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CONSIDERATION OF THE COMPLEXITIES INVOLVED IN MILD DISTRIBUTION AND PRICING FROM THE FARM TO THE CONSUMER

HEARING

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

SPECIAL HEARING

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MONDAY, MAY 14, 2001

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURE, RURAL
DEVELOPMENT, AND RELATED AGENCIES,
COMMITTEE ON APPROPRIATIONS,
Philadelphia, PA.

The subcommittee met at 8:50 a.m., in the James Byrne Federal Building, Ceremonial Courtroom, 6th and Market Streets, Philadelphia, Pennsylvania, Hon. Arlen Specter presiding.

Present: Senator Specter.

STATEMENT OF DR. NEILSON CONKLIN, DIRECTOR OF MARKET AND TRADE ECONOMICS, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE

OPENING STATEMENT OF SENATOR ARLEN SPECTER

Senator SPECTER. Good morning, ladies and gentlemen. The hearing of the Agriculture Subcommittee of the Senate Appropriations Committee will now proceed.

Today we are going to examine the issue of pricing of milk. There have been wide fluctuations in the price paid to farmers, with the hundredweight price dropping from more than $16 a hundred weight to less than $10 a hundredweight. At the same time, the price of milk to the consumers has gone up, something that I can attest to personally. At a time when the farmers were getting much less, I was paying $2.29 for a half gallon, instead of $1.95. These questions have led the subcommittee to seek this hearing. And we're going to be focusing on these pricing arrangements. Senator Thad Cochran, chairman, has requested that the hearing record will remain open to timely manner—in a timely manner so that additional statements or questions can be submitted by other subcommittee members.

The issue at hand came into sharp focus in January of 1999 when the price per hundredweight was $16.27, and a month later it was slightly above $10. At the approximate same time, from March 1999 to April 1999, the farm price fell 48 cents a gallon, and the retail price fell only 29 cents a gallon. We will have experts here from the United States Department of Agriculture, which has noted that the transmission studies show that farm prices—when farm prices go up, the transmission factor is much more rapid, reflecting those changes in the retail price than when the price goes

down. In the studies of the General Accounting Office have shown that the change at the farm levels is not necessarily change at the retail level. The price spread has been increasing, because when farm prices are trending down, the retail prices are constant or actually increase.

This is obviously a major problem for the Commonwealth of Pennsylvania where agriculture is the largest industry and dairy is the single largest component of agriculture. Pennsylvania is the fourth-largest dairy producer in the nation. There are approximately 9,900 dairy farms which produce $1.73 billion worth of milk a year. Over the past decade, Pennsylvania's lost an average of three to five hundred farms per year. And this is a national problem as well, which warrants concern by the United States Senate, by the Congress, and especially concern by a senator representing the Commonwealth of Pennsylvania.

As I think most of you know at this point, President Bush is going to be visiting in Philadelphia today, which has required us to advance the hearing and also to condense the hearing. I must leave here shortly after 10:00 to be with the president, so we're going to call all the witnesses in a single panel. If you'd all come forward—Dr. Neil Conklin, Mr. Robert Robinson, Mr. Arden Tewksbury, Mr. Luke Brubaker, Mr. David McCorkle, and Mr. Earl Fink—and our time alloted for each witness is going to be at five minutes, which is in accordance with the committee practice. The green light will go at the beginning, and the red light will go on at the end.

Our first witness is Dr. Neil Conklin, who serves as director of the market and trade economics division of the Department of Agriculture, Economic Research Service. Dr. Conklin holds a Masters Degree in agricultural economics from the University of Wyoming and a Bachelor of Arts in history from Castleton State College in Vermont. Dr. Conklin, thank you for joining us. Thank you for the information you have given us in advance of this hearing. The floor is yours.

STATEMENT OF DR. CONKLIN

Dr. CONKLIN. Good morning, Senator Specter. Thank you. The Department of Agriculture appreciates your invitation to discuss retail dairy prices. I will make a brief statement focusing specifically on the issue of retail prices, but I have provided a more complete picture of the current dairy situation for the record.

Farm-level milk prices declined through 1999 and much of 2000, as you noted. The blend price, on average for the United States, fell from almost $17 a hundredweight in January of 1999 to a low of $11.48 in February 2000. Thanks to strong butter and cheese demand, farm milk prices are now rising. The average blend price in March was $13.64 per hundredweight compared to a price of $11.63 at the same time last year. Blend prices for Pennsylvania have shown a similar trend.

Retail dairy prices do not follow farm-level prices on a one-for-one basis. This is a point on which even economists agree. There is no reason to expect retail prices to follow farm prices exactly since marketing costs, including energy, packaging, and labor, also affect retail prices and margins. Retail prices for fluid milk as

measured by the Bureau of Labor Statistics, were at the same level this March, as they were in January of 1999. Over the last 2 years, retail prices have fluctuated upward and downward, but they have not declined or risen in step with farm prices. As a result, the farm-to-retail spread has widened.

The Economic Research Service measures the farm-to-retail spread nationally using a market basket of dairy products. Between January 1999 and March 2001, this spread rose by almost nine percent, a bit faster than the overall rate of inflation over this period. Research conducted at USDA and elsewhere has examined, in some detail, the behavior of farm-to-retail price spreads.

Let me briefly summarize the findings of studies—these studies at USDA and elsewhere. First, retail price changes for fluid milk lag behind farm price changes. Second, retail price changes are asymmetric. That is, retail prices respond more rapidly to an increase in farm prices than they do to a decline in farm prices. For example, a 1994 USDA study indicated that a $1 per hundredweight increase in farm prices would lead to a $1.04 increase in retail prices within two quarters. A comparable decline in farm prices would lead to a retail price adjustment of only 59 cents during the same two quarter period.

Senator SPECTER. The first thing here was what again——

Dr. CONKLIN. A dollar and four cents, Senator. Why this asymmetry in retail price behavior? Economists have cited several factors: one, operation of the Federal price support system. Retailers might expect that price declines would be temporary if prices fell to a point where the Federal support system kicked in. This was hypothesized as an important factor several years ago when Federal support prices were higher than they are today—other factors include: consumer insensitivity to changes in the milk price at retail, retailer resistance to price changes, changes in marketing costs, and finally market power.

These factors are undoubtedly all important, but their importance varies over time and across markets. While price spreads do rise and fall as farm and retail prices change, their long-term trend has been upward. This is consistent with the observation that price adjustments between farm and retail level are asymmetrical. Over the two decades from 1980 to 1999, the spread for fluid milk in the United States has doubled, rising from about 49 cents per half gallon to $1.03 per half gallon.

Senator SPECTER. Dr. Conklin, your time has expired. I'm sorry.

Dr. CONKLIN. That concludes my remarks.

PREPARED STATEMENT

Senator SPECTER. Your full statement will be made a part of the record. If you care to summarize the balance, you're welcome to take another minute.

Dr. CONKLIN. That did conclude my remarks, Senator. I was right at the end.

Senator SPECTER. Okay, thank you very much, Dr. Conklin.

[The statement follows:]

PREPARED STATEMENT OF DR. NEILSON CONKLIN

Mr. Chairman and Members of the Committee, the Department of Agriculture appreciates your invitation to discuss the impact of dairy policy and programs on producers, processors, and consumers. I will start with a brief overview of the economic situation in dairy markets. This description provides the context in which dairy policy will operate in the future. I will then review the performance of the major Federal programs operating today: the milk price support program, emergency market loss assistance programs, and the Dairy Export Incentive Program (DEIP). Three issues of current interest: dairy compacts, concentrated milk proteins, and retail prices are then discussed.

CONDITIONS AND PROSPECTS FOR THE U.S. DAIRY INDUSTRY

The Federal Agriculture Improvement and Reform Act of 1996 was passed during a year when farm milk prices were much higher than in the early 1990's. Since then, milk prices have been quite volatile but also rather strong most of the time. Demand, fueled by strong economic expansion, has grown rapidly, particularly during 1998–2000. When milk production grew particularly fast (like 1997 or 2000), prices fell to levels similar to the early 1990's, as production growth out-stripped demand increases. However, when milk output slowed or slipped, prices quickly shot to very high levels (like 1998,1999, and probably 2001).

In 1996 and 1997, milk-feed price ratios did not favor normal increases in concentrate feeding and milk per cow. However, the incentive to boost milk per cow since then has been strong, sometimes very strong, and milk per cow has generally grown rapidly. When milk per cow has faltered (like recently), weakness was generally caused by forage or weather problems. Modern dairy feeding has become increasingly dependent on top quality forage, and such supplies were very tight in 1997, 1998, and recently.

Changes in milk cow numbers represent a tug-of-war between the dairy farmers who are expanding their farms or building new ones (mostly large farms with highly specialized division of responsibilities) and dairy farmers who are quitting dairying because they cannot generate an acceptable family income. Once either group builds up momentum, swings in milk cow numbers may persist long after prices have reversed their original course. For example, the sizable decreases in cow numbers in the mid-1990's were caused by the relatively low returns of the early 1990's. These declines did not slow much until 1999, despite the strong returns of 1996 and 1998. Similarly, the strong returns of 1996, 1998, and most of 1999 unleashed such a surge of herd expansions that the low prices of 2000 did not even result in typical decreases in cow numbers until early this year.

In 2001, milk cow numbers are expected to decline about 1 percent. Dairy farm exits in late 2000 and early 2001 increased as a result of the low returns of 2000. Meanwhile, expansion by stronger farms has slowed, partially because of lower returns and partially as an inevitable pause after the rapid growth of 1999–2000. Milk per cow in early 2001 fell well below a year earlier, the result of forage quality problems, stressful winter weather, and less use of bovine somatotropin. Milk per cow is expected to recover in coming months but may increase only fractionally for the year. Milk production is projected to slip slightly for the year, with increases from a year earlier not coming until late 2001. A large increase is expected in 2002, as brisk recovery in milk per cow easily outweighs a decline in cow numbers.

Demand growth during the 1998–2000 period was extraordinary. The booming economy resulted in consumers boosting their spending in restaurants and treating themselves at home. Commercial use of cheese, butter, and fluid cream grew rapidly in the face of relatively high consumer prices during most of the period. Overall sales of milkfat rose at an annual rate of almost 3 percent. Not all dairy products had as strong demand, however. Use of fluid milk and most perishable manufactured products were stagnant, while use of skim solids in processed foods fell. Sales of many nonfat or lowfat foods, that had used larger amounts of skim solids in the mid-1990's, fell sharply, and imported concentrated milk proteins may have been substituted in some uses. Even so, commercial use of skim solids rose faster than did population during this period.

Demand for dairy products continues to increase in 2001, although growth may not be as strong as it was. The economy has developed a number of weaknesses, and consumer confidence has slipped. But, economic growth is expected to continue, and consumers are likely to want more dairy products. Demand in 2002 is a bit more uncertain but a sharp slowdown is not expected.

With 1998 production increasing only slightly, strong demand shot average 1998 farm milk prices up about $2 per cwt to a record $15.50. Although production grew sharply in 1999, milk prices did not really catch up with demand and decreased only

about $1 per cwt. Milk prices ultimately collapsed in late 1999 and 2000—but only after increases in milk output over a 2-year span reached 6–7 percent. Because of the large increases in wholesale butter and cheese prices since the start of the year, milk prices in 2001 are now projected to rise almost $3 per cwt, back above the 1999 level. If milk production grows as expected in 2002, milk prices probably will decline, maybe $1 or a bit more.

Prices of nonfat dry milk have been the glaring exception to the general pattern of volatile but mostly strong prices. Powder prices have stayed close to the support purchase price since late 1998. While government removals of butter and cheese have been minimal, the surplus of nonfat dry milk was large. Removals of nonfat dry milk during the current marketing year are projected at about 500 million pounds, down from the almost 700 million a year earlier but still quite large. The surplus of skim solids this year will be 3–4 percent of production, compared with almost no removals of milkfat. Commodity Credit Corporation's (CCC) uncommitted inventories of nonfat dry milk in early May had reached 552 million pounds and were still growing.

Retail dairy prices rose relatively rapidly during 1998–99, reflecting soaring wholesale and farm prices during 1998 and only slight moderation in 1999. Retail prices increased almost 4 percent in 1998, followed by a boost of almost 6 percent in 1999. The farm-to-retail spread fell about 2 percent in 1998, as retail price increases lagged farm prices. However, the spread then jumped about 12 percent with the softer farm prices of 1999. The spread rose about 5 percent in 2000, as retail prices were about steady in the strong economy, while farm prices were low. In early 2001, retail dairy prices were about 2 percent higher than a year earlier even though the farm-to-retail spread was lower. Further price rises during the rest of the year. For the year, retail prices are projected lift average 2001 dairy prices 3–4 percent, even though the farm-to-retail spread is expected to continue somewhat below a year earlier.

Although concentrate feed prices and forage costs have varied significantly and many other costs have risen steadily, milk prices have been responsible for most of the swings in net returns to dairy farming in recent years. Returns in 1996 were well above those of the early 1990's. Lower 1997 milk prices reduced returns considerably, but they stayed above the early 1990's. The higher milk prices and lower feed costs in 1998 and 1999 boosted dairy returns sharply. However, the low milk prices of 2000 reversed the pattern sharply, probably dropping returns to levels below those of the early 1990's. In 2001, concentrate feed prices are projected to be about the same as 2000's modest levels. Although forage costs will be higher, stronger expected milk prices will increase net returns considerably, probably back to near those of 1999. Net returns in 2002 probably will not match those of this year but are expected to be moderately favorable.

Dairy farmers have been cautious about debt since the 1980's. Debt loads have remained fairly low relative to debt capacity, possibly a response to the volatility of prices and returns in recent years. The 1999–2000 expansions by stronger producers were funded to a significant degree by the 1998–99 returns. These moneys probably were also used to reduce earlier debt. Dairy farm debt may have risen some in 2000 because of all the new or expanded operations, but the increase probably was not large.

Since 1996, both the number of operations with milk cows as estimated by the National Agricultural Statistics Service, USDA and the number of farms selling dairy products as estimated by the American Farm Bureau Federation have fallen about 6 percent per year, similar to or slightly slower than the declines of the early 1990's. This continuing long-term decline represents a mix of individual farms combining into multi-operator farms, purchase of dairy farms by neighbors, and the exit of facilities from dairying.

During the next 10 years, milk production is expected to grow slowly, about 1 percent or a little more per year. Although it is no longer as easy to boost milk per cow by simply feeding more grain, advances in management, nutrition knowledge, and genetic potential of the cows imply that strong increases in milk per cow are likely to continue, probably at trend rates similar to the past. Growth in milk per cow may not be as steady as the past, however. Milk cows are more geographically concentrated than in the past. Although these concentrations are widely scattered, local weather conditions may have more effect on the national average than in the past. In addition, modern feeding may have made milk per cow more sensitive to variations in forage quality than it was during most of the post-World War II period.

Milk cow numbers are expected to decline slowly, representing the net effects of diverging patterns by different groups of dairy farmers. The split between the large, industrially organized farms and the generally smaller traditional farms probably is the widest seen in the dairy industry since larger, more heavily capitalized and

specialized dairy farms replaced small dairy enterprises on general farms in the 1950's and early 1960's. Most traditional operations will stay viable for the foreseeable future, but they will be challenged to reduce costs enough to generate an adequate family income.

