



Current Approaches for Dealing with Surplus Milk

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Proud Member of the Farm Credit System 

Spectrum of Approaches



Market Signals

Premiums and Fees

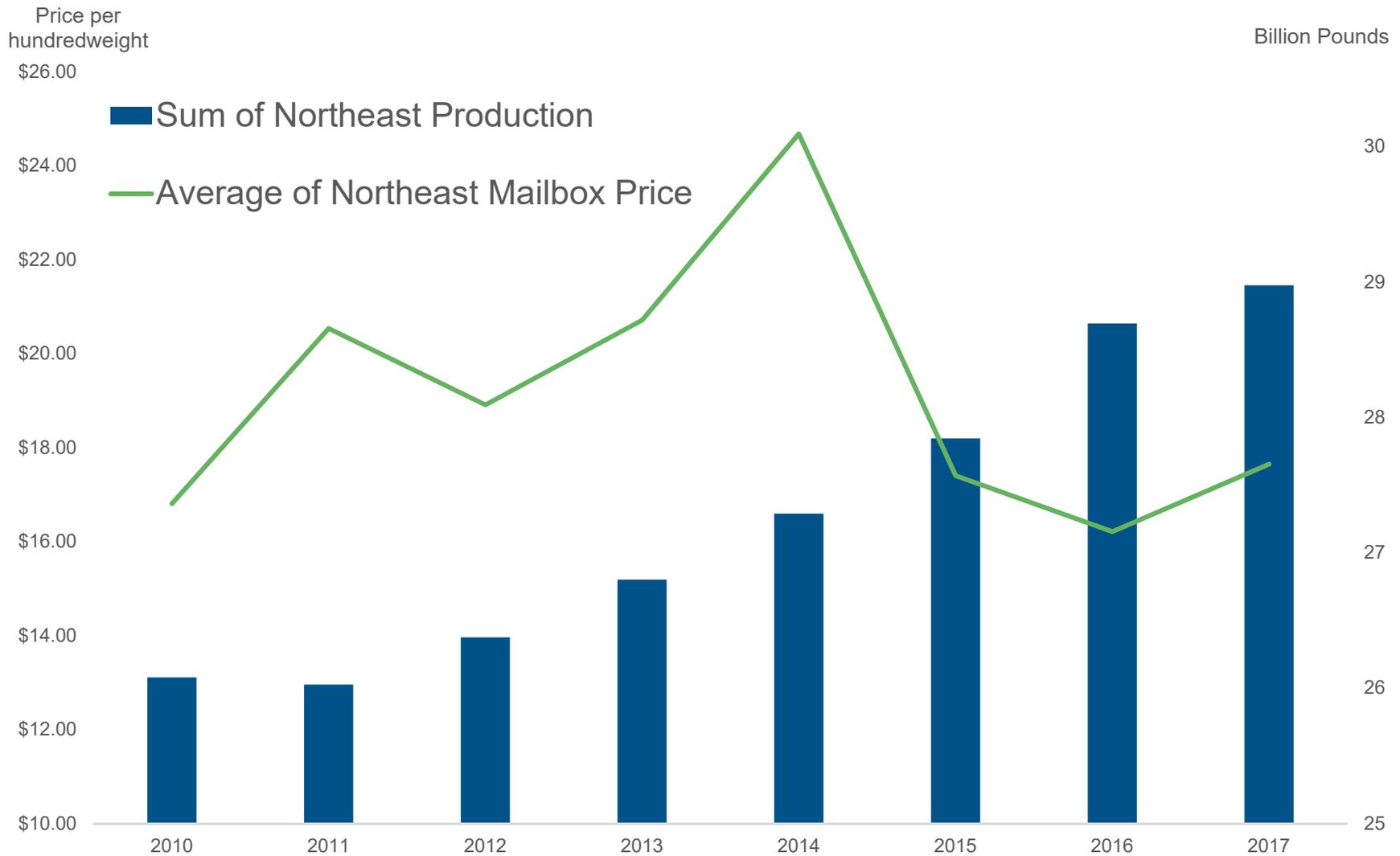
Re-Blends

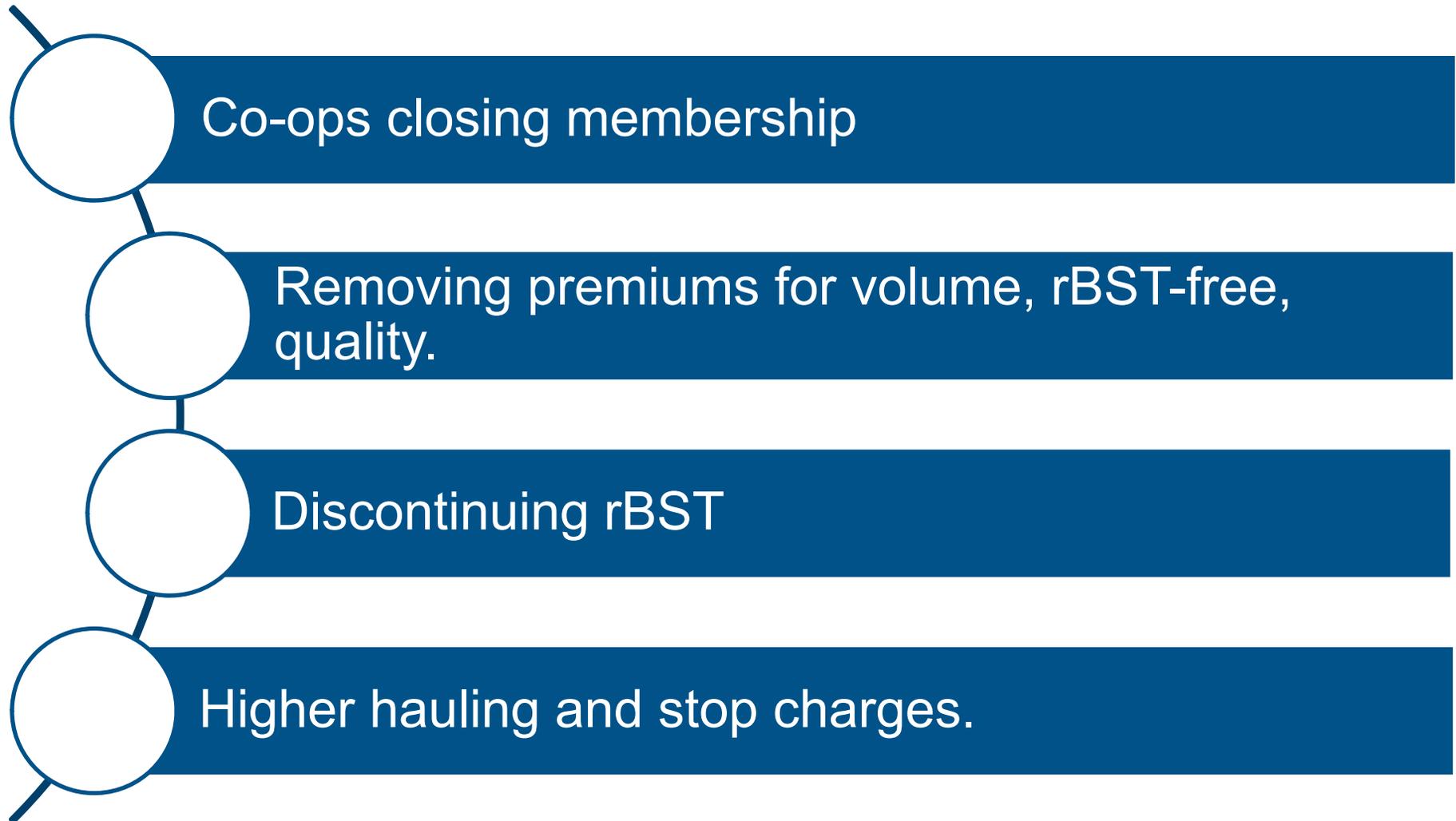
Base Pricing

Quotas

Cancelations

Market Signals





- Reduce the milk price paid across all producers.
 - To make up for costs of discounting, hauling or dumping surplus
- Burden of the surplus is distributed across all producers within the cooperative
 - Means a relatively small penalty for everyone, but can have more impact on small producers.
- Fairly common across the industry, but usually only to deal with short-term situations.

