

11/30/2003

# The Economic Regulation of Milk

University of Connecticut  
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## Protecting the Milk Industry Through Regulation

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## 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.

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## Milk Marketing Before Government Regulation



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# 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

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# 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.

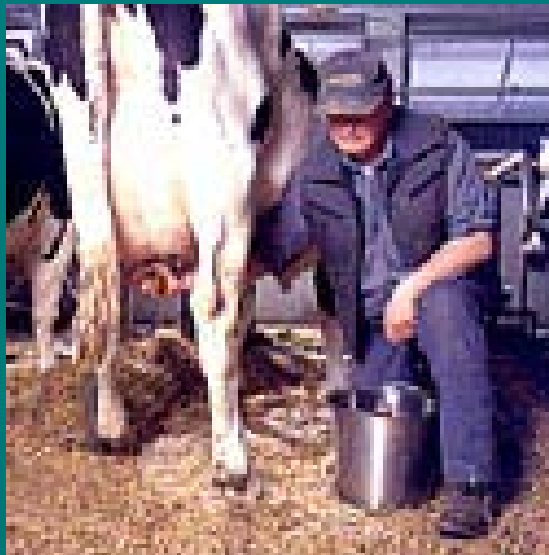
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# Economic Regulation

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

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# Protection for Producers



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# 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)

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# Protection for Producers Cont'd

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



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## Protection for Producers Cont'd

- ▶ Farm pickup procedures
  - Tank calibrations
  - Weigher/Sampler certification
- ▶ Bonding
  - Full coverage
  - Security fund
  - Waivers



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## 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

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## 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

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## Great Prices for Consumers

- ▶ Surveys establish that the prices our consumers pay for milk are comparable to, or lower than, prices in surrounding markets.

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## Goal of Economic Regulation of Milk

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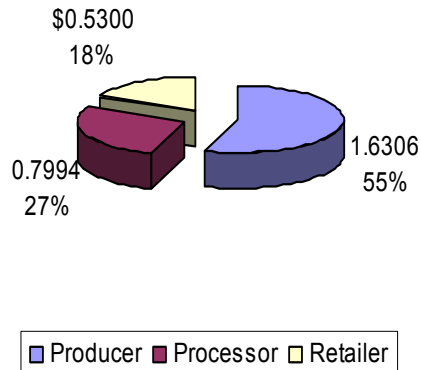
## Results

- ▶ 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

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## Area 2 Standard Milk - November 2003



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## PENNSYLVANIA MILK MARKETING BOARD OVER-ORDER PREMIUM EFFECT SEPTEMBER 1988 THROUGH OCTOBER 2003

