**Why Organic Dairy needs a Federal Safety Net Program**

When the federal organic regulations were established in 2002, the assumption was that the profitability of organic dairy production was based on the market returning a high enough consumer price (premium) to provide enough margin to support a sustainable pay price to organic farmers that covers the increased costs of organic production, plus a return on management and investment to ensure continuous improvement. This assumption was based on the National Organic Program (USDA NOP) interpreting and enforcing their regulations consistently and the price premium being distributed equitably throughout the supply chain to cover all the farmers costs. The required three-year transition process would act as a control on supply to avoid the roller coaster peaks and troughs of the conventional dairy market that penalizes the small to mid-size dairy operations. Initially that was the case. From 2005 to 2016, there was a stable and sustainable pay price, except for a two-year period in the recession of 2009-2011.

Currently what exists is an allocation of retail premium revenue that is disproportionately leveraged by processors, retailers and too few milk buyers. From 2017 to the present day, the production of organic milk has been unprofitable for small to mid-size operations with a low pay price and over-supply caused by factors outside the farmer’s control. The commodification of organic dairy, with fewer milk buyers (monopsony in many areas) and increased consolidation in processing and brand ownership has destroyed any relationship between farmer and milk buyer. The underfunded and poorly resourced USDA NOP failed to enforce the regulations consistently, both domestically and internationally. Finally, the introduction of Extended Shelf Life (ESL) packaging meant there was no need to have a supply near to key consumer markets, allowing the retail buyers to warehouse fluid dairy products. The combination of all these factors allowed the rapid growth of large scale, vertically integrated dairies with economies of scale that quickly dominated the market and undermined the pay-price received by organic dairy farmers. Organically certified dairies in the southwest US provide organic packaged milk to Maine retailers cheaper than if the milk was produced in Maine. Store brands replaced the major name brands as leaders in retail sales, further undermining the price retailers were willing to pay for processed milk. Since 2017, the pay price that small and mid-size organic dairy farms receive has been at least $5 per hundred pounds of milk lower than the cost of producing it. In 2022 that increased to at least $8 per hundred pounds of milk under the costs of production.[[1]](#footnote-1)

Milk buyers report that they are unable to increase the pay price either because of the constraints of their international parent company, the challenges of the domestic market or their inability to compete against operations who have economies of scale and control of processing that has allowed for efficient management. There are no specific federal or state safety net programs that provide a secure economic base for organic dairies just as there is no federal protection or transparency in determining pay price.

To compound the problem in 2023, organic dairy is dependent on imports of grain in an unstable world market that has seen some essential feed components double and triple in price at the US farmgate. The organic dairy farmer has no leverage in establishing a pay price and no control over inputs. While there are some general risk management tools available for dairy farmers, there are none that address the root cause of economic instability.

Organic dairy needs a targeted, counter cyclical safety net program that has a trigger for payments that reflect the margin between selected organic inputs and an average pay price. It will manage risk above a catastrophic level. This program would reflect the different weighting given to ingredients in an organic feed ration which is significantly different from conventional dairy. This investment in the sustainability of organic dairy family farms will reflect their contribution to the rural community, to fighting environmental degradation, and for maintaining a local supply of high quality, organic milk.

1. USDA Agricultural Marketing Service data shows that in October 2022 the average retail price of a ½ gallon of organic whole milk was $4.82 of which the organic dairy farmer received $1.30 (27% of the retail price). To cover the cost of producing that ½ gallon of organic milk in 2022 the farmer needs $1.72 per ½ gallon (36% of the retail price). Consumers have paid the high retail cost of organic whole milk in 2022 which has increased by 80 cents per ½ gallon since 2020 (equivalent to $18 per hundred pounds of milk) as sales have increased by 3% over 2021. [↑](#footnote-ref-1)