Tiered pricing / Base-excess programs



LAND O' LAKES, INC

- Established a base program in 2008 in the West, 2015 in Midwest, Northeast in 2016.
- Various regions are managed independently to account for regional dynamics.
- Base is calculated on Annual average each September based on the previous Sep-Aug production.
- Cannot sell base
- Must maintain at least 90% of base for 3 months to maintain current levels
- Up to \$10/cwt discount for exceeding base, notified at least 1 month in advance if plan will be implemented.
- No assessments if milkshed is balanced.
- Challenges when there are members who had expansion plans worked into their financing with banks.
- Equity buyout option results in loss of base and marketing agreement.



- Began Oct 2017
- Base calculated based on top four months of production over the past two and a half years.
- Initially did not allow base to be sold, but altered such that members could sell base but 25% of the base would be cancelled if sold.
- Penalty for going over base is \$2/cwt up to 10,000 pounds over. \$8/cwt between 20,000 and 50,000 lb over.

Base Programs, Continued.



- Regionally managed programs.
- Base program in 2008 in California, California Dairies implemented similar plan soon after.
- \$0.25/cwt charged on all milk, hauling charges increased
- First month of implementation resulted in \$13/cwt penalty for excess... quick response
- Not currently enforced since CA market is balanced.



- Base plan developed in 2012
- Has not needed to be activated since 2016 following plant expansion in Sunnyside, WA



- Successfully used base program in 2009 to reduce production 7 percent.
- Surplus organic milk enters the conventional market
- Reduction in supply increased the organic utilization rate.

Base Programs, Continued.



- 230 Farms in Wisconsin, subsidiary of FarmFirst
- Base is calculated on prior 3 months
- Over-base price is driven by market for spot loads, \$3-\$4 under.



- Now absorbed by NDA and Organic Valley
- Tiered pricing put into place starting April 2012
 - Tier 1 = Base level
 - Tier 2 = excess up to 1.5 percent : \$3.50 deduction
 - Tier 3 = 1.6 to 10 percent over : \$6 deduction
 - Tier 4 = > 10 percent over : \$6 + depending on market conditions.

Scenic
Central

- Base established on highest consecutive 3 months over prior 3 years.
- Over-base production is priced on the spot price average for the month plus \$1/cwt. Hauling deduction.

➤ Typically region-specific, implemented by government.



▪ EU

- 1984-2015
- Led to development and adoption of robotics
- Pushed investment toward processing industry rather than production.
- Companies expanded globally in order to grow



▪ Canada

- Complex system of price supports, including quotas has led to their need to isolate their market.
- Beneficial to producers, but results in higher prices to consumers.
- Much of their industry is financed with quotas as collateral... Undoing this would be a challenge.



▪ California

- In operation since 1969
- Operated by California Dept. of Food and Ag.
- \$1.70 discount for over-quota production



▪ Montana

- Began in 1989
- \$1.50 discount for over-quota production

Cancelations



11 Producers dropped in Wisconsin. May 2018



75 Producers dropped. 2017



Approximately 100 producers dropped. 2018.



20 producers dropped in Wisconsin. 2017

- Variety of ways milk supply is managed.
- No one-size-fits-all approach.
 - Reducing premiums or charging additional marketing fees impacts smaller farms
 - Quota systems and base programs impact larger expansion-minded farms
- How “cooperative” do you want to be?
 - Choice between assessing marketing fees or implementing a base or quota program comes down to whether the burden of the oversupply should be felt by the producers expanding or spread amongst everyone?
- Markets are becoming much more global.
 - Need to be careful that any supply limits in one region aren't just going to be picked up by another region.