

**NYS QUALITY MILK PREMIUM:  
PROPOSAL TO ADDRESS PROLONGED,  
UNSUSTAINABLE FARM MILK PRICES**

**New York State Assemblywoman Addie A. E. Jenne  
Presented at the 2018 Dairy Summit  
on increasing farm milk prices and net farm income,  
organized by Agri-Mark, August 13, 2018, Albany, New York**

Assemblywoman Jenne has proposed a three-year quality premium payment to the state's dairy farmers in exchange for adopting a statewide quality standard and meeting progressively stricter quality standards throughout the program. Due to funding constraints, the premium will likely drive farm level supply control because a 10-year average production base will be used to calculate payments and there is a base excess penalty to ensure premium program cost containment. The premium is capped at \$3 per hundredweight and would only be paid on a sliding scale if the price paid to farmers slips below \$18 per hundredweight. The quality premium will kick in when market factors such as over supply depress the price paid to farmers so that net farm income is sufficient to ensure high quality standards can be maintained, preserving access to export markets.

**ADOPT QUALITY STANDARD TO SUPPORT EXPORTS**

The proposal calls for the state to adopt the 400,000 somatic cell count quality standard within three years, requiring all farmers to meet the standard in order to sell their milk in the state. Farmers will receive the premium payment if they meet the 400,000 somatic cell count standard when the program begins and/or through the first year, but will only be eligible for the premium in year two if they meet 300,000 somatic cell count measure and in year three if they meet 200,000 somatic cell count measure.

*Our dairy products need to be globally competitive in quality measures to remain attractive in export markets. This standard meets the strongest global standard and the stricter standards required to receive the premium would put New York dairy products in an even stronger quality position. These quality measures relate to dairy product quality and are also a direct measure of cow wellness, another marketing advantage.*

**PREMIUM PAYMENT**

The proposed quality premium will provide up to \$3 per hundredweight directly to farmers based on a sliding scale when the price per hundred drops below \$18, ideally creating a price floor of \$18 per hundredweight. The maximum amount of milk the premium can be paid on will be calculated based on the 10-year monthly average of the farm's production. Increases in monthly production over three percent will result in a premium reduction by half the first instance and eliminated after the second infraction in any program year. More than four infractions during the three-year program will result in ineligibility for the remaining term of the premium program.

*Those farms that have expanded significantly over the last decade will not benefit to the same extent as stable quantity producers. Those that have expanded will benefit enough and be most incentivized to address oversupply since the premium will help maintain net revenue to meet their financial obligations related to expansion.*

## **DURATION**

The proposed quality premium program would last for three years and be paid out on a monthly basis, with no more than a one month lag behind milk checks.

*The three-year program could be renewed, and/or modified and renewed and likely should if the premium is successful in ensuring farmers are able to meet strict quality standards, even if the price per hundredweight is above \$18. This program will fit into the state's four year political cycle and provide the time and information necessary to support legislative action in this policy area. A continuation of the program could ensure factors that helped achieve the quality standards remain inducements for continued sustainable business models that support quality standards.*

## **FUNDING**

The proposal calls for New York State's economic development agency to fund the premium program for the dairy industry, our state's largest economic sector after finance. The proposal envisions that the state will fund \$100 million of the program for each of the three years and be the first resources utilized to fund the quality premium. Actions taken by co-ops could help reduce oversupply and thus the annual cost of the program or co-ops could potentially enter into a public private partnership to co-fund the premium.

*Empire State Development, controlled by the governor, has wide ranging authority to engage in economic development and has been given significant allocations through the budget process to fund these kinds of programs. ESD has used \$100 million to revitalize upstate community downtowns, and airports, and can do the same for the countryside.*

*Co-ops are likely best equipped to help solve the funding gap, either independently or as partners. It would arguably be in their best interest to be part of the solution given the recent litigation by farmers related to anti-trust violations by co-ops. The state could make a similar legal case that those anti-trust violations injured the state financially, not just the farmers.*

## **STATE ACTION JUSTIFIED**

As the Northeast's largest dairy producer, New York should lead the way on progressive, sustainable and global export sensitive dairy policy. Also, New York's investment in processing has contributed to increased supply based on financial support of the fade niche product, Greek yogurt. Further, New York has a role to play in regard to addressing financial sector and corporate misdeeds, such as anti-trust violations. This co-op neutral, farm size neutral policy will also address counterproductive pressures coming from financial institutions thereby leveling the playing field and protecting the quasi free market that exists. The proposal preserves and

envisions that co-ops will continue to use tools like other premiums and incentives as part of their business model.

### **BASE CALCULATION**

Documentation will be necessary to allow farm operations to calculate their 10-year monthly average when intergenerational or arm's length transfers or mergers have occurred. New farm operations will only be eligible to use historic production numbers when production has occurred on that farm within the last ten years and will be discounted by twenty percent. Other new farming operations will only be eligible to receive the premium on twenty percent of their production.

### **CALCULATING PRICE FLOOR**

The proposal sets \$18 per hundredweight as a price floor based on a percentage of the USDA calculated average cost of production for our region, which is around \$22 per hundredweight. The quality premium is triggered when the payment per hundredweight to farmers drops twenty to twenty-five percent below the USDA calculated average cost of production. However, the proposal uses a fixed dollar trigger to guard against external factors that could impact the program as designed.

*New York State Assemblywoman Addie A. E. Jenne chairs the Assembly's Taskforce on Food, Farm and Nutrition. She has served five terms in the Assembly, representing parts of St. Lawrence and Jefferson Counties, respectively the fourth and eighth largest dairy producing counties in the Northeast in 2017. She is the seventh generation of her family to live in the region she represents and descends from generations of dairy farmers, as well as John Jenney, who established the Plymouth Gristmill in 1636. She is the granddaughter of dairy farmers and the daughter of a diesel mechanic whose business entailed managing, servicing and major repairs of fleets engaged in milk hauling, feed supply and fuel delivery. Her mother was an assessor and building code enforcement officer prior to becoming an attorney. Jenne is an attorney herself with a certificate in Family Law and Social Policy, and a Bachelor's Degree in Political Science, with a minor in Greek and Roman Civilization. Jenne created and piloted a successful farm-to-school program that funds school lunch programs directly. The program has received support to be funded statewide after operating for two years.*