Growth in the western dairy industry probably will be more constrained than in the past by urban pressures, environmental restrictions, fewer places to develop totally new dairy industries, and (most importantly) availability of top-quality alfalfa hay. These factors will not keep the West from producing more milk, but expansion may be somewhat slower. However, development of "new style" dairy farms east of the Rockies may accelerate. Dairying is moving back to parts of the Great Plains, and new large farms have proven quite competitive in northern dairy areas.

Demand for dairy products is expected to continue to increase slowly. A growing population will demand more dairy products, particularly with Hispanics contributing a significant share of the population growth. Cheese demand shows no sign of slowing and will continue to be the main source of strength in total dairy product demand. Demand for butter and other milkfat products undoubtedly will not maintain its extraordinary strength of recent years, but is expected to stay fairly good. Milkfat and skim solids can provide significantly improved quality to a wide variety of processed foods with only a very modest impact on ingredient costs. On the other hand, demand for fluid milk seems likely to stay stagnant unless its slipping status in the beverage market can somehow be reversed.

Growth in commercial use of dairy products is projected to keep pace with the increases in milk production only if farm milk prices rise somewhat more slowly than the general inflation rate. However, this price erosion is not expected to be large, nothing like the decreases that occurred in the 1980's and early 1990's. It seems likely that prices probably will continue to be more variable than in the past, in part because growth in output is unlikely to be synchronized with growth in demand and in part because a much larger and a growing share of dairy products is traded under contract or some other standing arrangement. Spot markets are not likely to regain the liquidity that they enjoyed as recently as the 1970's.

PRICE SUPPORT PROGRAM

The price support purchase program has been largely unchanged since 1949, offering to buy as much butter, cheese, and nonfat dry milk as anyone wishes to sell to CCC at announced prices. These prices are set so as to allow plants of average efficiency to pay at least the support price for manufacturing grade milk during the year. Since butter and nonfat dry milk are joint products of milk, any pair of support purchase prices for the two products that will return the combined value needed to support milk prices. In the past, relative prices of butter and nonfat dry milk prices generally were adjusted in an attempt to equalize the relative size of the milkfat and skim solids surpluses.

The 1996 Act specified that the support price for milk would remain at $9.90 per cwt, but only through 1999. At the end of 1999, the purchase program would be eliminated, and a recourse loan program would begin at prices equivalent to the former support price. At that time, it was projected that market prices would only occasionally be close to the support price and that purchases would not be large. In general, those projections have proven accurate.

Since enactment of the 1996 Act, subsequent legislation modified it significantly. The support purchase program was extended and the loan program delayed, first until the end of 2000 and then until the end of 2001. In addition, there have been three Market Loss Assistance Programs. These programs differed slightly, but basically made cash payments to producers based on their historic milk production. Payments totaled $200 million in 1998, $125 million in 1999, and an estimated $675 million in 2001. In 1998 and 1999, payment was limited to the first 2.6 million pounds of milk produced on a farm, while the latest program limit was set at 3.9 million pounds.

The very large surplus of nonfat dry milk in recent years, while butter markets have been very tight with market prices reaching as much as four times the support purchase price, would seem to argue for a decrease in the support purchase price for nonfat dry milk and a corresponding increase in the support purchase price for butter. Relative support prices remain little changed since the early 1990's, when a series of shifts were implemented to correct what had been a large butter surplus. A lower price of nonfat dry milk would stimulate use of skim solids in all products, reduce the incentive to import such products as concentrated milk proteins, and possibly stimulate commercial exports of nonfat dry milk. It would also help address the continuing imbalance between the price of milk for cheese (Class III) and the price of milk for butter-nonfat dry milk (Class IV) in Federal order markets. Class

III and Class IV pricing remains under review within the Department, looking at such matters as make allowances, determining product prices, and pricing of components among other questions.

The National Milk Producers Federation, among other organizations representing dairy farmers, has proposed extending the support purchase program, at least through the remainder of the 1996 Act. The impacts of such an extension would vary considerably, depending on market conditions, adjustments to relative purchase prices of nonfat dry milk and butter, and the level of support price specified.

DAIRY EXPORT INCENTIVE PROGRAM

Since July 1, 2000, we have had to comply with the full World Trade Organization (WTO) commitments to limit subsidized exports. This holds our exports under the Dairy Export Incentive Program (DEIP), plus any Government export sales, to 68,201 metric tons of nonfat dry milk, 3,030 metric tons of cheese, 21,097 metric tons of butter or its equivalent in milkfat, and no dry whole milk. During the negotiations, we told other WTO members that we intended to apply these limits to the quantities covered by contracts accepted during the year. By not being very rigid about the timing of actual shipments, we increased the flexibility of exporters in meeting the needs of importing countries as well as simplifying enforcement. In recent years, we have almost fully contracted for the allowed exports of all products except butter, where very tight domestic markets have made domestic manufacturers uninterested in committing to DEIP sales.

Before July 2000, we allowed certain amounts of unused commitments from earlier years to be "rolled over" into new allocations, similar to actions taken by the European Union. However, we did not roll over quantities of products that were contracted but not actually shipped for whatever reason. This would have been a change in the understood commitment to other WTO members, and it was not clear that these quantities would have been shipped if additional allocations had been available.

With the continuing large surplus of domestic skim solids, part of the dairy industry have asked if new allocations representing these unfilled contracts could be made. In addition to the earlier objections, we interpret the agreement to say that roll-over was allowed only during the completed transition period.

IMPORTED MILK PROTEINS

A wide variety of concentrated milk products are imported into the United States, ranging from casein and caseinates to total milk protein to milk protein concentrate (MPC). Casein and total milk protein are precipitated from skim milk, while MPC's are produced, in a variety of protein contents, by membrane filtration of skim milk. In recent years, total imports of these products have grown somewhat as declines in casein imports have been outweighed by rapid increases in MPC imports. MPC's evidently have substituted for casein in some uses, as well as benefited from a growing market for sport and nutritional drinks. However, they probably have also substituted for domestic skim milk solids in some uses. In addition, there is concern that they are being used to produce standard varieties of cheese, a technical violation of Food and Drug Administration standards of identity.

Concentrated milk proteins have never been covered by import restrictions. In part, this was because casein and caseinates, unlike milk powders, were declared not to be primary agricultural products under the General Agreement on Tariffs and Trade and were therefore subject to more stringent restrictions on limiting import access and a ban on export subsidies. The status of milk protein concentrates is unclear since they share some of the characteristics of both casein and milk powders.

The tariff-rate quotas (TRQ's) that resulted from the Uruguay Round Agreements were clear WTO market access commitments of the kind we expect other countries to adhere to closely. Any change in the application of those TRQ's might involve intricate negotiations with other countries. Together with the U.S. dairy industry, we are considering remedies, consistent with our international trading obligations, to see what can be done about increased MPC imports.

DAIRY COMPACTS

The Northeast Interstate Dairy Compact (the Compact) was authorized by the 1996 Act to include the six New England states: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. Under certain conditions, up to 6 additional States could be added with Congressional approval. Authority for the Compact was to terminate with the implementation of Federal Milk Marketing Order reform. Legislation passed by Congress in 1999 extended the duration of the Compact to September 30, 2001, but did not add states to the existing Compact. Also

introduced in 1999 was legislation to allow establishment of a southern compact but no action was taken. May 2001 sees legislation to extend and expand the Compact and also to establish a compact of 14 States in the South. The States to be included in the southern compact area are Alabama, Arkansas, Georgia, Kansas, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Virginia, and West Virginia.

Economic effects of the existing Compact and other possible compact areas have been estimated and reported in several studies. The Office of Management and Budget (OMB), the University of Missouri, the University of Vermont, the University of Massachusetts, the Pennsylvania State University, and most recently, the University of Connecticut have conducted studies since 1998. The general conclusions of these studies are similar:

—Milk producers in the compact areas, and those outside that supply milk into the areas, receive a higher farm milk price and respond by increasing production.

—Higher retail prices in the compact areas reduce consumption of fluid milk so that more milk is available for manufacture into products such as butter and cheese.

—Farm milk prices outside compact areas are reduced.

RETAIL PRICES

Since 1996, retail prices for all dairy products (as measured by the Bureau of Labor Statistics) increased an average of 3.1 percent, with fluid milk prices rising 2.8 percent and other dairy product prices rising 5.3 percent. In comparison, the annual average increase for all food at retail was 2.5 percent. General inflation, measured by the Consumer Price Index, has increased 2.4 percent per year over the period.

Year-to-year increases in retail prices varied considerably, from a high of 6.0 percent in 1999 to a low of 0.6 percent in 2000. Similarly, rises in fluid milk prices ranged from 6.2 percent to 0.2 percent. Prices of other dairy products rose at a faster pace, ranging from 9.2 percent in 1998 to 2.1 percent in 2000. In contrast, retail price increases for all foods have been relatively steady at 2.1–2.6 percent.

Retailers, and processors to a lesser extent, tend to resist price changes, partly because of the direct costs and partly from fear of adverse consumer reaction. Retail prices lag farm prices, whether prices are rising or falling. These lags help to explain the erratic changes in farm-to-retail spreads in recent years. Over the long run, the spread has risen just slightly less than the general inflation rate.

Mr. Chairman, that completes my review of the current market situation for milk and the immediate issues facing the principal Federal dairy programs. I note that the programs reviewed here are supplemented by many other Federal programs that affect milk producers and the dairy market, including risk management programs, food assistance programs, trade programs other than DEIP, promotion programs and research and extension programs. I would be pleased to respond to questions.

Senator SPECTER. We turn now to Mr. Robert Robinson, managing director of the National Resources for the Environment at the U.S. General Accounting Office, graduated Phi Beta Kappa from the University of Maryland in 1973. Thank you for joining us, Mr. Robinson. The floor is yours.

STATEMENT OF ROBERT ROBINSON, MANAGING DIRECTOR, NATURAL RESOURCES AND ENVIRONMENT, GENERAL ACCOUNTING OFFICE

Mr. ROBINSON. Thank you, Mr. Chairman. In my remarks today, I'd just like to make just a few key points. At the outset, it is important to understand the price consumers and the price farmers receive for milk in this country is the result of an extraordinarily complex interaction of government program rules, price classes, a multitude of private-sector entities, and variations in milk markets; and hard data to discern exactly what is happening in this complex mix, including what costs are being incurred and what profits are being made, is very limited. In this context, during the course of our work, we cobbled together the best information available from

many different sources to lay out as clear a picture as we could on milk prices across the country, including Philadelphia.

Although our report was nearly 200 pages long and contains a vast amount of detail, a few basic observations jumped out. First, nationwide and in the Philadelphia market, farmers receive about 42 percent of the price consumers pay for milk at the store. At the time of our analysis—again, two-percent milk cost about $2.50 at the store, and, therefore, the farmer's share of that was about a dollar. Second, we found, in most of the milk markets we examined, the difference or spread between what the farmer received for milk and the retail increased over the 26-month period governed by our analysis. In some markets, such as New Orleans and Denver, the price spread increased dramatically, by about 47 cents. In other markets, such as Philadelphia, the increase in the price spread was less pronounced, but still increased by about 13 cents. The increase in the price spread resulted largely from farm prices trending down over the period while retail prices either stayed constant or trended higher. Third, at any given point in time——

Senator SPECTER. Would you repeat that last statement, Mr. Robinson?

Mr. ROBINSON. The increase in the price spread resulted largely from farm prices trending down over the period while retail prices either stayed constant or trended higher.

Third, at any given point in time, we found that changes in farm prices were not always mirrored by similar price changes at the retail level. By that, I mean reductions in prices received by farmers, for example, generally did not translate into lower prices paid by consumers. As milk moved farther from the farm, the relationship between changes in what the farmer received and changes at other levels in the marketing chain weakened. Other factors began to more prominently influence the price.

This marketing chain for milk is composed of four basic parts: the farmer, the dairy cooperative, the wholesaler, and the retailer. As the milk leaves the farm, each entity performs certain functions for which they, of course, receive a payment. Collectively, these links in the chain beyond the farmer received about one and a half times what the farmer received for a typical gallon of milk.

In our study period, again, while the farmer received about a dollar of the $2.50 final price, the other entities collectively received about a dollar and a half. The breakdown of this dollar-fifty was as follows: cooperatives such as Land O' Lakes, on average received about 25 cents; wholesalers such as Suiza Foods received about 75 cents; and finally, retailers such as Acme and Pathmark on average added about 50 cents to the price, bringing the price of that original dollar gallon of raw milk provided by the farmer to $2.50.

PREPARED STATEMENT

To recap, Mr. Chairman, our work showed two basic things: the price spread between farm and retail prices increased during our 2 year study period, and reductions in prices received by farmers did not always translate into lower prices to consumers. While changes in the farm price have some influence on the retail price of milk, in comparison to other factors this influence has proved to be limited. Thank you.

[The statement follows:]

PREPARED STATEMENT OF ROBERT A. ROBINSON

Mr. Chairman and Members of the Subcommittee: Thank you for the opportunity to discuss our work on fluid milk prices. Our statement today is based primarily on our October 8, 1998, report entitled Dairy Industry: Information on Prices for Fluid Milk and the Factors That Influence Them (GAO/RCED–99–4).[1] As you know, the process by which milk prices are set is a very complex one. This is because milk prices are influenced by a variety of Federal and State programs that regulate the production and sale of milk and because several entities are involved in the process of moving milk from the farm to the consumer. Each of these entities—dairy farmers, cooperatives, wholesale milk processors, and retailers—perform distinct functions relating to the processing and marketing of milk, and each receives a portion of the price of milk. At your request, our comments today will focus on the relationship between farm-level and retail-level milk prices and the factors that influence the price of milk as it moves from the farm to the consumer.

In summary, for the period January 1996 through February 1998, we found the following:

—On average, farmers received about 42 percent of the retail price of a gallon of 2-percent milk (the most frequently purchased milk), and retailers received about 17 percent; the spread between farm and retail prices increased in most of the markets we reviewed.

—Changes in fluid milk prices at the farm level generally did not mirror similar price changes at the retail level in most markets. This is because as milk passes through various processing, packaging, and distribution stages after it leaves the farm, a variety of other factors begin to influence its price. For example, at the wholesale level, the costs of pasteurization, packaging, and transportation, have a major influence on milk prices, and at the retail level the pricing strategies used by other retailers may have a significant influence on the prices that consumers pay for milk at the grocery store. Consequently, as milk moves farther from the farm, farm prices may have less of an impact on prices than these other factors.

BACKGROUND

U.S. dairy farmers produce about 20 billion gallons of raw milk every year. The top four milk-producing States in the United States are California, Wisconsin, New York, and Pennsylvania. About 7 billion gallons of the nation's milk is used to produce fluid milk products such as the four kinds of milk—whole, 2-percent, 1-percent, and skim milk—as well as buttermilk and flavored milk, yielding about $22 billion in retail sales annually. Sales of 2-percent milk sold in gallon containers account for the largest volume of retail fluid milk sales in the United States.

