

Organic Dairy in Crisis: Where do we go from here?

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Resources for:
Organic & Transitioning
Dairy Farmers,
Organic Production
Educators, Certifiers,
& Interested Consumers



NODPA's MISSION

NODPA is the largest grassroots organization of organic dairy producers and has remained true to its original goal of advocating on behalf of producers, regardless of who they sell their milk to, for a sustainable pay price, plus protect the integrity of the USDA Organic Regulations.

Organic Dairy: Quick Facts

According to the USDA NASS Organic Census

Organic Cow Numbers:

- ✓ In 2001, there were 41,851 organic cows
- ✓ In 2011, it had grown to 199,757 organic cows, an increase of 157,906 in 10 years.
- ✓ By 2015, there were 241,112, an increase of 41,335 in 4 years.
- ✓ Between 2015 to 2016, 38,326 more organic cows were added, rising to nearly 280,000.

- ✓ The states with the highest number of certified organic dairy cows:
 - California (50,136)
 - Wisconsin (27,980)
 - Texas (27,948)
 - New York (26,246)

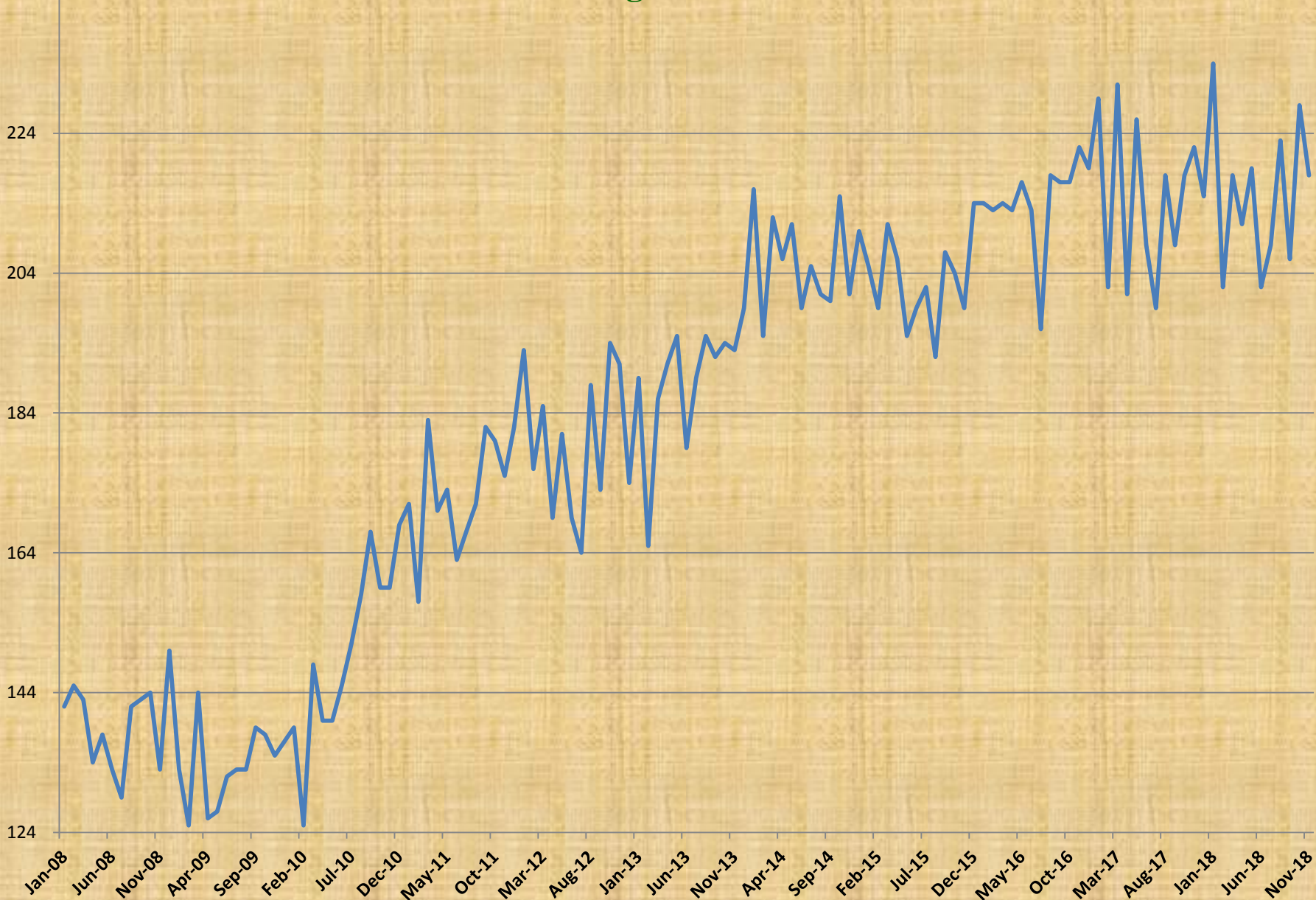
- ✓ There was 76 times more organic dairies in Wisconsin than Texas, **but Texas produced 1.3 times more milk** (according to a USDA NASS survey).

