From the NODPA Desk

January 2019

The stress and despair of organic dairy producers and their families dominates our work and this issue of the NODPA News. There is little doubt that organic dairy producers are feeling the effects of the dramatic cut in pay price and the restrictions in volume that buyers have imposed. The economic burden of managing a surplus in supply and the subsequent increase in organic milk being balanced on a depressed conventional market has fallen on producers and their families. They are ‘tightening their belts’ until there are no notches left in the belt and any cuts in costs are now coming from family living expenses. Debt payments are suffering as there’s only so far that a farm business can trade on its primary asset of land, and loan managers can only allow limited suspension on loan payments or interest-only payments on loans. As cash flow disappears so does producers’ ability to cut costs on bulk purchases and utilize cost savings on purchased feed. The reality of the organic dairy market is that milk buyers and processors are now in control of pay price and milk supply, a one sided supply management program. The explosion of a surplus caused by inconsistently applied standards, poor enforcement and lack of accountability means that milk buyers are taking hard-hitting measures that directly affect producers and their families. These measures will bring supply back into balance and restore their profit margins but will leave producers, especially those that lack the ability to utilize economies of scale, with an unsustainable, subsistence-level income. To think that the dynamics of the situation will change is naïve and as producers, we need to adapt to a changed world.

Organic producers in the West have seen a massive reduction in the volume of milk they can market as organic, and many have lost or had their contracts modified with some leaving the organic market completely. In the Northeast, we are now seeing contracts being terminated, with no light at the end of the pay price tunnel. Organic milk from Texas is undermining the Midwest producers, and $20 spot milk from Ohio is coming into New York to undermine existing organic contracts. The reality is that the Northeast will never supply enough organic milk at the right price to satisfy the retail market demands of the area. The opportunity for small scale, local processing is no longer a viable option except for individual farms marketing their own product.

But, here are some ideas for positive change:

* Publication of the Final Origin of Livestock (OOL) Rule, not targeting abuses of parts of the regulations or trying for a change in the law, and continued pressure on enforcing pasture standards, is the best regulatory way forward. 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 need to recognize their responsibility in causing the inconsistent interpretation of standards across the country which is undermining all of organic. Whether it is the attraction of increased revenue from large operations or trying to serve the perceived needs of their clients, certifiers’ actions are contributing to the crises in organic. As producers and their 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. The Final Origin of Livestock (OOL) Rule cannot be delayed by arguing for allowances to suit individual preferences of certifiers, brands or producers.
* 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. The 2018 Farm Bill gives dairy producers new market protection options, which can provide some protection for margins up to $9.50. It renames Margin Protection Program for Dairy (MMP-Dairy) to Dairy Margin Coverage Program (DMC) and permits participation in both DMC and Livestock Gross Margin for Dairy (LGM) on the same production. DMC and the Dairy Revenue Protection program may also be used together. We lost the fight for an organic program but can now advocate for one as the Farm Bill is safely home.
* Work with the new entrants to organic dairy, Danone NA and Lactalis, to reinforce the position that a black mark for organic can affect their brands and position in the consumer’s mind for integrity. They are milk buyers and have their priorities, but with Animal Welfare issues and consistent regulation, we have some common interests. In discussions with Danone, they are very open to working on improved standards and consistency that will create a level playing field.
* Trucking routes are expensive in the Northeast 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, but 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, where smaller loads are aggregated for pick up in one spot by a larger tanker, is another answer that needs exploring and feasibility studies commissioned. These will require infrastructure and local haulers to deliver it to the station but if there is a commitment to small operations, anything up to 100 cows, this is one answer that would benefit both organic and conventional supply.
* Cost plus pay pricing is an area that needs detailed and shared work between milk buyers and producers. Models for organic might well be complicated and will need to take into account the cost of land for pasturing but we need to examine and work on all possibilities.

Finally, the National Organic Program (NOP) has always been difficult for USDA to manage and most administrations have attempted organic to descend to where all the other AMS programs are. Once we lose that fight we will be indistinguishable from the crowd of label and claims. For a commodity like organic dairy, it is very apparent that losing the ‘gold standard’ is the end of any hope for a pay price that reflects the cost of organic production, and we descend to those that have low cost production and economies of scale.