Fluid milk reaches the consumer by a variety of pathways. Dairy farmers who produce the raw milk used in fluid products can (1) market it through dairy cooperatives, (2) sell it directly to wholesale milk processors, or (3) process it into fluid milk for direct sale to consumers. Most milk produced by dairy farmers in the United States is marketed through dairy cooperatives. Dairy cooperatives, in turn, can either sell, or arrange the sale of, raw milk purchased from farmers to wholesale milk processors, or they can process it into fluid milk and distribute the fluid milk to retail outlets themselves. Wholesale milk processors process and package the raw milk into fluid milk, which they then distribute to retail outlets. Wholesale milk processors include independent bottling plants or retail food chains that own bottling plants. Retail outlets purchase fluid milk from processor for direct sale to consumers.

Most milk produced in the United States is regulated under either Federal or State programs. These programs ensure that farm prices do not fall below a minimum level and provide a safety net for individual farmers who lack market power compared with other entities, such as wholesale milk processors and retailers. The primary Federal programs include the milk marketing order and dairy price support programs. Currently, about 70 percent of the milk produced in the United States is regulated under the Federal milk marketing order program. The Federal program sets minimum prices that can be paid to farmers for unprocessed, fluid-grade milk in specified marketing order areas.

[1] We are currently updating the information included in the October 1998 report, at the request of Senators Feingold and Leahy, and expect to issue our updated report in June 2001.

These prices vary by the class of product for which the milk is used, and, for some classes, the minimum price also varies by location.[2] Some areas, such as California, which are not under the Federal milk marketing order program, are covered by State programs. In these areas, dairy farmers are paid the minimum milk prices that are established by the state government. These minimum prices may be higher than Federal minimum prices.[3]

Dairy farmers selling milk within a Federal milk marketing order receive an average price, or blend price, that is based on the weighted average of the four usage classes for all the raw milk sold in that marketing order. The average price of milk they receive depends, in part, on the extent to which the total milk supply in a specific area is being used for fluid or manufacturing purposes. Buyers of milk regulated by Federal and State programs are permitted to pay farmers prices in excess of the established minimums—known as over order premiums. Any such excess payments are determined by market forces.

ANALYSIS OF FARM-TO-RETAIL PRICES

In our 1998 report, we analyzed milk prices for the period January 1996 through February 1998, for 31 selected markets across the country, including the Philadelphia, Pennsylvania, market. We found that on average, farmers received 42 percent of the retail price for a gallon of 2-percent milk, cooperatives received 10 percent, wholesale milk processors received 31 percent, and retailers received 17 percent.[4] However, the portion received by those in various stages of the milk marketing chain varied substantially among the markets. For example, the portion of the average retail price that farmers received ranged from about 31 to 54 percent, and the portion that retailers received varied between about 4 and 31 percent.[5] For the Philadelphia market, we found that farmers, on average, received 42 percent of the retail price of a gallon of 2-percent milk and retailers received 20 percent.

Furthermore, we found that retail prices for a gallon of 2-percent milk remained constant or increased in 27 markets and decreased in 4 markets during the review period. In contrast, farm prices decreased in 27 markets and remained constant in 4 markets. As a result of these price changes, the spread between farm and retail prices had increased in 27 of the 31 markets over the 26-month period we reviewed. In the Philadelphia market, we found that between January 1996 and February 1998 the farm-level price had decreased by about 13 cents while retail prices had remained constant. As a result, the difference between farm and retail prices had increased by about 13 cents per gallon.

In addition, retail prices for the four kinds of milk—whole, 2-percent, 1-percent, and skim—varied significantly in the 31 markets we reviewed. For example, in some markets, 1-percent milk was the lowest-priced milk sold at the retail level; in other markets, skim milk was the lowest-priced milk; and in still other markets, the lowest-priced milk sold in retail stores shifted among 2-percent, 1-percent, and skim milk. For the period we reviewed, in the Philadelphia market, skim milk was the lowest-priced milk sold, averaging about $2.31 per gallon and whole milk was the highest-priced, averaging about $2.58 per gallon.

RELATIONSHIP BETWEEN FARM AND RETAIL MILK PRICES

In 1998, we reported that for the period January 1996 through February 1998, changes in prices at any given stage in the milk marketing chain were most often reflected in changes in prices at the next stage. For example, in most of the markets we analyzed, there was a strong correlation between changes in farm prices and changes in cooperative prices—the next stage in the milk distribution process. Similarly, changes in wholesale prices generally correlated with changes in retail prices. In contrast, changes in prices received by farmers less frequently correlated with changes in retail prices. This is because as milk moves from the dairy farm to the consumer it passes through various processing, packaging, and distribution stages,

[2] The four usage classes are Class I for fluid milk; Class II for soft manufactured dairy products such as yogurt and ice cream; Class III for hard cheese; and Class IV for butter and powdered milk.

[3] In addition to Federal and State regulatory programs that set minimum milk prices, in 1996, the Congress approved the creation of the Northeast Interstate Dairy Compact for six New England States. The Compact supplements Federal and State programs by setting the minimum price to be paid to farmers for fluid milk marketed in the six-state area. The Compact is scheduled to terminate, unless reauthorized, by September 30, 2001.

[4] For the 1998 report, our detailed analysis focused on data for 2-percent milk; consequently our results may not reflect pricing patterns and trends for whole, 1-percent, and skim milk.

[5] Except for one market where retailers received a negative return because milk was being used as a loss leader.

and many factors other than the farm-level price begin to influence fluid milk prices at each subsequent stage. In particular, we found that supply and demand forces influence milk prices at all stages of the milk marketing process; however, the following factors influence milk prices at each particular stage:

—Federal and State dairy programs have a major influence on farm-level prices for raw milk used in fluid products. These programs provide farmers with the assurance that milk prices will not fall below the government-set minimums and therefore may play a significant role in the production decisions of dairy farmers.

—The price that cooperatives charge wholesale milk processors for fluid milk is influenced not only by the minimum price established by Federal and State milk marketing order programs but also by the services that the cooperatives provide to the wholesale milk processors. Cooperatives generally sell raw milk that will be used for fluid purposes to wholesale milk processors at prices above the Federal or State minimums. This higher price, in part, compensates cooperatives for the services they provide to wholesalers. These services include (1) transporting milk from different milk-producing areas, (2) scheduling milk deliveries to coincide with demand, and (3) standardizing the component content of milk deliveries. In addition, cooperatives may be able to sell milk to wholesale milk processors for a price higher than the government-set minimum price because they have greater market power compared with the wholesalers. One of the primary reasons dairy farmers become members of cooperatives is to benefit from the cooperative's greater bargaining power.

—Processing, packaging, and distributing costs have a significant influence on the wholesale price of fluid milk, in addition to the wholesaler's need to earn a normal return on investment. Processing services provided by wholesale milk processors include pasteurization, homogenization, and the standardization of butterfat and nonfat solids in flavored milks, buttermilk, whole, 2-percent, 1-percent, and skim milk. Wholesalers also incur costs for packaging these products into a variety of types and sizes of containers and arranging for their distribution to retail outlets for sale to consumers. Costs of distribution may be significantly higher in rural markets compared with urban markets because smaller quantities of milk have to be transported over longer distances. Some wholesalers also provide different levels of in-store service in addition to shipping the products to retailers—such as unloading the milk at the store dock, restocking the dairy case, and removing outdated and/or leaking containers. Differences in any or all of these factors will be reflected in differences in wholesale-level prices.

—Retail prices for fluid milk are influenced not only by certain factors that generally apply to all retailers but also by specific considerations at individual retail outlets. The retail-level factors that generally influence price include the wholesale cost of the product; retailers' operating costs, such as labor, rent, and utilities; and their need to earn a normal return on investment. In addition, the size, age, tastes, and income levels of the population in the marketing area and the prices of substitutes will influence how retailers set prices for milk. For individual retail outlets, other considerations may influence the manner in which retail prices for milk are set. To meet their stores' goals, such as profit maximization and increased market share, individual retailers may use a number of strategies for pricing fluid milk. In developing these pricing strategies, retailers consider a variety of factors beyond their operating costs, such as the prices charged by their competitors, the role that milk prices play in attracting customers to their stores, the convenience offered by their store compared with other stores, and their desire to build an image of quality or low prices for their stores. Those retail pricing strategies that are primarily based on a retailer's operating costs are generally referred to as vertical pricing strategies, whereas those strategies that are based on responding to prices charged by competitors are referred to as horizontal pricing strategies. Retailers generally use a combination of horizontal and vertical pricing strategies when setting prices for fluid milk.

In conclusion, Mr. Chairman, our work shows that while the farm price of milk has some influence on the retail price, other factors may ultimately have a greater influence on the retail price. Given that farm prices account only for about 40 percent of the retail price, there is adequate opportunity for other factors, such as wholesale processing costs and retail pricing strategies, to significantly influence the other 60 percent of the retail price.

That concludes our prepared statement. If you or other Members of the Subcommittee have any questions we will be pleased to respond to them.

CONTACTS AND ACKNOWLEDGEMENT

For future contacts regarding this testimony, please contact Lawrence J. Dyckman or Anu Mittal on (202) 512–5138. Individuals making key contributions to this testimony and/or the report on which it was based include Jay Cherlow, James Dishmon, and Jay Scott.

Senator SPECTER. Would you repeat that last sentence again, please?

Mr. ROBINSON. While changes in the farm price have some influence on the retail price of milk, in comparison to other factors, this influence has proved to be limited.

Senator SPECTER. Limited?

Mr. ROBINSON. Yes, sir.

Senator SPECTER. Our next witness is Mr. Arden Tewksbury, who serves as president of Progressive Agriculture and operates a dairy farm in northeastern Pennsylvania. Mr. Tewksbury is an extraordinarily active advocate for farm interests. And it's about time he came to Philadelphia to see me, because I've been to his farm on many, many occasions in my travels around Pennsylvania. And I regret the early hour but, in self-defense, let me say that there are many mornings when I leave my house at 6:00 or shortly before to get to Northeastern Pennsylvania. We welcome you here, Arden, and look forward to your testimony.

STATEMENT OF ARDEN TEWKSBURY, NORTHEASTERN PENNSYLVANIA FARMER

Mr. TEWKSBURY. The only difference, Senator, is when you leave Philadelphia to come to Northeastern Pennsylvania, you usually know where you're going to end up at when you get there. When I came in to Philadelphia for the first time in 25 years, I ended up in Camden, New Jersey.

Senator SPECTER. Then I compliment you doubly, because you're right here and on the spot and—you're early, as a matter of fact.

Mr. TEWKSBURY. I left at 4 o'clock this morning to be here, but that's beside the point.

Senator SPECTER. However, 4 o'clock is late for you, Arden.

Mr. TEWKSBURY. We appreciate the opportunity to appear before you, Senator, and we don't have written testimony. We are going to submit to you and your committee several suggestions that we have on this overall problem. And I think the comments we've heard so far from your two previous speakers certainly speaks very clear as to a lot of the problems we have, but not all of the problems, and I'm going to relate to some of the other problems, if I may be permitted to do so.

And as you said, we've been in advocacy. We have talked to 120,000 consumers in the last 26 months. And outside of six of them, they all agreed they would pay a higher price for milk if they knew it was going to go to the dairy farmers. They don't say what that price should be, except a higher price if it would go to the dairy farmers. I think they have the feeling—and it's not necessarily that true in Pennsylvania because of the marketing board establishing prices here—but I think they have the feeling—and we talked to a lot of consumers in Brooklyn and Staten Island and New Jersey, and they have the feeling that the farmers are not definitely getting their fair share of the price of milk that they buy at the stores. And something has to be done.

And the fact that now, in the northeast corridor here, that production is down 5.2 percent, Senator, from a year ago, indicates that there's a real problem surfacing in their dairy industry. So we think the time has come for senators, like Senator Specter and others, to reintroduce legislation, like you did a couple of years ago, to bring in the dairy farmer's cost of production into a new pricing formula that would allow our dairy farmers to get a fair price, not only for milk used as fluid, but also manufactured. And at the same time, it could create a more level pricing to our consumers. They are just torn apart as to why the price goes up and down and up and down, and mainly down. And farmers, they say, are not getting their share, then why didn't they leave the price up there so we can get a fair share? Well, we don't have the mechanism to do it. The only way we can do it is by having a new and different type of national pricing formula. So that certainly is our biggest concern.

As far as the retailing, you know, I have—I don't have a problem with retailers. We need them just as bad as they need us. But I have a problem when I walked into some of—into a supermarket in Berry, Pennsylvania two days ago and found Land O' Lakes butter selling for $3.35 a pound and other butters selling for $2.45. I don't know which is right, but it really confuses consumers when they see this.

In November of last year, the price that our cheese makers paid the farmers for milk used for cheese all across the United States, I think, was about $9.37 a hundredweight, the lowest price since November 1977, 24 years ago. How in the devil do we expect our dairy farmers to stay in business when they're receiving prices like this? Yeah, they are rebounding now. Are they going to stay there? Are they going to collapse again? We think it is time, you know, to have this pricing formula that would reflect a fair price on all classes of milk and not allow, ever again, to have prices drop to where they were 24 years ago to our dairy farmers.

And I have consumers tell me—again, we talked to 120,000, and, as you know, we've handed in 25,000 names to your staff of consumers that support our position. And up in Meshauken where I come from, I can go into Marty's store and buy a five-pound block of cheese for $8, $8.50—good American cheese. Consumers tell me some of the markets, they have to pay $14, $15 for a five-pound block. And sure, it's their option whether they buy it or don't buy it, but these things all bother me, as a dairy farmer.

When I hear the gentleman tell me that the change in the prices is very limited to what it costs at the dairy farmer level, that tells us there is certainly a problem. I commend the Pennsylvania Milk Marketing Board here in Pennsylvania for what they've done since 1987 on trying to give some better prices on fluid milk. But as everybody knows, that price only stays with the milk that is bottled and stays here in Pennsylvania. They do not have the authority to establish the pricing for milk that leaves the State. For instance, my milk goes into New Jersey. We've appeared here several times since 1987 in defense of higher premiums on milk, but it does not directly affect my milk and many other thousands of dairy farmers in Pennsylvania, and that's where the Northeast Dairy Compact would come into play. If we can't do anything else, at least we

could give a better price to all of our dairy farmers for fluid milk. That's not the total answer, but it would help.

There are some things, Senator, that can be done, and there's no use of us pointing our fingers at our Pennsylvania Milk Marketing Board or the Pennsylvania legislature. They've done all they can. It's up to the national people to step in and do something, as you tried a couple of years ago when you and 16 other senators introduced legislation on pricing milk differently. That's where we've got to go.

We're very concerned about milk protein concentrate coming into the United States now that's displacing domestic milk and our cheese fats. Is it even legally coming into the United States? Has FDA even said it's legal to be in as cheese fats? There's a lot of questions out there. Are these milk protein concentrates coming in from countries that have the foot-and-mouth disease? We think there should be no dairy products coming into the United States from any country that has the possibility of foot-and-mouth disease or the mad-cow disease. Why do we want to take the possibility of having these products blending into our problem in the United States?

