

*Dear*

Organic dairy in the Northeast is in crisis. 2017 saw a massive drop in pay price for most producers, and an oversupply of organic milk that we anticipate will take until well into 2018 to adjust. Even though the Northeast is an organic milk deficit area, all producers have been hit by a \$2.00-8.00 per hundredweight (cwt.) drop in pay price (a \$10 drop for some by spring of 2018) and most have had a form of quota applied. Farm families have been hit twice: once with a 25% drop in pay price and then a restriction on how much milk they can produce. Despite the fact that retail sales of organic milk in the Northeast have increased, the national oversupply of milk has hit organic producers hard, many of whom have no safety net.

The reasons for this surplus can be summarized in three distinct areas - inadequate supply management by milk buyers; poor implementation of existing National Organic Program regulations and the failure of USDA National Organic Program to publish regulations to uphold a consistent and fair organic standard.

From 2012 to 2015, milk buyers encouraged organic dairy producers to increase production in order to correct a deficit in supply. Pay price went up and conventional dairy producers were encouraged to transition to organic production. In 2017, pay price has dropped below a break-even level and buyers have been breaking agreements with transitioning producers. Organic milk buyers will not need new producers until at least 2019.

The growth of organic milk retail sales had been increasing by approximately 7% per year from 2010-2015, and manufacturers were constantly competing for new supply during that period. In 2017, while organic whole milk sales were increasing annually at 15%, non-fat organic milk sales, which are 62% of total retail organic sales, decreased by 2%. While this trend is predictable, the increase in the certification of large scale organic dairies is not. The increase in the number of large scale, vertically-integrated organic dairies that have economies of scale has upset the balance of supply relative to demand. The lack of consistent enforcement of organic standards has allowed several processors to respond quickly to a shortage of organic milk and increased their ability to undercut other sellers in the private label/store brand market which is now in second place for retail sales of organic milk.

The solution to the large fluctuations in organic dairy pay price can be found in changes to regulation and to the practice of certification. While these measures will not solve the current oversupply problems, they will restore confidence in the organic dairy market for producers and their lenders while also presenting a positive future for those conventional farmers who are transitioning. If Congress expresses support, these changes can be achieved either by the USDA's National Organic Program (NOP) through administrative action and regulation or by Congressional action in the upcoming Farm Bill or Appropriations processes.

We recommend the following actions:

### **Publication of the Final Rule for the Origin of Livestock**

The immediate prioritization of the publication of the Final Rule for the Origin of Livestock with a provision that ends the one-time transition of conventional dairy livestock and prohibits the continuous transition of breeder stock. This regulation is not controversial and the first Proposed Rule was published in 2008. The organic dairy industry has matured to the point that it can supply all the animals needed to meet the projected growth of the organic dairy market. Those operations transitioning from conventional to organic can now purchase certified organic animals at prices equivalent to conventional livestock rather than transition conventional herds. Those that want to keep their long-established genetics would take advantage of the breeder stock allowance. This would put organic dairy on the same level as all other organic commodities, would stop the fraud and confusion existing within the organic dairy industry, would stop continual transition of non-organic dairy heifers, and would ensure that all US-based and international-based certifiers are using the same standards. While this change could be addressed legislatively in the Farm Bill, our strong preference would be for the Administration to promulgate the pending Origin of Livestock rule immediately, based on the broad-based support within the organic community.

### **Consistency of interpretation and implementation of standards**

The USDA needs to enforce a consistent interpretation and implementation of § 205.237 Livestock Feed and § 205.239 Livestock living conditions. There must be consistency in the inspection process and procedure for assessing compliance with the Access to Pasture Regulations. Because of the unique complexities associated with certifying larger dairy operations, many of the certification inconsistency problems have arisen with these larger operations. USDA's National Organic Program needs to devote greater resources to the certification challenges of larger dairy operations, and require certification of organic dairy operations with over 1,000 cows to be conducted by approved certifiers that use inspectors and certification staff who have proven experience in certifying large organic dairies. The inspector/certification staff must have experience in livestock nutrition that encompasses bona fide knowledge of grazing, and include in the calculation matrix for pasture dry matter intake and pasture consumption as well as a series of validation exercises such as tying the ration back to the milk yield to verify compliance.

### **Certificate of proficiency for Inspectors and Certification staff**

The USDA National Organic Program needs to work with the organic community to establish a certificate of proficiency for organic certification inspectors and certification staff to fully implement the requirements of 7 C.F.R. § 205.501(a)(6). The economic success of organic dairy depends on strong enforcement by USDA and USDA-accredited organic certification organizations, domestically and internationally. It is the job of the certifiers to ensure that all organic operations meet the strict production, processing and handling standards established by USDA through an open and transparent public process. It is the job of USDA to use its accreditation and oversight functions to ensure that certifiers are enforcing the standards in an

effective and uniform manner for all organic operations. Consumers and producers expect uniform enforcement of the standards. This is currently not happening in organic dairy. The NOP has recognized the need to educate inspectors and certification staff with the provisions in NOP 2027 and in their request to the NOSB for recommendations on improved practices. Certifiers are already using independent organizations to provide basic and further education for their inspectors and certification staff. The introduction of some type of USDA-approved certificate of proficiency which can include specific commodity qualifications is essential for the future integrity of the organic label.

### **Dairy Margin Protection Program**

Extend the Dairy Margin Protection Program to cover organic dairy operations by using the cost of organic dairy feed and inputs to calculate organic milk margin. This program is now under review during this upcoming Farm Bill process as Congress responds to criticism that small to mid-size dairy operations do not benefit from the program. With the current crises in organic dairy and with some organic dairies only receiving \$14 per cwt for their milk, this program could be an important factor as the pay price in organic dairy is starting to reflect the cyclical surplus/shortage of conventional dairy.

### **Data and Information Needs of Organic Dairy Farmers**

The USDA's Organic Production Market and Data Initiatives (ODI) requires USDA data collection agencies to collect segregated organic data vital to maintaining stable markets, creating risk management tools, tracking production trends, and increasing exports. We support the expansion of these efforts to include reporting of real-time data on organic dairy and the cooperation between USDA's Agricultural Marketing Service (AMS) and Economic Research (ERS) to provide producers with an accurate and independent assessment of the market. In particular, while the Federal Milk Marketing Orders (administered through AMS) provide real time information on supply and utilization of milk, it does not provide any segregated data for supply and utilization of organic milk. As a result, organic dairy producers have to sign individual contracts with milk buyers without the benefit of this real-time market information.

Organic dairies are approximately 21% of Vermont dairy farms (172 organic dairies), 22% of Maine dairies (63 organic dairies) and 11% of New York dairy farms (486 organic dairies). Nationally, organic milk represents approximately 6% of the total milk volume and 6% of the total number of dairy operations with over 2,531 organic dairy farms. Organic dairy farms represent a significant part of the rural environment and economy. The challenge for the Northeast and the whole USA in the next few years will be to protect the integrity of USDA organic certification so that when the glut of organic milk finally subsides we will have a level playing field with which we can reestablish a thriving organic dairy market that pays a fair price to producers while guaranteeing the integrity of the product for consumers.

Sincerely,

(Please sign your name here)