- ✓ The average Texas dairy produced 80 million pounds, while the average Wisconsin dairy produced 810,000 pounds.

- ✓ Organic milk production represents 2.1% of US milk production with approximately 3,000 operations, the majority of which are small to mid size farms.
- ✓ The largest number of farms are located in New York (486) and Wisconsin (455), followed by Pennsylvania (303).
- ✓ Organic dairy is a commodity.
- ✓ There's no independent, regularly updated data for volumes of organic milk produced, how it is used, or the number of organic animals being milked.

Estimated Total US Sales of Organic Fluid milk Products 2008-2018

Million
pounds



What is Pay Price?

Pay Price is the price farmers receive for each 100 pounds of organic milk at the farm.

Pay Price or Mailbox Price is made up of the following:

- A base price to which buyers add payments for components, quality, volume, market adjustment premium (MAP), regional adjustments and seasonal premiums.
- Buyers deduct market adjustment deductions (MAD), seasonal adjustments, inventory management deductions, and, with CROPP Cooperative, capital base plan payments and trucking.
- There are also quotas and volume restrictions which have penalties for over production.

Pay Price Principle

Our foundation tenets, rooted in collective bargaining, have always included milk supply management and a sustainable price for our producers. The cooperative makes all efforts to meet the established budget base price; however, the board of directors can adjusted the price. The following figures are based on 12.2% component levels of 3.5% butterfat; 3.05% protein; 5.65% other solids.

Pay Period	Butterfat	Protein	Other Solids	Blended Component Value	Cwt. Component Equivalent	Inventory Mgmt. Deduction (per cwt.)	Market Adjustment Deduction (per cwt.)	Final Price Component Equivalent	Final Price (per cwt.)
January	\$2.6681	\$2.6681	\$2.3141	\$2.5042	\$30.55	(\$2.00)	\$0.00	\$2.34	\$28.55
February	\$2.6681	\$2.6681	\$2.3141	\$2.5042	\$30.55	(\$2.00)	\$0.00	\$2.34	\$28.55
March	\$2.5861	\$2.5861	\$2.2321	\$2.4222	\$29.55	(\$2.00)	\$0.00	\$2.26	\$27.55
April	\$2.5861	\$2.5861	\$2.2321	\$2.4222	\$29.55	(\$2.00)	\$0.00	\$2.26	\$27.55
May	\$2.4221	\$2.4221	\$2.0681	\$2.2582	\$27.55	(\$2.00)	\$0.00	\$2.09	\$25.55
June	\$2.4221	\$2.4221	\$2.0681	\$2.2582	\$27.55	(\$2.00)	\$0.00	\$2.09	\$25.55
July	\$2.4221	\$2.4221	\$2.0681	\$2.2582	\$27.55	(\$2.00)	\$0.00	\$2.09	\$25.55
August	\$2.5861	\$2.5861	\$2.2321	\$2.4222	\$29.55	(\$2.00)	\$0.00	\$2.26	\$27.55
September	\$2.5861	\$2.5861	\$2.2321	\$2.4222	\$29.55	(\$2.00)	\$0.00	\$2.26	\$27.55
October	\$2.5861	\$2.5861	\$2.2321	\$2.4222	\$29.55	(\$2.00)	\$0.00	\$2.26	\$27.55
November	\$2.5861	\$2.5861	\$2.2321	\$2.4222	\$29.55	(\$2.00)	\$0.00	\$2.26	\$27.55
December	\$2.8320	\$2.8320	\$2.4780	\$2.6681	\$32.55	(\$2.00)	\$0.00	\$2.50	\$30.55
12-month Base				\$2.4153	\$29.47	(\$2.00)	\$0.00	\$2.25	\$27.47
National Ave. Quality Premium				\$0.1475	\$1.80			\$0.15	\$1.80
12-month Average Price				\$2.5629	\$31.27			\$2.40	\$29.27

All seasonal premiums/deductions are reflected equally among component prices (butterfat, protein and other solids).

The \$2/cwt. decrease effective with October 2017 milk is reflected in the “others solids” price only.