I think with the fact that production is down 5.2 percent, the fact that most of Pennsylvania now appears to be heading for a possible good drought if we don't get some rain soon, we're looking at some real serious problems here in the United States and in Pennsylvania. And I think we have got to shore up the price to our dairy farmers, not only to give them a fair price, but also to guarantee a supply of milk for our consumers.

Senator SPECTER. Thank you very much. We will come back in the question-and-answer session.

Our next witness is Mr. Luke Brubaker, a member of the Pennsylvania Milk Marketing Board and manages a 1,000 acre dairy agribusiness partnership in Lancaster County. Mr. Brubaker has served as an ambassador for dairy management, nutrition, and marketing, and overall expertise for the Citizens Network for Foreign Affairs. Thank you for joining us, Mr. Brubaker. The floor is yours.

STATEMENT OF LUKE BRUBAKER, LANCASTER COUNTY FARMER, MEMBER, PENNSYLVANIA MARKETING BOARD

Mr. BRUBAKER. Thank you, Senator. My speech here was about 10 minutes long. I'm going to have to do some real cutting here, so—but could somebody pass these out here, maybe, while——

Senator SPECTER. Yes, John our staff will be glad to do that for you.

Mr. BRUBAKER. Anybody that wants a copy—I would like the Senator——

Senator SPECTER. Your full statement will made a part of the record.

Mr. BRUBAKER (continuing). I would like the Senator to have that. And anybody that wants a copy, well you can pass them out, please.

Thank you, Senator for inviting me here this morning. I appreciate your holding this hearing on farm to retail and retail price—

milk prices. I'm going to go fast here, and I'm going to do some skipping because I—that green light bothers me.

I'm Luke Brubaker from Mount Joy, Lancaster County, and a member of the Pennsylvania Milk Marketing Board. I would like to tell you a little bit about our operation, the dairy industry in Pennsylvania, and how the milk marketing board benefits, not only the producer, but the consumer, as well.

You can look down across my professional experience and qualifications there when you have time. I will page on here and get to some of the meat of what we're going to talk about and look at the positions at Brubaker Farm. We think we have a positive attitude toward the future of the dairy industry in Pennsylvania and America, and we have developed a progressive dairy enterprise that's centered on a family partnership and a business philosophy that employs the latest technology to enhance the economic viability of the dairy operation and the dairy for the future.

I'm going to skip on. I started out in 1950 with about 18 cows. Today we're up to about 600 cows—started out with about a 13,000 herd average and now about 24,000-plus. As a member of the Pennsylvania Milk Marketing Board, I'm very sensitive to the challenges confronting today's dairy producer without losing sight of the need to be understanding of the consumer's need for safe and nutritious and affordable dairy products. Most recent indications of the monthly production of Pennsylvania indicated that the Agriculture Statistics Service and Milk Production Report released April 2000 shows that milk production and cow numbers are declining over a year ago. The primary report of the Pennsylvania production in the first quarter of 2001 indicates milk production in the State is down 4.3 percent over last year's quarter, about 14,000 cows. The report would seem to reflect that lower milk prices received by Pennsylvania dairy producers over the past year, combined with reported feed-quality concerns, have taken their toll on milk production in the State.

Recent and projected milk prices increases combined with the opportunity to harvest higher quality forages this spring may bring back some production. However, with cow numbers in dramatic decline, it seems likely that milk supply will not be returning to last year's levels anytime soon.

Another factor is the health of the United States economy. If it moderately strong, I believe the consumer will continue to buy. Overall, the current market outlook is calling for Pennsylvania milk prices to be about $2.32 over the 2000 levels. This is based on a 2001 annual forecast of uniform milk prices for the Northeast Federal Order compared to $13.04 in 2000.

The recent increase in producer prices experienced in the Federal order—marketing order's projection of higher milk price levels for the second half of this year will give the average Pennsylvania dairy producer a much-needed boost in meeting its total cost of production. However, recent declines in the Pennsylvania milk production will adversely affect producer's ability to benefit from the higher levels that they are expected to receive and justify the need for a continuation of additional income incentives that the Pennsylvania Milk Marketing Board can provide through the mandated over-order premium. Even with the higher prices that the Pennsyl-

vania dairy farmers have experienced and are expected to experience in 2001, producers will continue to be faced with unrelated competitive challenges. I believe that after—that the positive trend in milk prices, the Pennsylvania Milk Marketing Board must do everything feasible to provide producers with the best possible price that the market conditions warrant to help the dairy industry stay viable in Pennsylvania. Continuation of the board's over-order premium at a reasonable level will contribute to the recent—contributes to the recent positive trend in milk prices, will help ensure that Pennsylvania and surrounding State producers will receive a price that best ensures their future viability without disadvantaging their market share.

Senator SPECTER. Mr. Brubaker, your time has expired. Your full statement will be made a part of the record. You can take another minute or so to summarize.

Mr. BRUBAKER. Okay, I would like to do that. If you will go to the last two charts on the back of my statement, you will see that this is—the source was the International Association of Milk Control, Retail Price Survey August 2000. You'll take notice the Pennsylvania farmer receives 52.2 percent of the share of the dollar. He receives more share of the dollar in Pennsylvania than you can see in these here States that are on this list. And then if you turn over the page to the last—the percentage of the retail fluid price received by the farmers in Pennsylvania is 52.2 percent compared to the national average of 39.4.

PREPARED STATEMENT

So I think we're pretty proud of that there, and we just wanted to make sure that you had a copy of that. Thank you, Mr. Senator, for giving me the opportunity to speak here this morning.

[The statement follows:]

PREPARED STATEMENT OF LUKE F. BRUBAKER

Senator Specter, other invited guests, and members of the audience, good morning. I would like to thank you, Senator, for holding this hearing on farm to retail milk prices.

I am Luke F. Brubaker from Mt. Joy, Lancaster County, Pennsylvania, and a member of the Pennsylvania Milk Marketing Board. I would like to tell you a little bit about our operation, the dairy industry in Pennsylvania and how the Milk Marketing Board benefits not only the producer, but the consumer as well.

As you look at my professional experience and qualifications:

AGRICULTURAL ACTIVITIES

—Overall experience of 30 years in the dairy industry.
—Owner and operator of a 600 cow dairy farm.
—Manager of a 1,000 acre Dairy Agri-Business Partnership.
—Member of the Pennsylvania Farm Bureau since 1970.
—Pennsylvania Chairman of the American Farm Bureau Federation, Poultry and Meat Advisory Committee: 1992–1996.
—President of the Lancaster County Farm & Home Foundation: 1999–2001
—Member of the Mount Joy Farmers Co-Op since 1990.
—Past President of Donegal Local Milk Producers.
—Member of Interstate Milk Producers for 23 years.
—Participating farmer in the Chesapeake Bay Program.
—Chairman of Farm Service Agency: 1996–2001.

LOCAL GOVERNMENT ACTIVITIES

—Chairman of the East Donegal Township Board of Supervisors: 1993–1998.

—Vice-Chairman of the East Donegal Township Board of Supervisors: 1992.
—Member of the East Donegal Planning Commission: 1986–1992.

COMMUNITY ACTIVITIES

—Board of Trustees of Lancaster County Farmland Trust: 2001–2003.
—Chairman of Environmental Resources Coordinators for Lancaster, Lebanon, York, Dauphin, and Berks Counties, in conjunction with the Pennsylvania Farm Bureau and the Department of Environmental Protection.
—Ambassador to Russian Republic for dairy management, nutrition, marketing, and overall expertise—Citizen Network for Foreign Affairs, Washington, D.C.: March 1997 and 1998.
—Member of an Economic Development team which visited Bolivia to assist in the development of small business. Active member of the Mount Joy Mennonite Church. Exchange visit to German dairy farm: July 2000.

STATE GOVERNMENT ACTIVITIES

—Nominated by Governor Ridge to the Pennsylvania Milk Marketing Board for a six year term: 1998–2004.

AWARDS

—Recipient of the Pennsylvania Dairy of Distinction Award.
—Winner of the 2001 Dairy Stakeholder Pacesetter Award of Pennsylvania.
—Nominated for "Innovative Dairy Farmer of the Year" Award of the United States by the Pennsylvania Secretary of Agriculture: 2000.
—Brubaker Farms awarded the National Environmental Stewardship Award in recognition of production practices and concern for community: 1999.

Now, I would like to summarize the primary reasons I am here to speak and what we look at on our farm and the future of the dairy industry.

POSITION OF BRUBAKER FARMS

—Positive attitude about future of dairy industry in Pennsylvania and America.
—Development of a progressive farm enterprise that is centered on a family partnership and a business philosophy that employs the latest technology to enhance the economic viability of the dairy operation.
—Commitment to environmental stewardship, public education, and production of high quality consumer dairy products.
—A recognition that we are producing an excellent product—not just agricultural commodities.

A summary of production innovations, marketing innovations, and the management innovations follow.

Brubaker Farms wants to represent the future of Pennsylvania agriculture and the dairy industry. We have demonstrated our commitment to operating a dairy facility 4 which was designed for cow comfort, employee performance, and environmental stewardship. Beginning with just 18 cows in 1950 and a 13,000 pound herd average, we expanded to meet the challenges of a modern dairy business with 600 cows and a 24,000 plus pound herd average. We built our new facility to accommodate future expansion and to capitalize on the benefits of producing large quantities of quality fluid milk. We have aggressively pursued good markets that recognize the value of our milk production, volume, and quality management practices.

With the partnership, which includes my two sons, Mike and Tony, and families, we have devised a business management plan, which capitalizes on the talents of our family members. One of the strategic goals of Brubaker Farms is to build the human capacity of the family to adapt and manage in a very competitive business environment.

As a member of the Pennsylvania Milk Marketing Board, I am very sensitive to the challenges confronting today's dairy producer without losing sight of the need to be understanding of the consumer's need for safe, nutritious, affordable dairy products.

Most recent indications of monthly milk production for Pennsylvania indicated in the National Agricultural Statistics Service Milk Production Report released April 17, 2000 shows that milk production and cow numbers are declining over year-ago levels. The preliminary report of Pennsylvania production in the first quarter of 2001 indicates milk production in the State is down 4.3 percent over last year's first quarter with about 14,000 fewer cows. This report would seem to reflect that lower milk prices received by Pennsylvania dairy producers over the past year combined with reported feed quality concerns have taken their toll on milk production in the

State. Recent and projected milk price increases combined with the opportunity to harvest higher quality forages this spring may bring back some production. However, with cow numbers in dramatic decline, it seems likely that the milk supply will not be returning to last year's levels anytime soon.

Another factor is the health of the United States economy. If it is moderately strong, I believe the consumer will continue to buy.

Overall the current market outlook is calling for Pennsylvania milk prices to be about $2.32 per cwt above 2000 levels. This is based on a 2001 annual average forecast of uniform milk prices for the Northeast Federal Order (Boston) of about $15.36 in 2001 compared to $13.04 in 2000. To adjust this price forecast to Pennsylvania (Lancaster) reduce the Boston price by $0.35 per cwt.

CONCLUSION

The recent increases in producer prices experienced in local Federal milk marketing orders and incentives that the Pennsylvania Milk Marketing Board can provide through the mandated over-order premium.

Even with the higher prices that Pennsylvania's dairy producers have experienced and are expected to experience in 2001, producers will continue to be faced with unrelenting competitive challenges. I believe that despite the positive trend in milk prices, the Milk Marketing Board must do everything feasible to provide producers with the best possible price that market conditions warrant to help keep the dairy industry viable in Pennsylvania. Continuation of the Board's over-order premium at reasonable levels which contributes to the recent positive trend in milk prices will help ensure that Pennsylvania and surrounding State producers will receive a price that best ensures their future viability without disadvantaging their market share.

The Pennsylvania Milk Marketing Board is authorized by it's Pennsylvania statute to regulate the entire dairy industry including, wholesale and retail pricing.

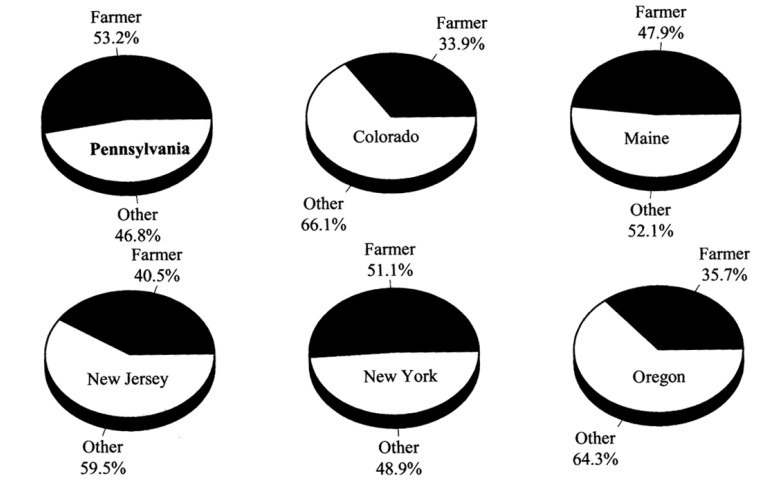
In Pennsylvania, prices paid to dairy farmers and resale prices move in lock step unison with one another. It is vital, therefore, to ensure that resale minimum prices established by the agency, are adhered to by both milk dealers and retailers. Our auditors perform wholesale audits to verify that milk dealers are selling milk at or above minimum prices established by the agency. Enforcement of the minimum wholesale price provides a stable economic environment free from destructive competition in the form of below cost sales. It follows then that enforcement of 10 minimum retail prices by the agency is equally important. Minimum retail prices for milk ensure that retailers are not using milk in a price war that eventually may be funded by the supplying dealer. The supplying dealer may then reduce payments to their dairy farmers. With this direct correlation between the prices paid by consumers and the price received by dairy farmers, the agency guarantees, through the enforcement of minimum resale prices, that our dairy farmers are receiving their fair share of the money spent on milk by consumers.

Our auditors also collect and review financial data supplied by the milk dealers. This information is combined with information that is submitted monthly regarding the utilization of milk and is used to establish the dealer's cost for processing, packaging, and delivering milk. It is from 11 this audited historical cost information that the agency establishes the minimum wholesale price.

For your information, on Wednesday, May 16, 2001 at 9:30 a.m. in Room 202 of the Agriculture Building, 2301 North Cameron Street, Harrisburg, the Pennsylvania Milk Marketing Board will be holding a hearing to establish the level of the over-order premium for third and fourth quarters of this year. We, as a Board, are proud of our ability to respond quickly to the consumer, farmer, and market needs.

Senator, thank you for allowing me to speak today.

PERCENTAGE OF RETAIL PRICE RECEIVED BY FARMERS
IN CLASS I MILK



Source: International Association of Milk Control Agencies Retail Price Survey, August 2000.

Senator SPECTER. Thank you very much, Mr. Brubaker. We now turn to Mr. David McCorkle, president and CEO of the Pennsylvania Food Merchants Association. He has served on the board of trustees of the Food Marketing Institute and the National Grocers Association and was chair of the Food Industry's Association of Executives, a bachelor of science from Bucknell, master of arts from John Carroll University. Thank you for joining us, Mr. McCorkle. The floor is yours.

