



Highlights of [GAO-05-50](#), a report to congressional requesters

### Why GAO Did This Study

In 2003, U.S. dairy farmers marketed nearly 19.7 billion gallons of raw milk, one-third of which were used in fluid milk products. Farmers, cooperatives, processors, and retailers receive a portion of the retail price of milk for their part in providing milk to consumers. During 2002 and 2003, farm prices fell while retail prices did not similarly decline. This pattern raised concerns about a growing spread between farm and retail prices. Farm prices have since increased, reaching record highs in April 2004. As requested, GAO examined (1) the portion of retail milk prices received by farmers, cooperatives, processors, and retailers, how this changed over time, and the relationship between price changes at these levels; (2) how various factors influence prices and affect the transmission of price changes among levels; and (3) how federal dairy program changes and alternative policy options have affected or might affect farm income and federal costs, among other considerations.

### What GAO Recommends

To continue informed decision-making, the Secretary of Agriculture should build on GAO's analysis of the potential effects of various policy options as USDA proposes future changes or provides information to the Congress. USDA expressed concern about the practicality of some of the dairy policy options discussed. USDA did not comment on the report's recommendation.

[www.gao.gov/cgi-bin/getrpt?GAO-05-50](http://www.gao.gov/cgi-bin/getrpt?GAO-05-50).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Lawrence J. Dyckman, (202) 512-3841, [dyckmanl@gao.gov](mailto:dyckmanl@gao.gov).

## DAIRY INDUSTRY

# Information on Milk Prices, Factors Affecting Prices, and Dairy Policy Options

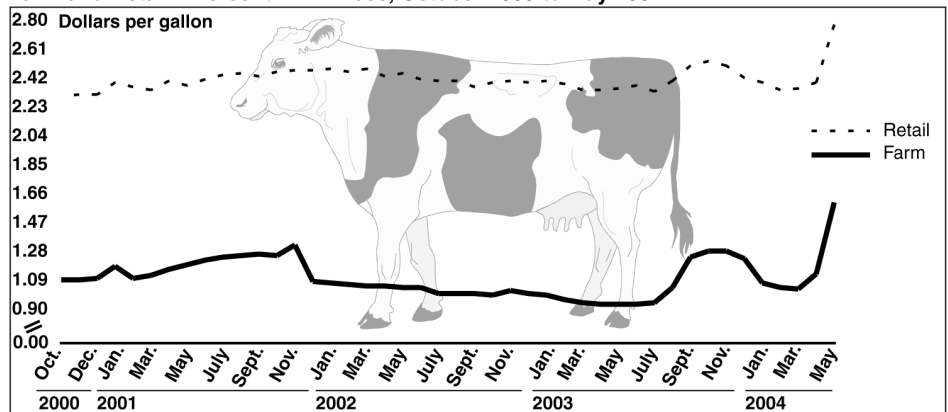
### What GAO Found

Between October 2000 and May 2004, on average, farmers received about 46 percent, cooperatives 6 percent, wholesale processors 36 percent, and retailers over 12 percent of the retail price of a gallon of 2 percent milk (the most common type of milk purchased) in the 15 U.S. markets GAO reviewed. During this period, in 12 of the 15 markets, the spread between farm and retail prices increased. However in some markets, the price spread between these levels increased and then moderated. Price changes at one level were most closely reflected in changes at adjacent levels of the marketing chain.

Farm, cooperative, wholesale, and retail milk prices are determined by the interaction of a number of factors. For example, farm prices are affected by the supply of raw milk and the demand for milk products such as fluid milk, cheese, and butter, as well as by federal and state dairy programs. At the cooperative level, prices are influenced by the cost of services that cooperatives provide, and the relative bargaining power of cooperatives and milk processors. At the wholesale and retail levels, input costs such as labor and energy, and the continued consolidation of firms influence milk prices.

Recent changes in federal dairy programs have affected farm income, federal costs, and other considerations. For example, the Milk Income Loss Contract program has supported some farm incomes but has exceeded initial cost estimates because of low farm prices. A number of options have been suggested to change federal dairy policies such as amending federal milk marketing orders and raising or eliminating the support price. In general, these options would have mixed effects depending upon whether milk prices were high or low over the short or long term. For example, options that increase farm income over the short term tend to increase milk production and lower farm prices over the long term. These options also tend to be costly for the federal government during periods of low prices.

Farm and Retail 2 Percent Milk Prices, October 2000 to May 2004



Source: GAO analysis of data provided by USDA, the California Department of Food and Agriculture, and Information Resources, Inc.