Inventory Management Reduction – When CROPP faces low utilization and high inventory due to poor market conditions, the board of directors may implement an inventory management deduction to help achieve greater balance on the supply side.

Market Adjustment – CROPP will occasionally apply a market adjustment premium (MAP) or market adjustment deduction (MAD), which allows the business to adapt to changing market factors while still providing a sustainable stable pay to members. The board of directors reviews these market adjustments monthly.

They can be adjusted based on the cooperative’s financial performance.

How is Pay Price Determined?

Common Myths

- **Costs of Production:**
 - ❑ **NO** – Premium price over conventional does not cover increased costs - Research shows that a typical break-even for organic milk production in the northeast in 2017 is \$36 per hundred pounds –current pay price/mailbox price is \$29.
- **Individual Producer & Buyer Negotiations:**
 - ❑ **No** – Only when supply is short.
- **By Farmer Board of CROPP Cooperative**
 - ❑ **NO** – The interest of the whole company supersedes the pay price.

Competition between buyers

- Yes** when it exists – monopsony is prevalent in organic dairy

Federal Regulation

- NO** – Federal Milk Marketing Order (FMMO) (established in 1930's) that regulates conventional pay price and protects farmers does not include organic

Cost of Processing

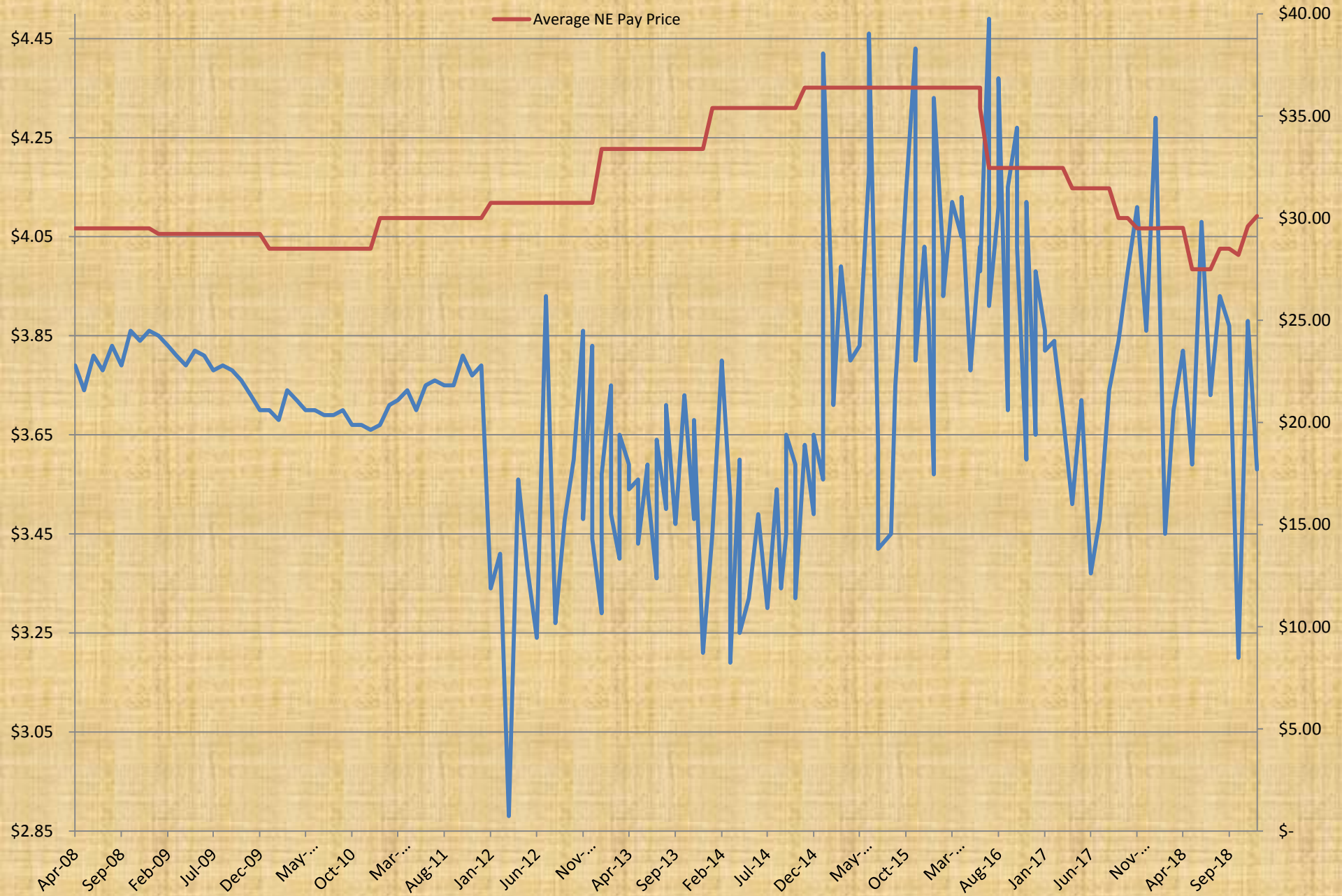
- NO**

Retail Price

- NO** - The USDA AMS reports that the average retail price for branded organic product from 2006 to 2018 is \$3.77 per half gallon with a high of \$4.21 in 2016 and a low of \$3.48 in 2014. The highest month for sales was January 2018 with 234 million lbs., with an average retail price of \$3.88 per half gallon.

Organic half gallon national average retail price 2008-2018 - USDA AMS

Organic half gallon average
Average NE Pay Price



How Pay Price is Actually Determined

- Pay Price is determined by the two national buyers, vertically integrated large dairies and conventional price when there is over supply.
 - National buyers: CROPP Cooperative and Danone NA.
 - Major suppliers: Aurora Dairy plus other large dairies.
 - International Market: The import and export of organic dairy product is not large enough yet to have an effect.

Who Controls Supply?