STATEMENT OF DAVID McCORKLE, PRESIDENT, PENNSYLVANIA FOOD MERCHANTS ASSOCIATION

Mr. MCCORKLE. Senator, thank you very much. It's a pleasure to be here today. As you mentioned, I represent the Pennsylvania Food Merchants Association and the Convenience Store Council, about 1,700 corporations in Pennsylvania that own and operate 6,500 retail stores, all of them proud to sell milk from the farmers at this table and from the dairies that process that milk in Pennsylvania.

I would begin by saying that our 6,500 stores selling to Pennsylvania consumers certainly support the dairy farmers, large and small, where the challenge is defining "dairy farmer, and understanding just what that term means, because we have many ranges here, but very many efficient operations. It's really an extraordinary enterprise in the State of Pennsylvania.

Our association, as I mentioned, supports the dairy farmers. At this time, we oppose any Federal legislation that would have unknown effects on what is understood to be a very complex and difficult and challenging business. I will say there are a couple of exhibits that I'd like to share with you, Senator, if you don't mind.

Senator SPECTER. Fine. We will be glad to receive them.

Mr. MCCORKLE. They are a part of my testimony, and that—they point to a couple of issues that I think bear importantly in this discussion. First of all, the dairy department makes up about nine percent of the average supermarket sales. That nine percent-plus in sales is one of the most hotly competitive. Speaking of beverage, milk is competing with other beverage products; and beverage products are the fastest growing segment of the supermarket and the manufacturing industry. Milk is competing with an array of beverages, from bottled water to fruit drinks of all types. It is a very, very competitive department.

Consumers are buying more and more beverages in the supermarket. Margins on those beverages are shrinking, generally. And the margin overall, as you know, in the grocery store, is 1 percent of sales. That is net profit for the supermarket is a penny on the dollar, after all expenses are paid and all costs of the product is paid. So the dairy part is 9 percent of total sales. The supermarket margin is a very slim—it's a hotly competitive business. The supermarket owner and operator gets a penny on a dollar profit after taxes and expenses are paid. In that competitive marketplace the challenges are immense.

And I shared with you one other piece of information, that being a graph that tracks the comparison of farm prices paid for dairy products as presented by the Pennsylvania Milk Marketing Board to the minimum retail price charged by stores in Pennsylvania. If

you look at that graph, you will note that the spread between those two costs has actually decreased from January of 2000, I believe it is, to February of 2001, from $1.25 to $1.10.

PREPARED STATEMENT

In Pennsylvania, we have the unique situation of having a milk marketing board that considers cost of production of the product to the consumer, cost of processing for the dairies, and cost of operation for the retailer. And because of our unique situation here, Senator, I think it is possibly a model State for the Senate to study in regard to cost and expenses and product prices paid by consumers. So I commend Mr. Brubaker who was—this was noted earlier, is a member of the commission, and to the staff of that commission for presenting a full picture in Pennsylvania that might be a little harder to get into focus as you look at the national picture for the production and processing of the price of dairy products, which is very, very complicated and confusing for a number of reasons that were noted by earlier persons testifying today.

Thank you for the opportunity to be here. Our members are happy to share with you any in-depth additional information that you would like to have concerning this very complex process.

[The statement follows:]

PREPARED STATEMENT OF DAVID L. MCCORKLE

GENERAL COMMENTS & INTRODUCTION

I am David McCorkle, President of the PA Food Merchants Association and the PA Convenience Store Council. Thank you Senator Specter, members and staff of the Agriculture Appropriations Subcommittee for allowing me to provide information on behalf of the members of the association. The membership includes over 1,700 companies operating 6,500 retail locations in the Commonwealth of Pennsylvania and surrounding States. The directors of the association have asked me to make it clear that we will support any program that will ensure the stability and safety of Pennsylvania's milk supply and enhance the business viability of dairy farmers, milk processors and retailers in the Commonwealth. The family farmer is important to the economic and cultural future of the Pennsylvania. Moreover, the product produced by dairy farmers is vitally important to the well being of every Pennsylvanian.

As I understand it, we are here today to discuss farm to retail milk prices and the translation of increases or decreases in the payments made to farmers for class 1 product that is ultimately sold to consumers in retail stores. I am pleased to initiate dialogue on that and other topics that emerge from today's discussion and look forward to providing the members of the committee with any information that you desire concerning retail pricing policies followed by Pennsylvania-based companies.

THE SUPERMARKET BUSINESS MODEL

The Food Marketing Institute publishes an annual financial review for the supermarket industry. Many of you know that supermarkets are known as a penny business. That is, to earn a dollar, supermarkets rely on a low mark-up to stimulate volume sales. Simply, the net profit margin is the net income as a percentage of sales that remains after paying all expenses, including product cost and the realization of any gains or losses. Over the past decade, the average supermarket industry profit has been 0.89 percent annually. Competition is extraordinary as the percentage of disposable income spent on food at home for the year 1999/2000 (6.2 percent) is not much higher than the percentage of disposable income spent on food away from home (4.2 percent). For the fiscal year 1999/2000, the average net supermarket profit after taxes was 1.18 percent.

THE PENNSYLVANIA MILK MARKETING BOARD

The milk pricing system in the Commonwealth of Pennsylvania will be interesting for subcommittee members and staff to review. Act 37 of 1934 and Act 43 of 1935

organized the Pennsylvania Milk Marketing Board in a temporary basis. Regulations were made permanent under Act 105, Public Law 417, in April 1937. In 1968, the Milk Control Commission became the PA Milk Marketing Board. The Board supervises and regulates the entire milk industry of the Commonwealth, including production, manufacture, processing, storage, transportation, disposal, distribution and the sale of milk and milk products for the protection of the health and welfare of the inhabitants. The appointed three-member board and staff review each of the above areas in six separate regions of the Commonwealth and establish prices to be paid at each level of the production and distribution system, including establishing a minimum retail price.

The Bureau of Consumer Affairs consults with representatives of consumer groups, disseminates information relative to activity of the Board, and acts as a liaison to Federal, State and local agencies involved in the dairy industry and milk marketing. The Bureau has provided a consumer update, which is attached to my testimony, dated January 2001. A chart from that testimony is provided on "Milk Price Comparisons Pennsylvania State, January 2000–February 2001," and it contains a graph comparing the whole milk average minimum retail price and producer price at the gallon level.

The numbers speak for themselves and generally indicate a direct and immediate movement of retail prices with the fluctuation of producer prices.

The above fact is not surprising in that milk is generally sold at the minimum retail price in supermarkets due to the highly competitive marketplace.

Pennsylvania's milk pricing structure is unique in the nation. Pennsylvania's consumers can be assured of purchasing quality and competitively-priced dairy products that fairly reimburse producers, dairies and retailers for their efforts.

CONCLUSION

I look forward to reviewing the specific problems identified by this committee. Once we better understand the problems expressed by dairy farmers in the nation, industry experts at Penn State University and other research facilities will be able to work with industry representatives, appointed and elected officials to resolve the problems.

It is the belief of our association members that marketplace solutions will work best. However, we are in the process of reviewing legislation introduced in February by Senator Rick Santorum and Senator Herb Kohl. A national safety net for dairy farmers may a viable solution.

Industry experts have challenged recent economic studies on the N.E. Dairy Compact. The President of the Food Marketing Institute, Tim Hammonds, noted that "the bill extending the N.E. Dairy Compact is being introduced in Congress. Votes for that bill will disappear if the proponents are forced to admit the uncomfortable truth that it is the Dairy Compact that pushed up prices for consumers."

The dairy industry is working diligently with retailers and marketing experts to develop new dairy products that will increase consumption of milk in America. Value-added products are the single most important growth area for milk. I know that Earl Fink will provide you with an update on new products being introduced in the marketplace by the quality dairies operated by Pennsylvania-based companies. Finally, product development and marketing translates into increased investment by dairies and retailers.

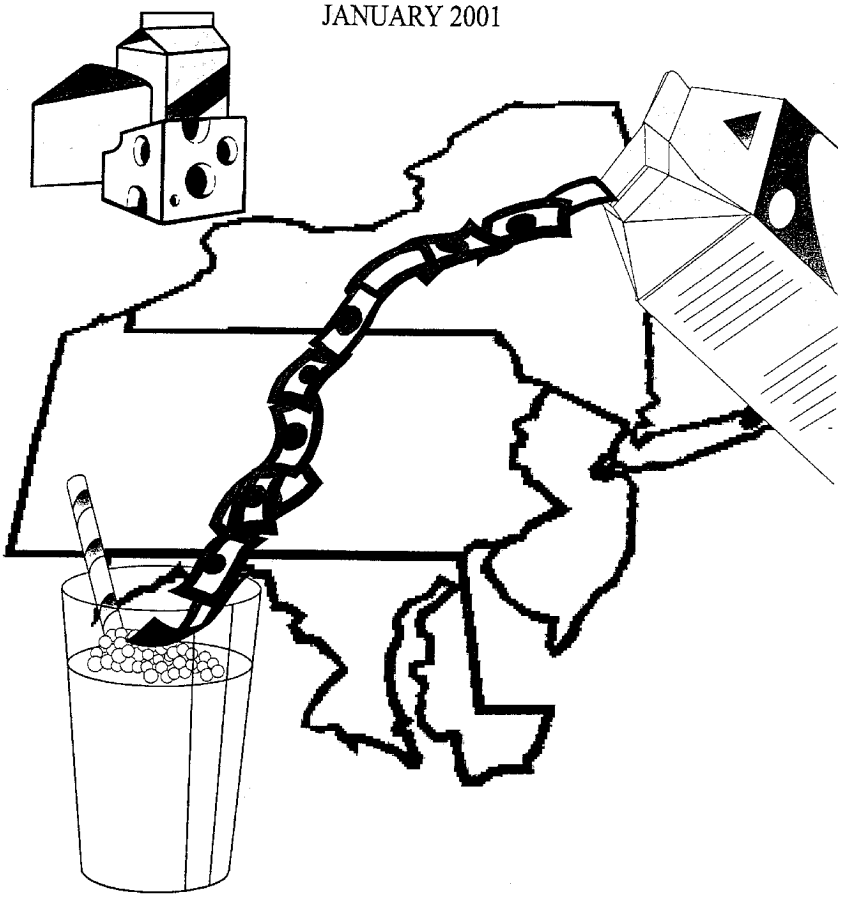
In addition, groups like the PA Dairy Stakeholders are working with dairy farmers to improve on-the-farm practices and efficiencies, which will help farmers improve their bottom line and succeed in today's very competitive marketplace.

I look forward to working with you so that together we can create a better understanding of the milk production, processing and distribution system.

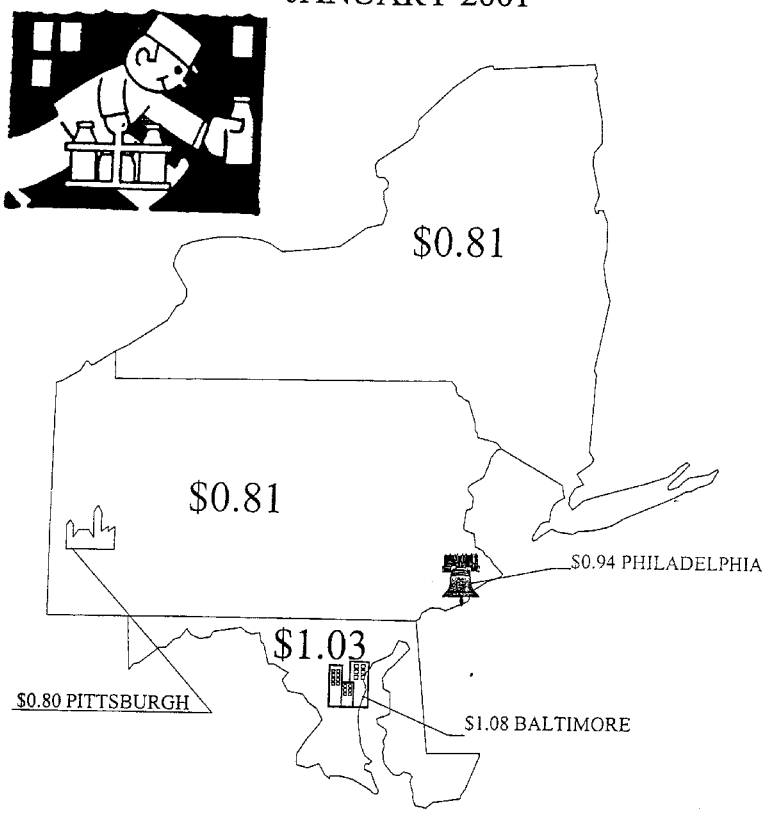
ATTACHMENT I

RETAIL MILK PRICE COMPARISON

PENNSYLVANIA, NEW YORK, MARYLAND
JANUARY 2001

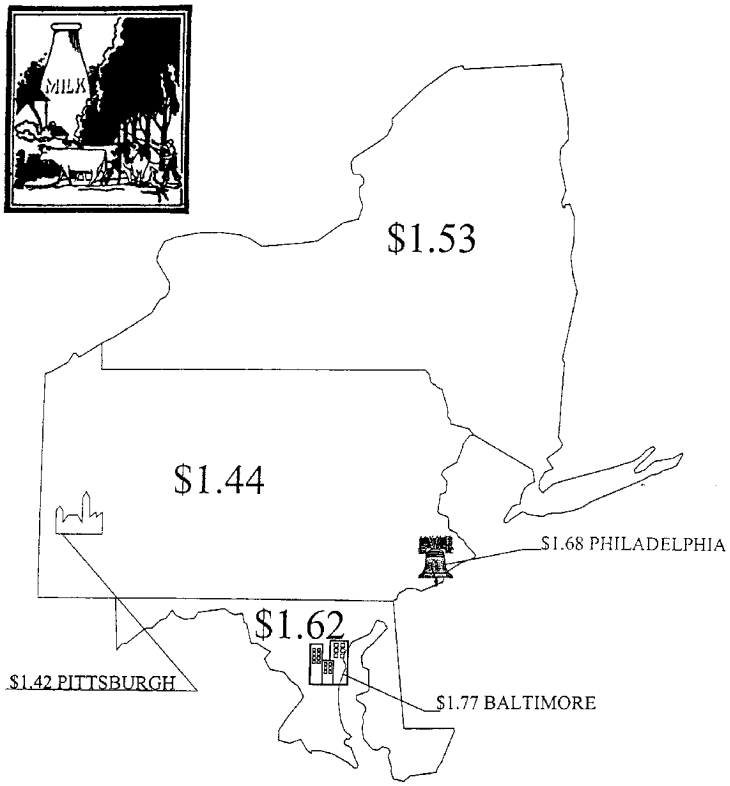


PENNSYLVANIA AND SURROUNDING STATES AVERAGE* QUART WHOLE MILK PRICES JANUARY 2001



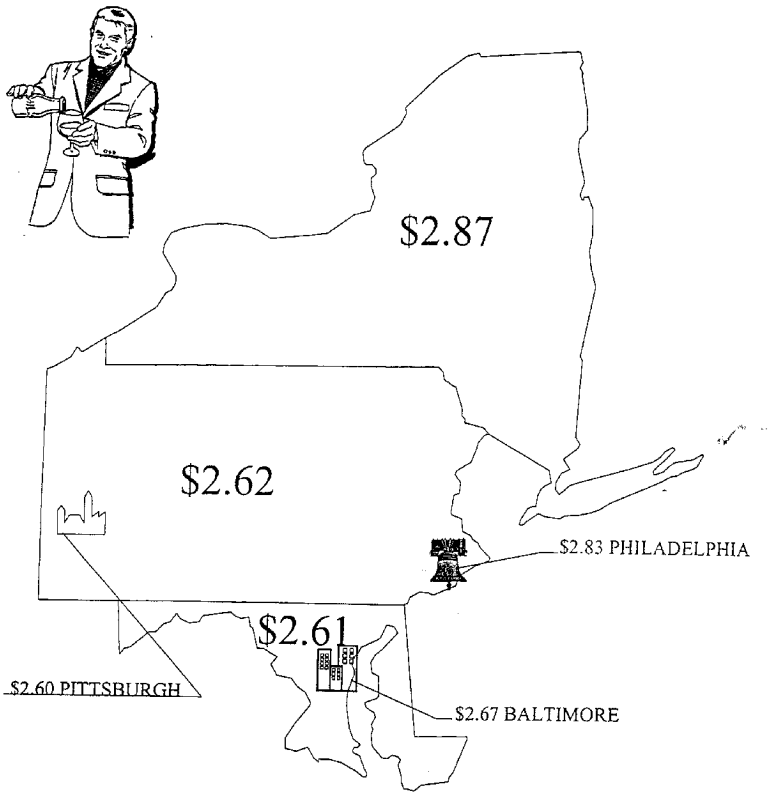
NOTE: PENNSYLVANIA'S AVERAGE PRICE FOR A QUART OF WHOLE MILK INCLUDING PHILADELPHIA'S DATA IS $0.83. PHILADELPHIA COUNTY'S AVERAGE PRICE IS $0.94.
*WEIGHTED BY NUMBER OF PEOPLE IN SURROUNDING AREA.