OGO	HEARING CALL	PERIOD	MONTHS	RATE	AMOUNT
A-856	DROUGHT	09/01/88 THROUGH 02/28/89	6	\$1.05	\$10,080,000
A-857	DROUGHT	03/01/89 THROUGH 08/31/89	6	\$1.05	\$10,080,000
A-861	DROUGHT	09/01/89 THROUGH 04/30/90	8	\$1.05	\$13,440,000
A-865	DROUGHT	05/01/90 THROUGH 06/30/91	14	\$1.05	\$23,520,000
A-867	FUEL COST	12/01/90 THROUGH 06/30/91	7	\$0.30	\$3,360,000
A-868	DROUGHT	07/01/91 THROUGH 06/30/92	12	\$1.05	\$20,160,000
A-869	FUEL COST	02/01/92 THROUGH 06/30/92	5	\$0.25	\$2,000,000
A-872	MARKET CONDITIONS	07/01/92 THROUGH 06/30/93	12	\$0.80	\$15,360,000
A-877	MARKET CONDITIONS	07/01/93 THROUGH 07/31/95	25	\$0.80	\$32,000,000
A-889	MARKET CONDITIONS	08/01/95 THROUGH 08/31/95	1	\$0.70	\$1,120,000
A-889	MARKET CONDITIONS	09/01/95 THROUGH 12/31/95	4	\$0.60	\$3,840,000
A-892	MARKET CONDITIONS	01/01/96 THROUGH 10/31/96	10	\$0.50	\$8,000,000
A-893	PRODUCTION COST	11/01/96 THROUGH 10/31/97	12	\$0.80	\$15,360,000
A-895	PRODUCTION COST	11/01/97 THROUGH 04/30/98	6	\$1.20	\$11,520,000
A-897	PRODUCTION COST	05/01/98 THROUGH 10/31/98	6	\$0.80	\$7,680,000
A-898	PRODUCTION COST	11/01/98 THROUGH 04/30/99	6	\$0.50	\$5,446,760
A-901	PRODUCTION COST	05/01/99 THROUGH 05/31/99	1	\$1.45	\$2,408,440
A-901	PRODUCTION COST	06/01/99 THROUGH 06/30/99	1	\$1.26	\$1,950,895
A-901	PRODUCTION COST	07/01/99 THROUGH 07/31/99	1	\$1.81	\$2,978,083
A-901	PRODUCTION COST	08/01/99 THROUGH 08/31/99	1	\$1.65	\$2,693,176
A-904	PRODUCTION COST	09/01/99 THROUGH 09/30/99	1	\$0.40	\$674,101
A-905	PRODUCTION COST	10/01/99 THROUGH 12/31/99	3	\$0.40	\$2,123,243
A-906	PRODUCTION COST	01/01/00 THROUGH 06/30/00	6	\$1.20	\$12,496,328
A-909	PRODUCTION COST	07/01/00 THROUGH 10/31/00	4	\$1.00	\$6,998,585
A-908	FUEL COST	04/01/00 THROUGH 01/31/02	22	\$0.25	\$9,593,287
A-909	PRODUCTION COSTS	11/01/00 THROUGH 12/31/00	2	\$1.20	\$4,359,048
A-912	PRODUCTION COSTS	01/01/01 THROUGH 06/30/01	6	\$1.40	\$14,320,611
A-914	PRODUCTION COSTS	07/01/01 THROUGH 10/31/01	4	\$1.10	\$7,714,654
A-914	PRODUCTION COSTS	11/01/01 THROUGH 01/31/02	3	\$1.40	\$7,581,603
A-915	ADVERSE CONDITIONS	02/01/02 THROUGH 06/30/02	5	\$1.65	\$13,624,951
A-916	ADVERSE CONDITIONS	07/01/02 THROUGH 12/31/02	6	\$1.65	\$16,782,903
A-918	ADVERSE CONDITIONS	01/01/03 THROUGH 02/28/03	2	\$1.50	\$5,183,941
A-920	ADVERSE CONDITIONS	03/01/03 THROUGH 06/30/03	4	\$1.40	\$9,735,634
A-922	INCREASED FUEL COST	04/01/03 THROUGH 06/30/03	3	\$0.15	\$774,968
A-923	MARKET CONDITIONS	07/01/03 THROUGH 10/31/03	4	\$1.65	\$11,398,959
TOTAL					\$316,360,170

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***THE BEST  
REGULATION IS THE  
ONE THAT  
REGULATES THE  
OTHER GUY AND  
NOT ME!***

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## 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

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## ► 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

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## ► Retailer Issues:

- Cost-Based Minimum Retail Pricing
- Service Contracting or Tolling

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## 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

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## 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

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## Cooperative Pricing Strategy

### The New England Milk Market

- ▶ Several Smaller States
- ▶ Relatively Low Production
- ▶ Milk Moves Freely Between States
- ▶ Key Supply From New York

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## The Goal

Increase income for  
New England dairy  
farmers

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## Key Elements

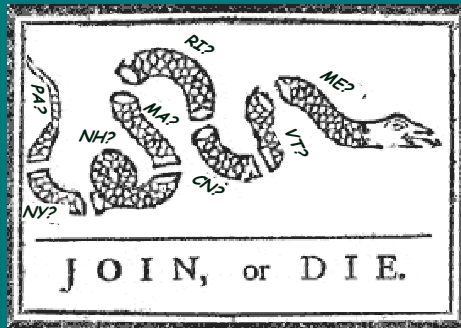
- ▶ Premium on Class I producer milk sold within the state in each of the states independently
- ▶ Where does possession of the producer milk transfer?
- ▶ Where was the Class I milk utilized?
  - Home state?
  - Other state with premium?
  - Other state with no premium?

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## Key Elements

- ▶ Regulated producer price
- ▶ Regulated wholesale price
- ▶ Regulated retail price
- ▶ ENFORCEMENT WITH ***TEETH***
- ▶ ***Talented Legal Team***

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