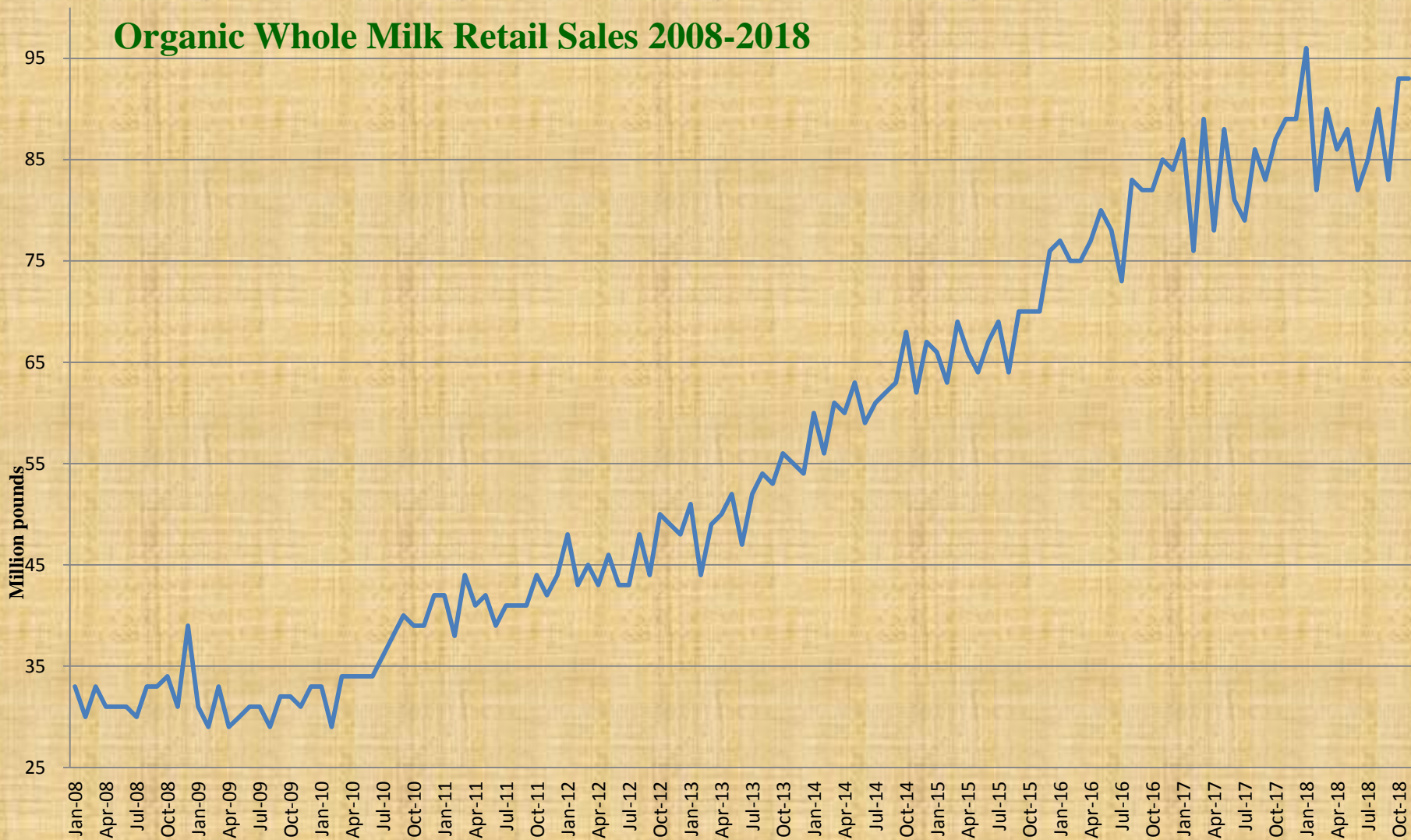
The Milk Buyers/Processors

- Buyers have individual contracts or cooperative agreements with farmers.
- Farmers are accepted if they are:
 - On truck pick-up routes
 - Near processing facilities
 - Willing to accept proprietary requirements
- Farmers have no leverage on price except on volume of milk and when supply is short.
- Contracts can be cancelled; quota and volumes restrictions applied; and pay price changed at will.