PENNSYLVANIA AND SURROUNDING STATES
AVERAGE* HALF GALLON TWO PERCENT MILK PRICES
JANUARY 2001



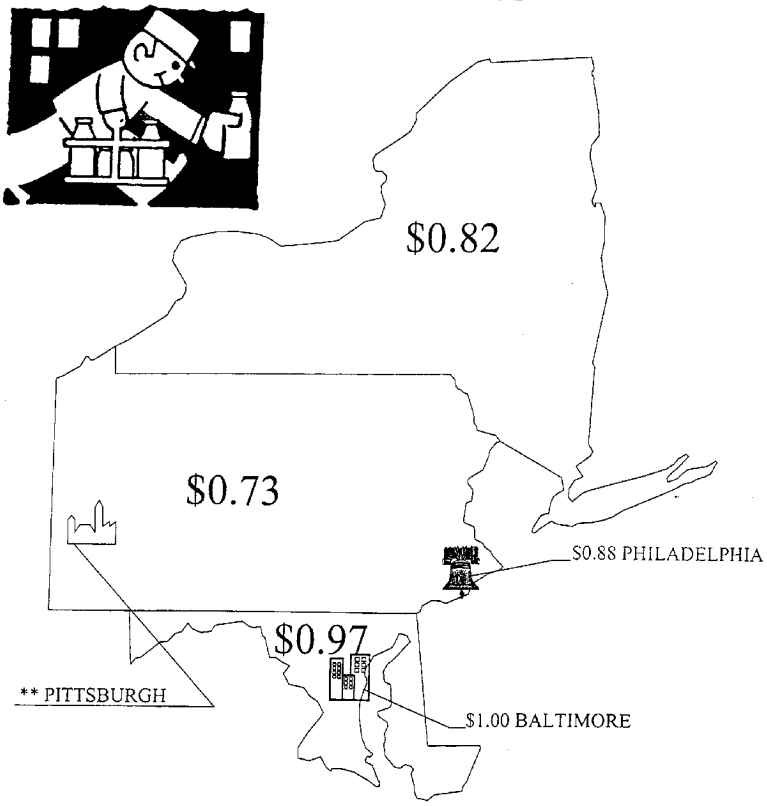
NOTE: PENNSYLVANIA'S AVERAGE PRICE FOR A HALF GALLON OF TWO PERCENT MILK INCLUDING PHILADELPHIA'S DATA IS $1.48. PHILADELPHIA COUNTY'S AVERAGE PRICE IS $1.68.
*WEIGHTED BY NUMBER OF PEOPLE IN SURROUNDING AREA.

PENNSYLVANIA AND SURROUNDING STATES AVERAGE* GALLON ONE PERCENT MILK PRICES JANUARY 2001



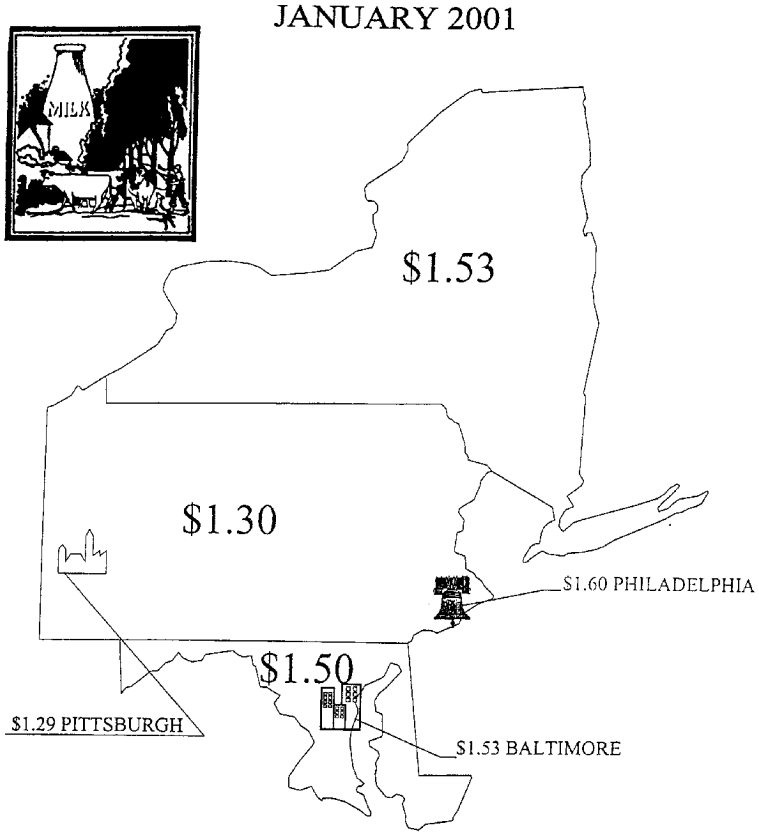
NOTE: PENNSYLVANIA'S AVERAGE PRICE FOR A GALLON OF TWO PERCENT MILK INCLUDING PHILADELPHIA'S DATA IS $2.65. PHILADELPHIA COUNTY'S AVERAGE PRICE IS $2.83.
*WEIGHTED BY NUMBER OF PEOPLE IN SURROUNDING AREA.

PENNSYLVANIA AND SURROUNDING STATES AVERAGE* QUART ONE PERCENT MILK PRICES JANUARY 2001



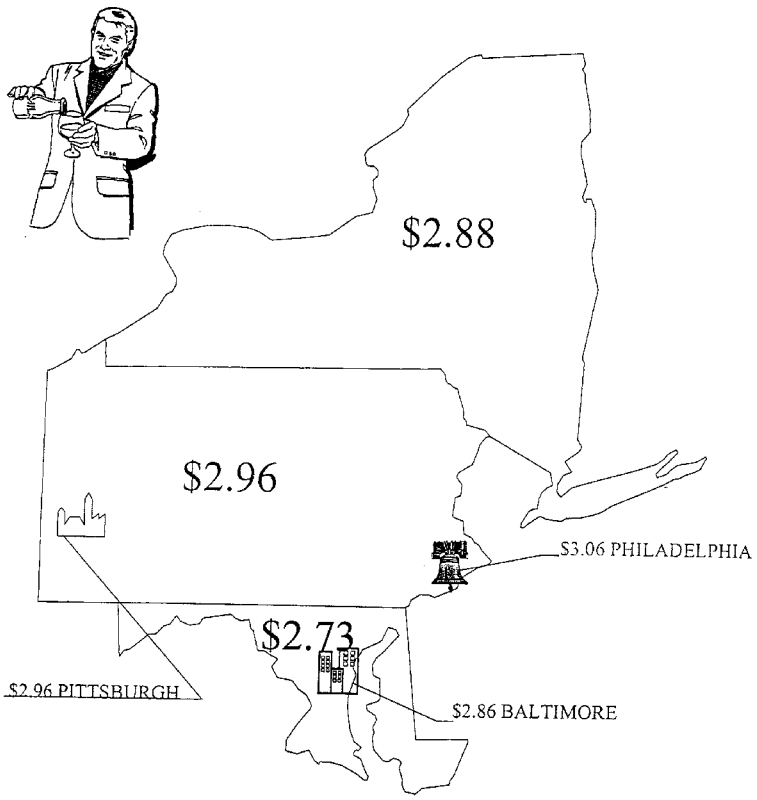
NOTE: PENNSYLVANIA'S AVERAGE PRICE FOR A QUART OF ONE PERCENT MILK INCLUDING PHILADELPHIA'S DATA IS $0.76. PHILADELPHIA COUNTY'S AVERAGE PRICE IS $0.88.
*WEIGHTED BY NUMBER OF PEOPLE IN SURROUNDING AREA.
** NO ITEMS OF THIS TYPE WERE SURVEYED.

PENNSYLVANIA AND SURROUNDING STATES AVERAGE* HALF GALLON SKIM MILK PRICES JANUARY 2001



NOTE: PENNSYLVANIA'S AVERAGE PRICE FOR A HALF GALLON OF SKIM MILK INCLUDING PHILADELPHIA'S DATA IS $1.35. PHILADELPHIA COUNTY'S AVERAGE PRICE IS $1.60.
*WEIGHTED BY NUMBER OF PEOPLE IN SURROUNDING AREA.

PENNSYLVANIA AND SURROUNDING STATES AVERAGE* GALLON WHOLE MILK PRICES JANUARY 2001

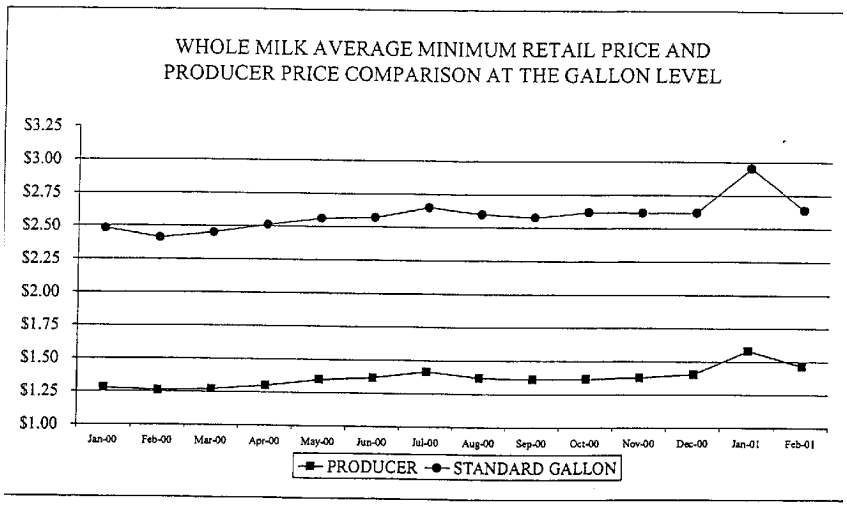


NOTE: PENNSYLVANIA'S AVERAGE PRICE FOR A GALLON OF WHOLE MILK INCLUDING PHILADELPHIA'S DATA IS $2.98. PHILADELPHIA COUNTY'S AVERAGE PRICE IS $3.06.
*WEIGHTED BY NUMBER OF PEOPLE IN SURROUNDING AREA.

MILK PRICE COMPARISON
PENNSYLVANIA STATE
JANUARY 2000 - FEBRUARY 2001

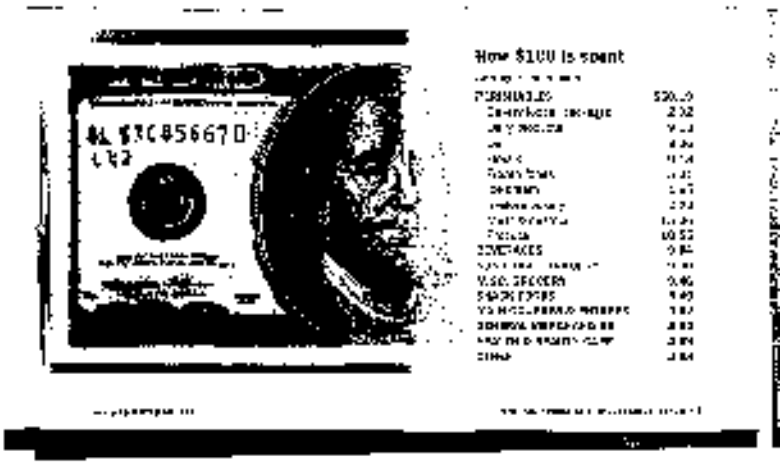
MONTH	PRODUCER PRICE*	MONTHLY DIFFERENCE	STANDARD GALLON AVERAGE MINIMUM RETAIL PRICE*	MONTHLY DIFERENCE
Jan-00	$1.28	$0.03	$2.48	$0.06
Feb-00	$1.26	($0.02)	$2.41	($0.07)
Mar-00	$1.27	$0.01	$2.45	$0.04
Apr-00	$1.30	$0.03	$2.51	$0.06
May-00	$1.35	$0.05	$2.56	$0.05
Jun-00	$1.37	$0.02	$2.57	$0.01
Jul-00	$1.41	$0.04	$2.65	$0.08
Aug-00	$1.37	($0.04)	$2.60	($0.05)
Sep-00	$1.36	($0.01)	$2.58	($0.02)
Oct-00	$1.37	$0.01	$2.62	$0.04
Nov-00	$1.38	$0.01	$2.62	$0.00
Dec-00	$1.40	$0.02	$2.62	$0.00
Jan-01	$1.58	$0.18	$2.95	$0.33
Feb-01	$1.47	($0.11)	$2.64	($0.31)

*Weighted by the area's population.
NOTE: Class I price per hundredweight divided by 11.621 (gallons per hundredweight) to arrive at Producer Price per gallon.
NOTE: The average difference between the retail price and producer price is $1.22



ATTACHMENT II

HOW THE SUPERMARKET DOLLAR IS SPENT



Senator SPECTER. Thank you very much, Mr. McCorkle. We turn now to Mr. Earl Fink, executive vice president of the Pennsylvania Association of Milk Dealers representing 35 dairies which produce 85 percent of the milk sold in Pennsylvania, a graduate of Penn State University with a degree in accounting. Thank you coming in, Mr. Fink. We look forward to your testimony.

