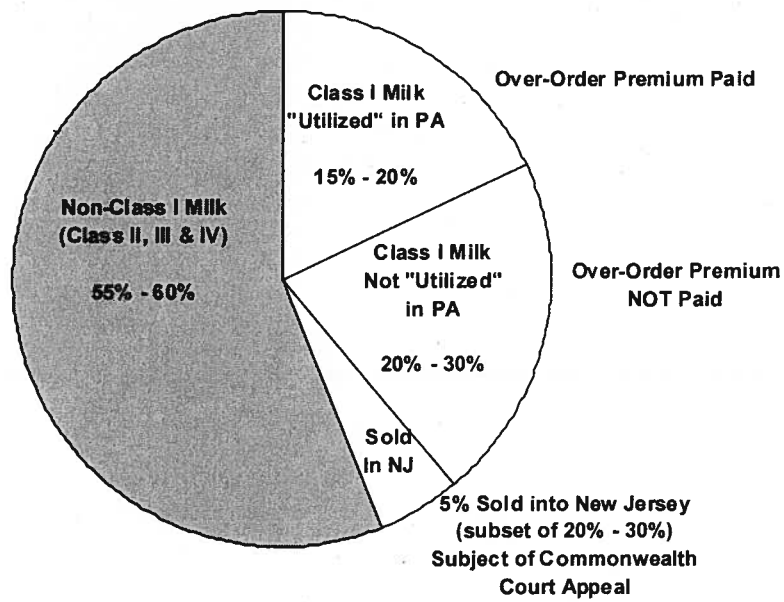


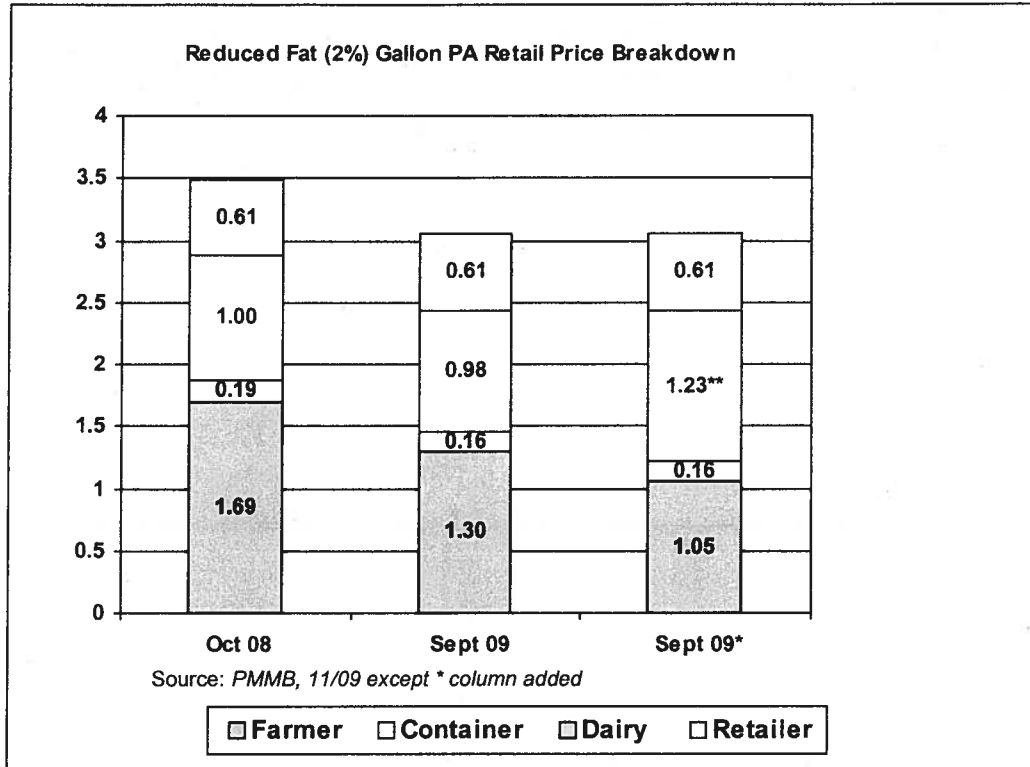
Testimony
Russell C. Redding, Secretary
Pennsylvania Department of Agriculture
Senate Agriculture & Rural Affairs Committee
June 29, 2010
SUPPLEMENTAL EXHIBITS

Figure 1 - All PA-Produced Milk
Approximation of Utilization Breakdown



"Utilized" = Produced, processed and sold (at wholesale) in PA

Figure 2 – Reduced Fat (2%) Gallon PA Retail Price Breakdown



* Reflects potential breakdown if the Over-Order Premium is not paid to PA producer.