The Demand for Organic Milk

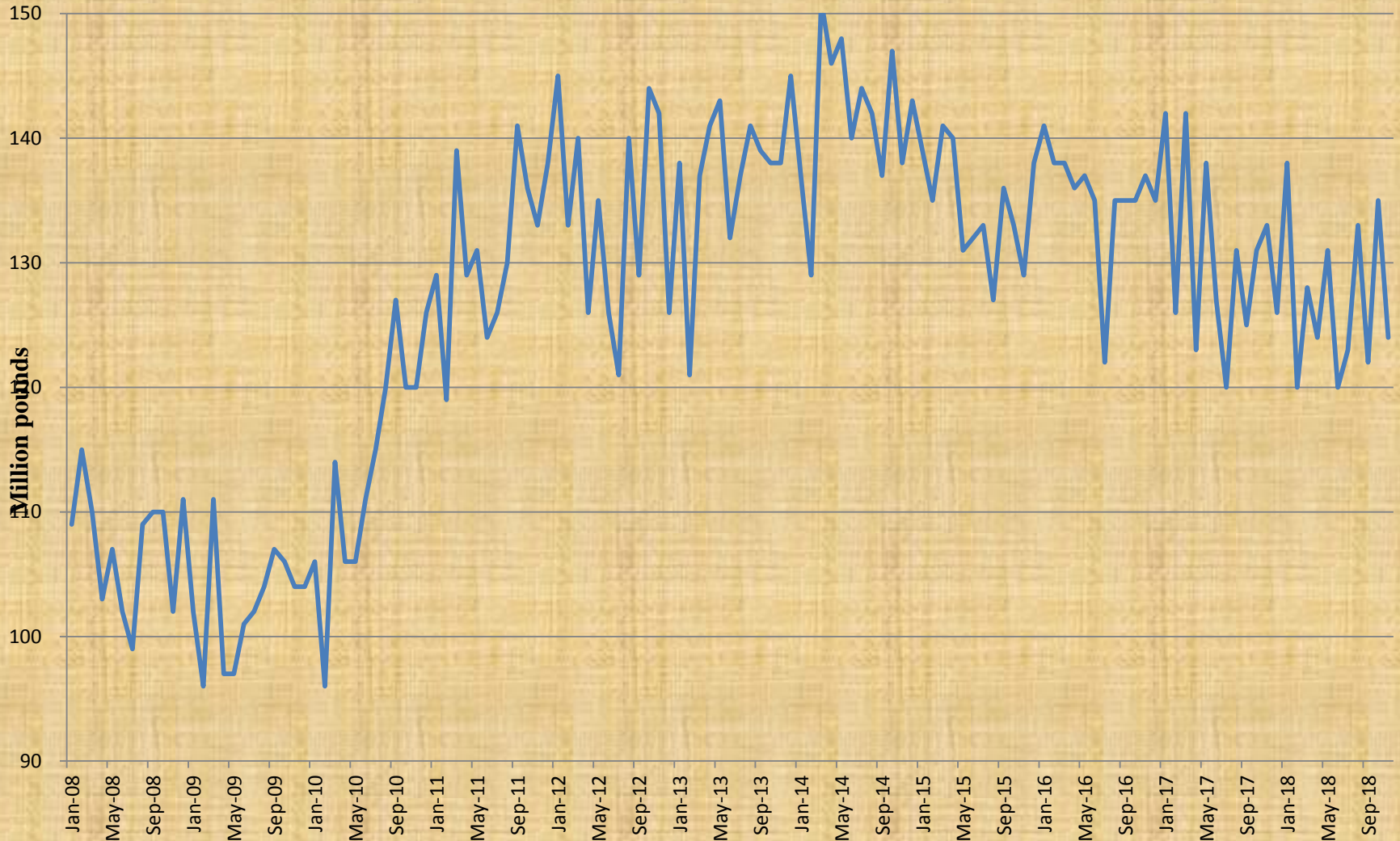
- Organic milk is the entry point for customers moving toward organic purchases.
- There's a global market for organic milk that was valued at \$18 billion in 2017
- Annual market growth was at 8-10% until 2012 and since then has been at about 1%, annually across all types of organic milk.
- Retail sales of organic milk make up approximately 75% of organic milk that is consumed as fluid milk.