STATEMENT OF EARL FINK, EXECUTIVE VICE PRESIDENT, PENNSYLVANIA ASSOCIATION OF MILK DEALERS

Mr. FINK. Thank you very much, Senator Specter, for affording us the opportunity to be here. Much of what I was going to cover has already been covered by Mr. Brubaker and Mr. McCorkle, so in the interest of time, I will make my brief remarks even briefer.

I've brought with me sample copies of the International Association of Milk Control Agencies Price Surveys. I have been monitoring these surveys for the past 20 years, and basically what they show is that in Pennsylvania, the minimum retail price established by the Pennsylvania Milk Marketing Board tends to be the prevailing price. So, in effect, our prices to consumers move in lockstep with prices paid to farmers. And, in other words, each month, the Federal Government announces what the class-one or beverage milk price will be for the following month. The PNMB posts its reports, and then our price moves up and down in lockstep with that.

I have these reports available. We find that the minimum price tends to be the prevailing price in every market in Pennsylvania except the Philadelphia area, which tends to move in step with southern New Jersey; and their prices tend to be slightly above minimum. But in all fairness to stores in Philadelphia, when you look at them compared with the national prices in other markets, they're very much in line. Penn State used this information to do a study some years ago, and their bottom-line finding was that, on average, Pennsylvania farmers received more for their milk than

farmers around the country and, on average, our consumers pay less. I think that is very compelling evidence and is a credit to the work that the milk marketing board.

Mr. Tewksbury indicated that the Milk Board has been setting a premium—I think it was since 1988, Arden, not 1987—and I would like to point out that our association, which represents processors, has always supported that premium, not always at the same levels as the farmers, but we have supported their premiums since its inception in 1988. I would like to point out that this Wednesday, the Milk Marketing Board will be holding a hearing to consider the level of premium beyond July 1, and at that hearing we will be supporting a higher premium, $1.65 where we've been for the last 6 months, the same as a few other farm organizations. But a couple of the farm groups are actually supporting a price lower than $1.65. So as processors, we're supporting a higher level than some farm groups.

I think that's all I have. Thank you very much.

Senator SPECTER. Thank you very much, Mr. Fink. Mr. Tewksbury, you talked about Federal legislation. What Federal legislation would you like to see introduced?

Mr. TEWKSBURY. Senator Specter, last fall former Congressman Ron Clink introduced a bill in Washington that we helped put together. And my understanding is that Congressman Tim Holden either has or will be introducing a similar bill. And in addition to that, we have put together a bill somewhat like Congressman Clink's bill which basically brings the average cost of producing milk across the United States, as determined by USDA, into a pricing mechanism. It also allows dairy farmers to produce milk for the needs of the market without being penalized. And I think, to me, it is the answer to this pricing problem.

I realize not everybody is going to agree with that, but, you know, a confusing thing is that a branch of the USDA has been establishing prices on the cost of production for all commodities or major commodities for many, many years through the act of Congress, I guess, demanding that our market administrator's report every month what that cost is by certain sections of the country and the national average. This is being surveyed all across the country, and farmers and dairy farmers now themselves realize as what USDA says the average cost is by the northeast, the southeast, the far west, and the national average.

And we've heard today that—and I have been at hearings of the marketing board over the past years when they do bring in the cost factors of our processors and so on—and their container costs and so on in establishing the price-per-gallon of milk, but they pattern their prices after the Federal orders. So as the Federal order pricing collapses, so does the price in Pennsylvania on the beverage milk, except for the premium established by the marketing board.

So while the board does—as best I can recollect, does bring in the cost of other elements into a gallon in—into Pennsylvania, and they bring in the farm price established by the Federal orders, but that Federal order does not bring in what the farmer's cost of operation is.

Senator SPECTER. So essentially, Mr. Tewksbury, you would like to see legislation which took into account the cost of production and a reasonable profit.

Mr. TEWKSBURY. Yeah, and these figures are established by the Department of Agriculture, and we have tried to bring them into an advocacy meeting sometime, and they don't want to be any real part of it; but they said if there is a bill introduced and there are hearings held on it, they will come into the committee hearings in front of you people and discuss their cost of production records and how they get there and how they can defend them. I understand there's people in USDA at other levels who don't even support the USDA's cost of production figures, yet these figures are put all across the United States as," Here's what it costs." I've got them right here, the latest ones for the northeast and so on, and it is substantially higher than what farmers are receiving. And if you put total economic costs in there, it shoots way up.

Our policy is that we need a pricing formula that doesn't go up and down all the time and cause all of this confusion to consumers and causes a lot of problem for our stores to make these changes. And that's why I've heard them say, you know, about milk selling higher in other States—I watch it in southern—here in New York—and what I've noticed is when—when, in Pennsylvania, if the prices go up for our dairy farmers, and the price of a gallon of milk does go up, okay, it does go up as dictated by the board, but in New York State, they also are raised, because they're cost is going up. But now when the price comes down in Pennsylvania, what I find in Horsehead and Elmira and Corning, New York, and those places, they hang onto that price that was up here higher than what it is here in Pennsylvania.

Senator SPECTER. Well, Mr. Tewksbury, they hang onto the price which is higher, too, according to what Bob Conklin and Mr. Robinson said.

Mr. TEWKSBURY. I've seen many times 30, 35, 40 cents a gallon higher than what you can buy it up in the Athens area. And I'm sure that's what goes on across the country. So I think the way to get away from this, Senator, would be to have a pricing formula that reflects what the cost is at the farm and has stabilized the prices.

Senator SPECTER. Dr. Conklin, let me turn to you for a response to what Mr. Tewksbury has had to say. When the first changes were made in milk prices, going back into the 1930s, there was a concern about the sanity of milk, the adequacy of production—I see you nodding in the affirmative—and there were minimum prices set in order to deal with the problem of an adequate supply of milk. It was really done for the consumers, and it took into account what the farmers were facing.

One of the first jobs I had as a younger lawyer—I'm still a young lawyer—but when I was a younger lawyer working with Barsdeck, Price, Meyers, and Rhodes was representing Sealtest National Dairy Products, we had many hearings before the Milk Control Commission, and that was still the dominant theme, to provide an adequate price to the farmer to guarantee adequate supply and sanitary conditions. So why not figure in the cost of production to the milk producer as a cost of production plus a reasonable profit?

Dr. CONKLIN. Senator Specter, let me begin by noting that—as Mr. Robinson also mentioned, the structure of pricing milk in this country has been built on over a half a century of very complicated policy structures, both at the Federal level and at the State level. We've heard here a little bit about the role of the board here in Pennsylvania. There are some other States that also have similar institutions, or ones that play a slightly different role.

Developing policies that use the cost of production to help set prices, requires caution, because there is no very good way to measure cost at the farm level. Costs vary widely—we can compute average costs, but there is a wide variance around the average.

Senator SPECTER. Well, Dr. Conklin, I understand that you're looking for competition. But where you have this very complicated structure which you've testified about, is there any way to simplify this so-called, quote, "complicated structure," or are we really heading to a situation where there are not going to be anymore small farmers? Where you lose 300 to 500 farms a year, and you have some 9,900, that is a pretty heavy attrition rate. Do we want to find a situation where we're relying only on the giant corporations and milk producers in far-distant places, or is there some value to society and to the consumer in maintaining the family farm?

Dr. CONKLIN. The judgment, Senator—the judgment about the value of maintaining the family farm is certainly not one that I am in a position to make, but I think that is a statement that many other people here have spoken to today, and that that's a judgment that society has to make through the political process and through the policy process.

Senator SPECTER. Well, you're the economist—a key economist for the United States Department of Agriculture, and if you find some other way to handle it, you have to consider the impact of the elimination of the family farm or this sharp reduction. A question which comes to my mind—and maybe we'll turn to you, Mr. Brubaker—you cite the statistics that Pennsylvania farmers receive a larger supply—a larger percentage of profits than farmers from other States. What is happening in the other States? Are they losing more family farms? You cite here that the Oregon farmer gets only 35.7 percent of the retail price of milk, compared to 53.2 percent in Pennsylvania. Is Oregon losing more of its family farms—milk producers?

Mr. BRUBAKER. Senator, I can't answer that question. But one thing I can answer is some places where they have had a board similar to Pennsylvania, what I was told is that when they lose the board, the price usually goes up to the consumer, and the prices goes down to the farmer. And that is what I consistently have heard from where States—and I think I'm referring to—maybe someone can help me out what State that was——

Senator SPECTER. Well, Mr. Brubaker, that generalization isn't too helpful, even if it is so. But from the point of view of the Senate Agriculture Subcommittee appropriations, we're concerned about what is happening nationally. And this hearing obviously focuses on Pennsylvania. But if the Pennsylvania farmers are better off, say, than the Oregon farmers or the New Jersey farmers, who get only 40.5 percent of the retail price of milk, I would like to have a finding, Dr. Conklin, perhaps the Department of Agriculture can

give it to us, whether there's other States—New Jersey and Oregon, illustratively, are losing more of their farms than Pennsylvania. Can you provide that to us?

Dr. CONKLIN. Senator, that is not a question that I can answer right now. Certainly, I can go back and check the data that we have to see if we can give you an answer to that question.

Senator SPECTER. I understand you can't answer on the spur of the moment, but I would like to see if you could go back and answer the question.

I'm very much concerned with the testimony we have here today—Mr. Robinson testifying about farm prices going down and retail costs are constant or higher so that when the farmer gets less money for his milk, the retail prices are constant or higher. Now, how can we account for that? Dr. Conklin has testified that there is retail resistance to lowering prices and the market power—when prices go up, there is a faster accommodation—you're nodding in the affirmative—on retail prices rising, when prices go down to the farmer, they retain constant or even go up among the retailers. What can be done about that to provide greater fairness to the system?

[The information follows:]

Farmers' share of retail prices for Class I milk varies widely across States. Because this share is based on retail prices within an individual State, milk is shipped across State lines, there is no reason to expect these shares to be consistent across States. Dairy farm numbers have declined across the nation. At a first glance it appears that the percentage decline in the number of commercial dairy farms is higher in States where the farmers' share is lower. Of the six States we examined at your request, Pennsylvania, New York and Maine had the highest farm shares of retail fluid milk prices and the smallest percent decline in the number of dairy farms between 1995 and 2000. However, it is worth noting that the three States with the largest percentage decline in dairy farm numbers, Colorado, Oregon and New Jersey, were all States with a relatively small number of farms at the beginning of the period so that the absolute decline in farm numbers in these States was quite small even if the percentage decline was high. A complex set of factors drive dairy farm entry and exit decisions. In addition to milk prices, these include operator demographics, real estate prices and urbanization. Because these factors vary widely across the United States it is not possible to conclude from these numbers that there is a causal relationship between farmers' share of retail milk prices and the changes in the number of dairy farms.

CHANGE IN THE NUMBER OF COMMERCIAL DAIRY FARMS [1]

	Share of retain price received by farmers in Class I milk [2] (percent)	Number of dairy farms		Change in number of dairy farms since 1995 (percent)
		[3] 2000	[4] 1999	
Maine	47.9	458	592	(22.6)
New Jersey	40.5	158	242	(34.7)
New York	51.1	7,238	8,913	(18.8)
Pennsylvania	53.2	9,837	12,000	(18.0)
Colorado	33.9	195	300	(35.0)
Oregon	35.7	364	522	(30.3)

[1] Commercial farms are those actually selling milk as defined in a survey by the American Farm Bureau Federation carried out annually since 1992.

[2] Data from testimony given May 14, 2001 in Philadelphia, PA.

[3] Data from July 1 survey of farms within each State actually selling milk published in ''Hoards's Dairyman'', October 25, 2000.

[4] Data from July 1 surveys of farms within each State actually selling milk published in ''The Western Dairyman,'' February 1998.

Mr. ROBINSON. Well, our work—again, I want to say—confirms, through empirical information that kind of price behavior and price relationships.

Senator SPECTER. You say you do confirm that from the empirical data?

Mr. ROBINSON. The empirical data shows that again—as I mentioned earlier, that there's a pretty weak price relationship between what happens on the farm nationally—that is the prices farmers received and what the retail price is in a given market. I might say, in confirming some of the observations made here earlier, that among the nationwide picture that we put together, the price relationship was stronger in Philadelphia, Pennsylvania than it was in the vast majority, if not all, the other markets in the country—so there may be things going on in Philadelphia, Pennsylvania to strengthen that relationship, which I can't say with certainty. All I can say is that there is a stronger relationship in Philadephia, Pennsylvania than most, if not all, the other locations.

Senator SPECTER. You say a stronger relationship, but did prices in the retail stores in Pennsylvania go down as fast when farm prices were reduced as they went up when farm prices were increased?

Mr. ROBINSON. No, the price relationship is still not extremely strong. In technical terms, I think it is a correlation coefficient of about point-six. A perfect relationship would be one.

Senator SPECTER. So you're saying that although Pennsylvania—the disparity is not as great in Pennsylvania, there still is a significant disparity that when farm prices go up, the prices reflect at the retail level, much faster than when prices go down—the prices—the farmers prices at the retail level go down.

Mr. ROBINSON. Certainly in the end result, there was not a perfect flow. That is correct. The speed with which these things happen is a little difficult to discern. All I can say is that at the beginning of the period and the end of the period, there was not a perfect match, and that during the course of the period there may be lags.

Senator SPECTER. Just to be sure I understand you, your conclusion is that when prices go up to the farmer, they go up faster in the retail stores than when prices go down to the farmer, that they are reduced in the retail stores.

Mr. ROBINSON. When prices go down to farmers, it does not translate into prices going down for consumers. They, in fact, have gone up for the most part.

Senator SPECTER. That is true in Pennsylvania, even though there is less disparity?

Mr. ROBINSON. That is correct.

Senator SPECTER. Okay, Mr. Tewksbury?

Mr. FINK. Mr. Chairman, I beg to differ.

Senator SPECTER. We'll give you a chance in a minute, Mr. Fink, but Mr. Tewksbury will get recognition first. In the Senate, it's the first senator on to speak who gets recognition.

Go ahead, "Senator" Tewksbury.

Mr. TEWKSBURY. I watch the retail prices very closely in probably 25 stores, maybe more than that, in northeastern Pennsylvania. Number one, when the dairy farmer prices go up on beverage milk,

and that's good terminology, beverage milk, the prices have to go up because the marketing board establishes higher minimum prices at that point. Okay?

Now, when the prices come down to our dairy farmers on beverage milk, the stores that I survey all the time, they come down the same day, the first of the month. I see it over and over and over again. So I don't know about the whole State, but at least one-third of the State that I observe, when the prices come down to the dairy farmers, on the first of April, say, the prices—the minimum price comes down, established by the marketing board, and at most supermarkets, the minimum price becomes the selling price and it comes right down the same identical time.

