

Reviewing the organic pay price

In the conventional market, the price that farmers get paid for their milk is strictly defined by the Federal Milk Marketing Order (FMMO), and roughly reflects the demand for wholesale milk in its many manufactured forms. Prices rise if there is a shortage but fall dramatically in times of domestic or worldwide surplus. Historically, organic milk prices reflected the farmers' need for a stable income and living wage. It has always been difficult to assess the true cost of providing a steady supply of high quality, organically certified milk. There are many different methods of production; different family demands; different needs for ensuring transition to the next generation; and different requirements to service debt or to obtain a long-term return on capital.

Currently, there are approximately eighty dairy farms in the process of transitioning to full organic certification in the northeast. The purpose of this article is to assist dairy farmers in making informed decisions about selling their milk. It will give a snapshot of the current buyers, their pricing profile and other variables that all farmers should understand.

At this time, there are four companies who purchase raw organic milk in significant quantities. They are HP Hood LLC, Horizon Organic, Natural By Nature and Organic Valley. Upstate Farms Cooperative is planning to enter the market soon. Lancaster Organic Farmers Cooperative (LOFCO), Dairy Marketing Services (DMS), Dairylea and Organic Dairy Farmers Cooperative (ODF) purchase milk on behalf of these processors and others. Some farmers sell directly to small manufacturing or processing companies, such as yogurt or cheese processors.

Farmers contract directly with companies that have brands in the market place such as Horizon, HP Hood and Organic Valley. Initial negotiations with transitioning farmers are between the individual farmer and either the end user of the milk (Horizon, Hood, and Organic Valley) or Dairy Marketing Services. Initial contracts are usually for 2 years. Farmers are paid through one of the existing cooperatives (DFA Inc., Dairy Lea, LOFCO, Mount Joy Farmers Coop, NFO, ODF Coop, St Albans Coop Creamery) or LLC's (Agri-Mark, Agri-Services, LLC, Dairy Marketing Services).

The ownership of the purchasing companies varies from farmer-controlled cooperatives with a board of farmers (Organic Valley, LOFCO, Upstate Farms) to a New England based LLC (HP Hood) to a national company with shareholders (Horizon and Organic Cow owned by Dean Foods).

For this article, I will use the prices that the three main organic milk purchasers are currently paying to farmers as a guide to the price being paid across the northeast. What is not noted here is any deduction for equity payments or marketing payments (organic producers can request that their milk handler not deduct a portion of the \$.15/cwt that is automatically taken from the milk check for national milk promotions). Other milk handlers have their own pricing structure and pay on some different criteria, such as the spot price or the needs of any one manufacturer for quality, fat or other components.

The chart below shows these price levels with a description of the items following the chart:

Item	HP Hood LLC	Horizon	Organic Valley
Base Price	\$22.00 per cwt	\$22.00 per cwt	\$22.15 (from 8/1/05)*
Premium for Components over base	FMMO price	FMMO price + 2 other programs	Set at the beginning of the year by Board
Seasonality Program	\$5/cwt over base	\$5/cwt over base	\$.50 per cwt
Volume Premium			
>750 cwt/ month	\$.05 per cwt	\$.05 per cwt	None
>1,500 cwt/month	\$.30 per cwt	\$.30 per cwt	None
>3,000 cwt/month	\$.50 per cwt	\$.50 per cwt	None
Quality Premium			
Low Standard Plate Counts			
SPC between 9 and 16,000	\$.05 per cwt	\$.05 per cwt	\$.01 bonus for every
SPC between 5 and 8,000	\$.15 per cwt	\$.15 per cwt	5,000 below 25,000
SPC 4,000 or less	\$.25 per cwt	\$.25 per cwt	
Low P. I Counts			
P.I. between 17 and 32,000	\$.20 per cwt	\$.20 per cwt	\$.25 to \$.40 bonus if
P.I. between 9 and 16,000	\$.35 per cwt	\$.35 per cwt	below 30,000.
P.I. of 8,000 or less	\$.75 per cwt	\$.75 per cwt	
Low Somatic Cell Counts			
SCC between 251 and 300,000	\$.25 per cwt	\$.25 per cwt	\$.06 bonus for every
SCC between 201 and 250,000	\$.50 per cwt	\$.50 per cwt	25,000 below 350,000
SCC between 151 and 200,000	\$.75 per cwt	\$.75 per cwt	
SCC of 150,000 or less	\$1.0 per cwt	\$1.0 per cwt	
LPC	No	No	\$.20 to \$.40 bonus if below 150
Hauling charge	No	No	Yes
Sign up Bonus	\$1/cwt for 7 months	\$1/cwt for 7 months	\$1/cwt for first 3 months
Cost of Farming Adjustment	1.5% annually	1.5% annually	Decided by Coop Board
Transition program	\$1.00/cwt for last 12 months	\$1.00/cwt for last 12 months	\$1.00/cwt for 9 of the last 12 months and \$2.00 for last 3 months.

* PA will be \$21.90, NY will be \$22.15, New England \$22.40.

Seasonality Program for DMS and Horizon is available for milk produced in October, November and December in excess of the base volume in May, June and July.

Seasonality Program for Organic Valley is available for milk produced in October, November and December.

Base price for Organic Valley is set as a base minimum of components of 3.50% butterfat, 3.05% protein, and 5.69 % other solids.

Base price for HP Hood and Horizon is set as a base minimum of components of 3.50% butterfat, 2.99 % protein, and 5.69 % other solids

P.I. - Psychophile Preliminary Incubation.

LPC - Lab Pasteurization Count (L.P. C.)

FMMO – Federal Milk Marketing Order

Organic Valley Quality program payments:

Four tests are taken each month, the highest test is removed (unless it is the State Official test), and three are averaged for qualification for the bonus payment dependent on how the farmer did that month. Hinge points for payment bonuses are set for the SCC program at 350,000, for SPC program at 25,000, and the P.I. program at 31,000- 50,000, and the L.P.C. program lower than 150. The Quality Payment Program budget for 2005 was set at 0.90 \$ per cwt, so far the cooperative has been paying out on average to membership \$1.06 cwt.

This article is a guide and does not commit any milk handler or company to honor any of the prices or programs above. Whenever possible I have listed the companies in alphabetical order.