- In the last 4 years, whole milk beverage sales have been growing at an average of 5% annually or an increase of 270 million pounds over the 4 years.



- From 2014 to 2017, annual retail sales of Reduced Fat organic milk have dropped by 8% or a drop of 138 million pounds for 2014-2017

Organic Reduced-Fat retail sales 2008-2018



The Organic Dairy Crisis: The Role of Oversupply

1. Rapid increase in production
2. Growth in demand slows
3. Lack of processing facilities
4. Poor reading of the market by the buyers
5. Increase share of the retail market went to store brand milk provided by large scale dairies at low prices – especially Aurora Dairy which is vertically integrated and is increasing its production and processing capacity.

Fluid organic milk sales and organic milk value-added products, are negatively impacted by the growing number of consumer beverage options, including alternate ‘milks’ such as nut, soy, and cereal beverages, water, teas, juices, energy drinks.

Comparison of Common Unflavored Milk Alternatives

	Whole Milk (1 cup)	Rice Milk (1 Cup)	Soy Milk (1 cup)	Coconut Milk (1 cup)	Almond Milk (1 cup)	Oat Milk (1 cup)	Hemp Milk (1 cup)
Energy (kcal)	149	115	105	76	37	130	70
Protein (g)	7.69	0.68	6.34	0.51	1.44	4	3
Total fat (g)	7.93	2.37	3.59	5.08	2.68	2.5	5
Saturated fat (g)	4.55	0	0.5	5.083	0	0	0.5
Cholesterol (mg)	24	0	0	0	0	0	0
Carbohydrate (g)	11.71	22.37	12	7.12	1.42	24	1
Calcium (mg)	276	288	300	459	481	350	300
Iron (mg)	0.07	0.49	1.02	0.73	0.85	1.8	1.8
Vitamin D (IU)	128	96	108	96	96	100	100

Note: Homemade almond milk or other homemade milk alternatives do not contain the same number of vitamins, because they are not fortified.

1. Rapid Increase in Production: Where Did All These Organic Cows Come From?

- The inconsistent application of the Origin of Livestock and Access to Pasture regulations has allowed some certifiers to permit continuous transition of conventional animals to organic.
- **As a result:**
 - Some organic certifiers are using their own interpretation of organic dairy standards, which has allowed dairies to rapidly increase supply, distorting the market and hurting all organic dairies.
 - Large scale operations, whose certifiers allow continuous transition, were able to increase their volume quickly.
 - These dairies market their milk directly to store brand and private label contracts which are now the number one sellers of organic dairy products.

2. Growth in Demand Slows

- There is a maturing of the organic milk market
- An increased in sales of other organic beverages
- Change in consumer preference for whole (full-fat) milk

	Fluid milk sales (million pounds)	Total milk sales (assumes retail is 75% of total volume)
2008	1,676	2,236
2009	1,602	2,137
2010	1,799	2,400
2011	2,074	2,767
2012	2,157	2,877
2013	2,267	3,024
2014	2,471	3,296
2015	2,433	3,246
2016	2,573	3,432
2017	2,577	3,438
2018		

3. Lack of Processing Facilities

- 90+% of organic packaged milk is ultra pasteurized to extend shelf life and meet distribution and warehousing requirements
- Most organic milk is co-packed and few brands have their own processing facilities
- Surplus organic milk is usually balanced in the conventional market but a surplus of conventional milk has tied up all processing plants for powder and cheese

4. Poor Reading of the Market by the Buyers

- Buyers signed up newly transitioned farmers to fill a demand that had already peaked.
- There was competition between buyers for market share.
- Rapid expansion of Grass-fed market without the demand.