** The \$.25 shift from farmer to milk dealer is the portion of the minimum retail price which represents the pass-through of the Over-Order Premium. In a transaction where PA-produced milk has left and later re-enters Pennsylvania, the full \$.25 may be retained by the milk dealer and lost by the dairy producer. The allowed milk dealer profit margin under Milk Marketing Law calculations performed by PMMB is approximately \$.09 per gallon.

Figure 3 – COVERAGE

WHAT Class I milk is covered?

Produced + Processed + Sold

Distribution Chain:

FARM -> PLANT -> WHOLESALE -> RETAIL

Notes:

- Must be "Produced, Processed + Sold at Wholesale in PA"
- No PMMB licensing, reporting, or auditing of Retail sales in PA
- PMMB data stops at Wholesale
- Any "break in the chain" prior to PA retail sale = \$.25 per gallon is not owed to the producer = "stranded premium"
- Where does the chain break?
 - 1#: PA-produced milk picked up at PA farm, delivered to out of state plant; re-enters PA at wholesale or for retail sale
 - 2#: PA-produced and PA-processed milk sold at wholesale out of state; re-enters PA for retail sale

FIGURE 4 – COVERAGE (cont.) WHAT Class I milk is covered?

<u>FARM</u>	<u>PLANT</u>	<u>WHOLESALE</u>	<u>RETAIL</u>
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Premium obligation exists:

PA	PA	PA	PA
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Stranded premium:

Premium obligation does not exist presently, yet PA consumer pays \$.25/gallon

PA	Out-of-State	Out-of-state	PA (#1)
PA	Out-of-State	PA	PA (#1)
PA	PA	Out-of-state	PA (#2)

Potentially "unreachable" transaction where PA consumer pays \$.25/gallon

Out-of-State	OOS /PA	OOS/PA	PA
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FIGURE 6 – COVERAGE (cont.) WHAT Class I milk is covered?

What are the numbers?

PMMB records show:

- Total Class I wholesale sales were 2,011,041,829 lbs in 2008
- The over-order premium was paid on 1,596,956,419 lbs in 2008

2,011,041,829 lbs sold at minimum wholesale
-1,596,956,419 lbs upon which over-order premium paid

414,085,410 lbs of milk = "stranded premium"

(equates to potentially 20% of all Class I sales)

- Based on \$3.00 cwt over-order premium, based on the volume of 1,596,956,419 lbs:

\$48,000,000 – generated by over-order premium in 2008

- Based on \$3.00 cwt over-order premium, based on the volume of 414,085,410 lbs:

\$12,000,000 – lost via the "stranded premium"

(equates to + 25% of current over-order premium dollars)

- 414,085,410 lbs / \$12,000,000 is made up of two things:
 - PA-produced milk where "chain is broken"
 - Potentially "unreachable" purely "out-of-state" milk

FIGURE 7 – COLLECTION

WHERE is the over-order premium obligation assessed and collected?

1. Current model: From Processor to Producer

FARM	->	PLANT	->	WHOLESALE	->	RETAIL
Producer	<-	<i>over-order premium obligation</i>	<-	<i>\$.25 min. wholesale price</i>	<-	<i>\$.25 min. retail price</i>

Others Options:

2. Assess at **WHOLESALE**: Processor pays to PMMB based upon volume of wholesale sales; premium fund administered by PMMB.
3. Assess at **RETAIL**: Retailer pays to PMMB based upon volume of retail sales; premium fund administered by PMMB.

FIGURE 8 – DISTRIBUTION

WHO receives distribution of the over-order premium?

1. Current model: paid to only Class I Producers
 - Logic: The mandated premium obligation can be recouped by processors in the establishment of a minimum wholesale/retail price system for Class I milk. The sale of Class I milk "generates" the consumer dollars which fund the premium.

Others Options:

2. Pooling: Paid to all Producers through a "pooling" of all consumer dollars generated through minimum wholesale/retail pricing of Class I milk.
 - Logic: Otherwise, the majority of PA-produced milk never qualifies.

Figure 1 - All PA-Produced Milk
Approximation of Utilization Breakdown

