

## Update on Pay Price - February 2006

All organic producers have seen at least two increases in their pay price since August 2005 in response to the widening gap between income and rapidly increasing costs. This has been in response to farmers, NODPA and the processors working together to educate each other about the changing economics of the organic dairy industry, especially in the Northeast. Historically the pay price from 2001 to early 2005 was very stable, hovering between \$20 and \$22 per cwt depending on the purchaser of the milk and the location of the farm. During 2005 all three of the major purchasers of organic milk have recognized the significant increase in the costs of goods and services over the last few years, and specifically the recent dramatic increases in fuel and feed. The processors have also provided more incentives for transitioning farms in recognition of their economic and practical challenges, which has been compounded by the controversy over the interpretation of the rules around USDA certification.

Table 1 below shows the different incentives offered for transitioning farms:

Table 1	Hood	CROPP	Horizon
Signing Bonus once milk is sold as organic	\$1.00/cwt for all milk in 1 <sup>st</sup> 6 months	\$1.00/cwt for all milk in 1 <sup>st</sup> 3 months	\$1.00/cwt for all milk in 1 <sup>st</sup> 6 months
Transitional Bonus for the last year before certification	\$1.00/cwt for 1 <sup>st</sup> 9 months- \$2 for last 3 months	\$1.00/cwt for 1 <sup>st</sup> 9 months- \$2 for last 3 months	\$1.00/cwt for 1 <sup>st</sup> 9 months- \$2 for last 3 months
Hauling	No charge	\$75 stop charge	No charge

Table 2 is a general summary of base pay price. Horizon has three plans to choose from for components, no membership or capital payments and annual or 2 year contracts. Hood has one program, no membership or capital programs and annual or 2 year contracts. CROPP Cooperative has regional adjustments on a national pay plan plus a capital base pay plan. Space doesn't permit listing the three quality premium programs which are all slightly different and the dollar amount received will vary with each individual farm.

Table 2	Hood	CROPP New England	Horizon
Base Price standards	3.5 BF;2.99 P; 5.69 solids	3.5 BF;3.05 P; 5.65 solids	3.5 BF;2.99 P; 5.65 solids
Base Price	\$24/cwt	\$26/cwt	\$24/cwt
Feed supplement/MAP adjustment	\$2/cwt on all milk		\$2/cwt on all milk
Seasonal program	\$2 for all milk in Jan, Feb and Dec 2006.	Deduct: \$0.50 for May, June, July. Increase: \$0.50 for Oct, Nov and Dec.	Either: \$1.50/cwt for Jan, Oct, Nov, Dec, or \$0.75/cwt for Jan, Feb, March, April, Sept, Oct, Nov, Dec.

There is increasing choice for different farming systems within these plans and any transitioning farm should carefully examine its current milk quality and production curve before choosing a plan. Across the region there are agencies and organizations that can offer advice plus many experienced farmers who have been through this process who can give an insight into how they work with individual companies. There are any number of different relationships and benefits that farmers have access to which include: no contract to 2 year contracts; staggered equity payments; subsidized grain; loans for equipment; loans for cows.