5. Increase Share of the Retail Market goes to Store Brand Milk

- Buyers failed to factor in the impact of the increasing number of large scale mega-dairies
- A growing share of the retail market is going into store brand milk provided by large scale dairies at low prices.
 - *This is especially true about Aurora Dairy which is vertically integrated and has increased its production and processing capacity*
- CROPP Cooperative lost market share in the store brand market to large scale dairies

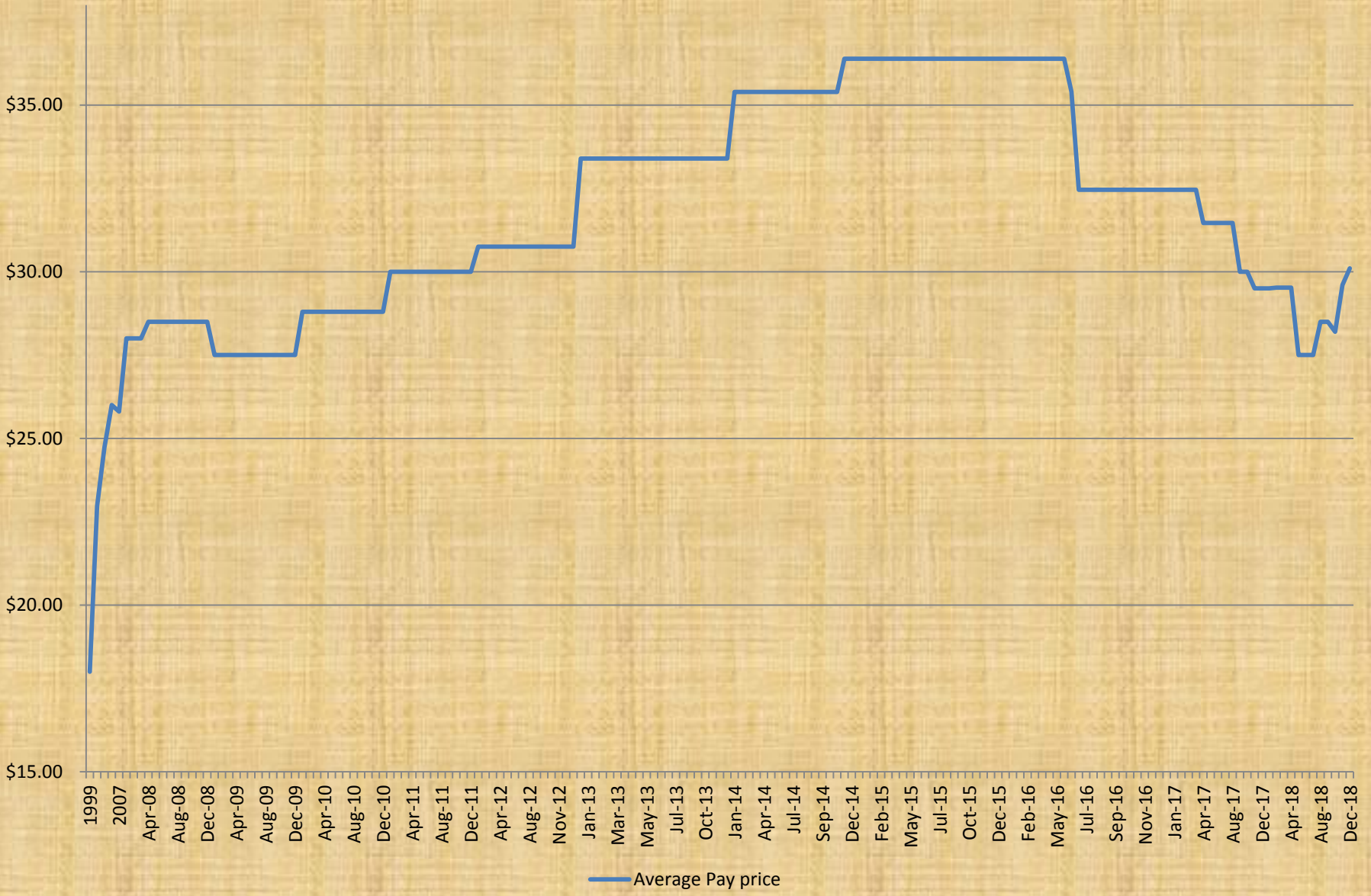
Factors that Led to a Crisis for Organic Dairy Farmers in 2018

- 2014 to 2015 Supply Shortage: The price paid for organic milk increased to \$36+ and in the mid \$40's for Grass-fed organic milk.
- 2015 to 2016: A 15% increase in the number of organic dairy cows.
- March 2014: Reduced Fat organic milk sales begin to fall.
- June 2016: Pay price started to drop due to an oversupply of Reduced Fat milk. Quota and volume restrictions were applied.

- **By October, 2018:**

- Average pay price had dropped by up to an average of \$8, per hundred weight, equivalent to 25%. Organic dairy farm transitions have stopped; many contracts in all parts of the country were not renewed or cancelled.
- Processors are buying organic milk on the spot market.
- The low pay price is not sustainable neither is the insecurity of buyers controlling both pay price and supply with no government assistance
- Farmers have ‘tightened their belts’ until there are no notches left in the belt and any cuts in costs are now coming from family living expenses.
- Imports of organic beef are undercutting the organic beef market so any cull cows are only receiving conventional prices.