Now, the problem that I have, as a dairy farmer, is, while I'm listening to these statistics as to the better relationship between what the dairy farmers in Pennsylvania receive and the correlation to what the consumers pay, but I don't think those figures take into consideration the dairy farmers in Pennsylvania whose milk goes into New Jersey and New York where that isn't necessarily true. So while some Pennsylvania dairy farmers, the correlation between their price and the consumer price is better, overall many of our dairy farmers in Pennsylvania would not fall into that category, in my opinion, and for the dairy farmers in New Jersey, I don't think they have even 200 dairy farmers left in New Jersey to supply almost 8 or 9 million people. So the attrition rate in New Jersey for many years has been extremely bad, and they can't lose many more or they won't have any at all. But I think my observation is that there is a relationship between the dairy farmers prices going down and going up with the retail prices in most cases.

Senator SPECTER. So you think the attrition of the New Jersey dairy farmers is accountable to the fact that they receive a smaller portion of the retail price of milk, getting 40½ percent, compared to Pennsylvania, 53.2 percent?

Mr. TEWKSBURY. I think that's part of it, and the fact that they're not getting a realistic fair price overall, and the terrible exposure of the real estate problems in New Jersey has just eaten up our farms in New Jersey. And if we're not careful, that same thing could happen in Pennsylvania and other States, as well.

Senator SPECTER. Mr. Tewksbury, let me see if I understand your testimony correctly. Do you disagree with Mr. Robinson, and do you believe that when milk prices go down to the farmer, that the farmer gets less money, that those are reflected in retail prices going down?

Mr. TEWKSBURY. I find that true in northeastern and north-central Pennsylvania. But about a half an hour ago, I also said that I watch the prices in the southern tier of New York, that when the prices in these stores in Pennsylvania go down, as established by the marketing board, I find the stores in Corning and Horsehead and Elmira keeping their prices up there, which would indicate to the testimony of—that one of the speakers gave that the relationship of what the farmers get is less than the retail price.

Senator SPECTER. So what you find in the southern tier of New York, you think there is a closer correlation between the retail prices in northeastern and central Pennsylvania because those retailers are more attuned to what their customers, who are signifi-

cantly farmers, know, that the farmers who go into their stores know that the price is going down on the price paid to the farmers, so they expect the prices to go down in the stores that are in their area?

Mr. TEWKSBURY. I don't know how much it relates back to the farmers to the prices going down and so on. I think it is the relationship that's been established between the Pennsylvania milk marketing board and our retail stores across Pennsylvania, which I think is extremely good. And I agree that the overall picture in Pennsylvania is probably better than many States. We also do surveys in California, which I'm sure is in Mr. Robinson's surveys in my lands. The prices that the farmers receive in California and what the consumers pay, I would like to see if he has a breakdown of that, because that is alarming, not only on beverage milk, but on manufactured products, as well. If he has that, I think it would be very good for you people on the committee to study that, because you're going to get some amazing statistics.

Senator SPECTER. Mr. Fink, we'll come to you. And—wait just a second. I haven't formulated my question yet. You wanted to reply to Mr. Robinson. In your testimony, you said that the farmers get more, and the consumers pay less, and you referred to a stack of papers which you have in front of you as being a study from Penn State. Can you——

Mr. FINK. No, no. This is not the Penn State study. This is a study that is made every month, Senator, and it is published by the International Association of Milk Control Agencies. It's available on the Milk Marketing Board's Web site since January of 2000. It goes back 20 years.

Senator SPECTER. Will you point to the source of that study to back up your statement that Pennsylvania, the farmers are getting more and the consumers are paying less——

Mr. FINK. That was a Penn State study done some years ago by the committee, a copy of it.

Senator SPECTER. Well, that is what I was referring to.

Mr. FINK. Okay.

Senator SPECTER. You referred to a Penn State study, which is what I had just said, and I thought you had gestured toward that stack of papers.

Mr. FINK. No, I'm sorry I misled you, Senator. This is simply the price surveys that are done monthly. And in Pennsylvania——

Senator SPECTER. Well, if you would provide the Penn State study to the subcommittee, I would appreciate it.

Mr. FINK. I will do that.

Senator SPECTER. Go ahead with your testimony in which you think—which you represent contradicts what Mr. Robinson said.

Mr. FINK. I know Mr. Robinson has a massive job trying to study retail milk prices throughout the country, but in Pennsylvania we have hard data, back probably 20 years, where employees of the milk marketing board actually go into supermarkets, and record the prices. And then those prices are published and compared with their minimum prices. And we found over the last 20 years that in all areas of the State except Philadelphia, in supermarkets, the price to the consumer moves in lockstep with the price to the farmer.

Senator SPECTER. Well, would you show where in those studies that conclusion appears?

Mr. FINK. You have to go through—and I'm stating my conclusion. I would like the committee to make your own study of these reports. And I'm sure you will arrive at the same conclusion.

Senator SPECTER. We will make our own study. But when you make that representation, if you are able to back it up, I would like you to. If you can't at the spur of the moment, I would like you to provide it to the subcommittee.

Mr. FINK. Okay. Well, if you want to take one report—I will walk through one report, if you would like, Senator.

Senator SPECTER. Go ahead.

Mr. FINK. Okay. This is for February of this year, February 2001. Unfortunately, the pages aren't numbered, but the——

Senator SPECTER. Excuse me. If you have a report for February 2001, let me take a look at it please. Do you have a second copy?

Mr. FINK. I probably gave it to you. If I can take one second—there's the minimum retail store prices for six milk marketing areas for a gallon of whole, low-fat, and skim—and then you move on back to the supermarket prices in Pennsylvania, and you will see they have a high, a low, and an average.

Senator SPECTER. Well, are you saying there's something you want to compare? And you say there is something you want to compare?

Mr. FINK. Yeah, compare the minimum prices with the various areas with what the observed prices were at the supermarkets.

Senator SPECTER. Go ahead.

Mr. FINK. Okay. In area two, for whole milk, the low was $2.63; the high was $2.89, the average was $2.63. I would say the minimum was $2.62 for whole milk, correct?

Senator SPECTER. What is your point here, Mr. Fink?

Mr. FINK. That the prevailing minimum price established by the Pennsylvania Milk Marketing Board, which are these numbers, tend to be the prevailing prices to consumers in all areas of the State except area one, which is the Philadelphia area.

Senator SPECTER. Well, how does that correlate with the prices which are being paid to the producers at this time——

Mr. FINK. Because these minimum prices move up and down in lockstep with the changes in the prices to the farmers. In other words——

Senator SPECTER. Where does that appear?

Mr. FINK. That is on another page, and you have to use some math to get that. Here are the prices paid to the farmers. Excuse me, that's not it.

Senator SPECTER. Let me ask you to do this, Mr. Fink, in the interest of time. Would you submit to the subcommittee the analysis, and if you have to do some math, make the computations. If you think that these statistics support a conclusion that the prices which are paid to the producers and dairy farmers match the prices paid by the consumers?

Mr. FINK. I'd be happy to do that.

Senator SPECTER. It would be very interesting to see what the General Accounting Office and the Department of Agriculture say.

Mr. FINK. If Arden and I agree, it must be correct.

Senator SPECTER. If you and Arden agree, it must be correct? The subcommittee is not quite ready to delegate the conclusory responsibilities to you, Mr. Fink.

Senator SPECTER. Mr. McCorkle, you wanted to make a comment here?

Mr. MCCORKLE. Yes, Senator, thank you. I just wanted to say that what I've heard today has been very interesting, but I believe what I've heard from Mr. Brubaker, over to this side of the table, which happens to be the left side of the table, agree that farm prices are fairly reflected at retail prices for whole milk products purchased by consumers in the State of Pennsylvania, which fits with my testimony that says that in Pennsylvania we have protected the safety of the milk supply and the production of the supply and providing consumers with a quality product at a low price compared to prices in the region. And I think that is what Mr. Brubaker and Mr. Tewksbury and Mr. Fink and I testified today. And the testimony, I believe, including this one-page chart, I believe backs that up in Pennsylvania.

The situation is more complicated as we look to the other States. I think it was testified earlier, those differences between farm costs and retail costs are explained to some extent by energy costs, by packaging costs, by labor costs, by marketing costs, and by broader factors in the economic——

Senator SPECTER. Well, Mr. McCorkle, you're saying that there could be some reflection of this differential, as Mr. Tewksbury says, if you go to New Jersey; that in New Jersey, the prices which the consumers are paying go up faster than the prices which are paid, say, to the Pennsylvania farmers, who are apparently shipping milk into New Jersey. When the amounts of money paid to the Pennsylvania farmers go down, that that is not reflected as much in a reduction in cost to New Jersey consumers?

Mr. MCCORKLE. Sir, I'm not sure. I think it's very complicated. What you've stated is probably true, but the reverse of that is probably also true, that there are benefits that come from shipping to other Federal districts that probably can't be explained very clearly or justified by an economist.

Senator SPECTER. Well, what are the benefits? If the costs are higher, what are the benefits?

Mr. MCCORKLE. The payment is higher. The costs stay the same, but the payment may be higher. And I'm not an expert in any of those areas, and don't pretend to be. What I can testify to is to what's happening in the retail marketplace in Pennsylvania and to the positive effect that the milk marketing board has had on the structure of the dairy production and distribution system in the State.

Senator SPECTER. Mr. McCorkle, what is your opinion of the breakdown in the cost of the milk which was testified to about $2.50? And you are representing the retailers. The farmers get $1, and the costs are 25 cents, and the wholesalers get 75 cents, and the retailer gets 50 cents. Does that breakdown seem about right to you?

Mr. MCCORKLE. I would have to compare that with the breakdown for other products sold in the stores. The average markup in the supermarket is somewhere in the low-20 percent area. So

again, I would have to take a close look at that. But there are extraordinary costs to operating a retail store.

Senator SPECTER. Mr. Fink, 75 percent goes to the wholesalers, almost as much as the farmer gets. Is that fair?

Mr. FINK. To the wholesalers?

Senator SPECTER. You're representing the wholesalers here today.

Mr. FINK. I don't think 75 cents is almost as much as $1, Senator.

Senator SPECTER. You get 75 cents out of $2.50, the farmer gets $1, the coop gets 25 cents, the wholesaler gets 75 cents, and the retailer gets 50 cents. Is it fair that the wholesaler gets three quarters as much as the farmer, that produces the milk?

Mr. FINK. I think it is fair, at least in Pennsylvania. Our pricing is very fair. The pricing is based on the cost of the milk and the value of the container and the cost of processing the milk in the plant and delivering it to the store. We don't do this for nothing. I think in Pennsylvania at least——

Senator SPECTER. Well, the farmers don't do all of what they do for nothing either.

Mr. FINK. Mr. Brubaker's testimony shows in Pennsylvania, the farmer gets 53 percent of the retail price, which is higher than the national figures presented by Mr. Robinson.

Senator SPECTER. Mr. Tewksbury, do you think that's a fair allocation?

Mr. TEWKSBURY. It's a fair allocation.

Senator SPECTER. Take the microphone, or Pennsylvania Cable Network is not going to get your pearls of wisdom, and you have to get the other one, too.

Mr. TEWKSBURY. I'm not going to dispute any of these figures. I don't really know exactly what they are, but I still say that it does hold true probably for the milk in the State of Pennsylvania, but it does not hold true for the milk that leaves the State, like most of the milk in northeastern Pennsylvania. It goes into Brooklyn and Long Pond, New Jersey. And I think if those prices were segregated out, you would find it would not be 52 or 53 percent; it would be down in the 40-percent bracket, and that's because of the premium structure in Pennsylvania, which is good in Pennsylvania, but it doesn't help the milk that leaves the State. So I think that 53 or 52 percent would be lower on your producers in Pennsylvania whose milk leaves the State. And, of course, that does not reflect anything on the milk that is used for manufacturing purposes.

Senator SPECTER. So the Senate has to consider whether the national average and the national picture.

Mr. TEWKSBURY. Yes, sir.

Senator SPECTER. Ms. Mittal, you've sat through this entire hearing without saying anything. Would you like to speak?

Ms. MITTAL. No, thank you, Senator. I agree with most everything that's been said so far.

Senator SPECTER. Well, the subcommittee—the Agriculture Subcommittee of the appropriations is going to pursue this matter further. I will be interested to get the analysis from—that Mr. Fink is talking about, and I would like for you, Mr. Robinson, and Dr. Conklin to take a look at the point which Mr. Tewksbury is making

here about the impact on the Pennsylvania farmer on milk which is sold out of State, as he cites what has happened in New Jersey, the southern tier of New York, Brooklyn.

I remain very much concerned about the basic statistics of the farm prices falling 48 cents a gallon in the period between March and April of 1999 and the retail price going down only 29 cents a gallon—a big differential. I'm also concerned about the wide fluctuations in what the farmer gets—$16.27 in January of 1999, down to $10.27, a month later—as to how we might approach this issue on milk pricing. It is obviously a very complicated matter.

But from a national perspective, I'm concerned about what is happening to the loss of farms in New Jersey, perhaps in Oregon. We will see what those figures show. So I'm certainly concerned about what is happening in Pennsylvania where, in my travels among—through Pennsylvania, 67 counties, I hear repeated complaints about the squeeze of the dairy farmer, the squeeze of the dairy farmer. And my purchases are not scientific, but I haven't found the price of milk going down, ever, on the milk that I buy. And the repeat of the specific time that prices were going down to the farmer, where I bought milk, it went from $1.95 to $2.29. And when we talk about economic power in the retailers and the ability to hold onto more of the profits at a time when the prices go down to reflect that change in a slower price contrasted with when the prices go up to the farmer and up to the retailer, the prices go up much faster.

Milk is very important to the consumers, especially to the children of America, so we intend to pursue the matter further. We will be looking for the follow-up from Mr. Fink and from Dr. Conklin and Mr. Robinson. If anybody would like to say anything further before we conclude the hearing—Mr. Brubaker?

Mr. BRUBAKER. Mr. Senator, thank you for this opportunity. Again, just to try—and I don't have this down on paper, but it would be for the record, just to simplify the situation a little bit—would be that I can testify to the same thing that was said here. In our area, when the milk price goes up to the farmer, the store price goes up about 9 to 10 cents a gallon, and that doesn't take into account the percent of fats. But I'm saying on average about 9 to 10 cents per gallon. The price of a gallon will go up if it goes up $1 to the farmer. If it goes down a $1 to the farmer, that will follow itself right through, as they stated. I can go into a Mini-Mart or the super chains—and our store, and that will basically, on the day of the first of the month, that milk will be back down following the farmer's reduction in price. It is just like step-by-step. If the price goes down to the farmer, the price comes down to the store at about 9 to 10 cents a gallon as $1 relates to the dollar to the farmer.

Senator SPECTER. Mr. Conklin, Mr. Robinson, would you be in a position to extend this study to that precise point? I would like to see just exactly how that works now.

Mr. ROBINSON. We'd be happy to look at any figures anybody can provide. I can only tell you the price spread in Philadelphia got larger. And the only way it gets larger is if farm and retail prices are not tracking with one another.

Senator SPECTER. What I'm asking you—would you be in a position to track the representation just made by Mr. Brubaker?

Mr. ROBINSON. We'd be happy to try. Yes, sir.

CONCLUSION OF HEARING

Senator SPECTER. Okay, thank you all very much.

[Whereupon, at 10:05 a.m., Monday, May 14, the hearing was concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

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