both the out-of-state milk dealers and the in-state milk dealers that are not required to pay a mandated over-order premium do pay voluntary premiums above the applicable federal order price. Since those payments to producers are not mandated, they are not included in the table above.

In 2010 the Board issued an order changing the over-order premium calculation to require that in-state milk dealers with purchases from out-of-state producers pay as a part of their mandated-minimum payment more of the over-order premium dollars collected at wholesale to the in-state producers from which they purchase milk. In other words, some of the over-order premium dollars collected at wholesale that were not mandated be paid to any producer would have been mandated to be paid to Pennsylvania producers. That order was never implemented as it was the subject of a successful federal court challenge brought by two out-of-state producers who sold their milk to Pennsylvania milk dealers. The Commerce Clause of the United States Constitution prevented the Board from making that change.

In addition to a wholesale transaction between a Pennsylvania-licensed milk dealer and its customer, Class I packaged milk is brought into Pennsylvania by both importing retailers and importing subdealers, neither of which are required by the Milk Marketing Law to file reports with the Board.

Importing retailers are stores that purchase packaged milk outside Pennsylvania and then import the milk into Pennsylvania to sell at their stores. Typically retailers purchase the milk at central distribution centers for retail sale in multiple states. The wholesale transaction between the milk dealer and the retailer occurs outside Pennsylvania, so it is not subject to Board-mandated minimum wholesale prices. As noted above, retailers are not required to file reports with the Board. Therefore, we do not collect information regarding the volumes of milk imported by stores into Pennsylvania, and while the packaged milk that is sold in Pennsylvania is subject to Board-mandated minimum retail prices it is not subject to Board-mandated minimum wholesale prices and is not included in the table above, even though it may have been sold to the importing retailer by a Pennsylvania milk dealer.

A subdealer is an entity other than a store that purchases packaged milk from a dealer and then delivers and sells the milk to customers in the same containers as those in which it was purchased. Importing subdealers purchase packaged milk out-of-state and then re-sell that packaged milk in Pennsylvania. The wholesale transaction in Pennsylvania between an importing subdealer and its customer is subject to Pennsylvania-mandated minimum wholesale prices, including the over-order premium. However, since the Law does not require importing subdealers to file reports with the Board, we have no information regarding the volume of these transactions or the dollar amount of over-order premium collected in these transactions.

It is also important to note that going forward the dollar amounts in the table above will be somewhat lower because the over-order premium was reduced effective July 1, 2013. The base over-order premium was reduced to \$1.60 per hundredweight while the fuel adjuster was re-set to \$0.25 per hundredweight, for a total over-order premium of \$1.85 per hundredweight for July 2013.

You also requested dealer-specific information regarding wholesale-level over-order premiums, volumes of Class I packaged milk, and over-order premiums paid to producers. The Milk Marketing Law prohibits the Board from disclosing dealer-specific information and we trust you understand that we are required to comply with the Law in that regard.

#### Milk produced by Pennsylvania dairy farmers

You requested information regarding milk produced by Pennsylvania dairy farmers and how that milk is utilized. The table below summarizes monthly Pennsylvania milk production. Milk dealers,

whether located in Pennsylvania or out-of-state, purchasing milk from Pennsylvania producers report those purchases to the Board.

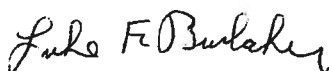
Month	Agricultural Statistics Service Projected Pounds	Milk Marketing Board Reported Pounds	Difference - pounds	Difference - %
January 2012	896,000,000	867,227,362	28,772,638	3.32%
February	849,000,000	832,667,317	16,332,683	1.96%
March	923,000,000	910,239,028	12,760,972	1.40%
April	904,000,000	891,907,980	12,092,020	1.36%
May	919,000,000	896,413,468	22,586,532	2.52%
June	861,000,000	844,707,209	16,292,791	1.93%
July	867,000,000	838,177,419	28,822,581	3.44%
August	869,000,000	838,441,575	30,558,425	3.64%
September	831,000,000	795,347,447	35,652,553	4.48%
October	869,000,000	834,855,341	34,144,659	4.09%
November	853,000,000	817,939,063	35,060,937	4.29%
December	894,000,000	870,261,988	23,738,012	2.73%
January 2013	904,000,000	889,141,030	14,858,970	1.67%
February	833,000,000	828,580,988	4,419,012	0.53%
March	926,000,000	917,027,886	8,972,114	0.98%
April	904,000,000	901,770,421	2,229,579	0.25%

Pennsylvania milk dealers report to the Board the class utilization of their producer purchases. Out-of-state milk dealers do not report their class utilization to the Board because the Board cannot enforce mandated over-order premium payments by out-of-state dealers. For the period January 2012 through March 2013, the utilization of Pennsylvania milk dealers purchasing Pennsylvania producer milk was 38.4% Class I, 18.7% Class II, 24.1% Class III, and 18.8% Class IV.

Once again, the Board thanks you for your continuing interest in the Pennsylvania milk industry. We appreciate your efforts in working to understand the economics of milk marketing and the role the Board plays in maintaining a regulatory environment that allows all segments of the dairy industry the opportunity to be successful for the benefit of all of Pennsylvania's citizens.

Please contact us with additional questions or if you require further explanation or clarification regarding the information we have already provided.

Sincerely,



Luke F. Brubaker  
Chairman

c: Honorable John A. Maher