Average Pay price



Where are we in January 2019?

No better!

- Supply is coming back into balance with demand but there's no prediction for increase in pay price.
- Contracts in the West continue to be lost as large volumes of milk are moved into the spot market.
- Spot market milk from Ohio is selling for \$20 per hundredweight in New York, undermining producers' contracts in New York and New England.
- The leading Grass-fed milk brand ended contracts with 40 farmers plus another buyer cancelled 60 contracts in New York when they lost store brand contracts to Aurora Dairy.

- Continued expansion of large scale dairies who have economies of scale, economies of abusing regulation and capital backing to survive and grow at a low pay price.
- Organic certifiers are using their own interpretation of organic dairy regulations, to suit either theirs or their clients' mission, allowing dairies to rapidly increase supply at lower costs.
- As cash flow disappears, so do producers' ability to cut costs on bulk purchases and to utilize cost savings on purchased feed.

Solutions for Survival

1. Regulation
2. Promote buyers self interest
3. Take government subsidy
4. Think outside the box
5. Different pricing strategy

1. Regulation

- Publication of the Final Origin of Livestock (OOL) Rule.
- The Final Origin of Livestock (OOL) Rule cannot be delayed by arguing for allowances to suit individual preferences of certifiers, brands or producers. We need to continue to pressure USDA and certifiers to achieve those goals which will give hope for the future.
- We need to promote the message that organic regulation should be, by definition, standardized and consistent or it undermines the strength of the third party audited claim and the organic seal, which is so important for commodity sales.

- Certifiers' actions are contributing to the crises in organic. Certifiers need to recognize their responsibility in causing the inconsistent interpretation of standards across the country which is undermining all of organic.
- As Organic Dairy producers and the certifiers' clients, we need to work with them to ensure that there is one clear, simple standard for transitioning conventional livestock with no exceptions despite any hardship this may cause some new entry producers.
- Targeting individual operations or certifiers abuses of the of the regulations or trying for a change in the law is not effective. Continued pressure on enforcing pasture standards, plus changes in regulation is the best regulatory way forward.

2. Promote the Self Interests of Buyers

- Work with new entrants to US organic dairy market, Danone NA and Lactalis, to reinforce the position that a black mark for organic can impact their brands' images and integrity in the consumer's mind.
- As milk buyers, they have their priorities but we share common interests around Animal Welfare issues and consistent regulation. In discussions with Danone, they have expressed a willingness to work on improved standards and consistency that will create a level playing field while enhancing their brands.

3. Take Government Subsidy

- Producers should take full advantage of the improved dairy subsidy program from the Farm Bill and get some benefit from a depressed conventional market which is affecting the price paid for excess organic milk.
- We lost the fight for an organic program but can now advocate for one as the Farm Bill is safely home.
- Do we need an Organic FMMO?

4. Think Outside the Box

- Trucking routes are expensive and getting worse. This will not change.
 - The distance between farms and processing facilities is one aspect;
 - each brand having its own segregated milk is another
 - having multiple trucks for the same brand covering the same distances is expensive and inefficient.
- We need to explore the possibility of moving away from separately branded milk and having just an organic milk truck that picks up all the milk.
 - Once the milk is homogenized and ultra-pasteurized, there is no uniqueness in taste. Once standards are consistently applied there will be no difference in adherence to regulations.

- Milk collection stations, another potential solution, need to be explored and feasibility studies need to be done.
 - Collection stations are the places where smaller loads are aggregated for pick up in one spot by a larger tanker. These will require infrastructure and local haulers to deliver to the station but if there is a commitment to small operations, up to 100 cows for example, this is one answer that would benefit both organic and conventional supply.

5. A Different Pricing Strategy

- Cost Plus Pay pricing is an area that needs detailed and shared work between milk buyers and producers. Models for organic tend to be complicated and will need to take into account such things as the cost of land for pasturing, and more, but we need to examine and work on all possibilities.

And Finally.....

- ❖ Buyers and Certifiers need to advocate for and support implementation of consistent and well defined organic regulations not accept loopholes to suit their mission or their clients/suppliers/customers/self best financial interest.
- ❖ Organic dairy is a commodity and small to mid-size organic dairy farmer operations need strong enforcement of standards and a level playing field to survive economically and attract new entrants.
- ❖ Farmers need to investigate and support different supply and pay price ideas to reflect the changes in the market place and the commoditization of organic.