

Attachment B

Economic Hardship Experienced by Organic Dairies as a Result of Inconsistent and Unfair Standards for Origin of Livestock.

- 1. Economic inequity for those operations that are transitioning to organic:** For some conventional dairy operations that are transitioning to organic production their certifier is restricting the transition to one already established distinct conventional herd with a clearly defined start and finish time for the transition. After that they have to rear or purchase animals which are organic from the last third of gestation involving either increased cost of feeding animals with the use of land which could graze milking animals and the purchase of higher priced organic feed. Some certifiers are allowing a much more relaxed interpretation of the rule. Under this interpretation, operations can form a new herd from purchased conventional animals and take one year to transition that initial number of animals. They can then add conventional animals to suit the supply side demands of the market or transition more non-organic animals at a different time or rear organically born calves on conventional feed and then transition them into the original transitioned herd or many other mixtures of conditions now being accepted by certifiers. All the many different ways of transitioning other than the first one are either cheaper in feed and cost of land use, allow staggered capital investment to reduce the cost of debt service or give the operations greater flexibility to respond more quickly to supply demand. Organic dairy farms that are raising all of their youngstock organically are at severe economic disadvantage because it is much more costly to feed calves organic milk than conventional milk replacer or milk (organic milk pay price is usually double that of the conventional pay price) and more costly to feed the youngstock certified organic feeds during the first year of life rather than conventionally grown feeds and they cannot respond as quickly to an increase in supply demand. Being able to raise the conventional youngstock with the whole arsenal of antibiotics, drugs, parasiticides, ionophores and other growth promoters, etc. allowed in the conventional production, creates a very un-level playing field.
- 2. Respond to supply side demand more quickly and undermine the pay price for all organic dairies:** Organic dairy lacks the depth of reporting that conventional dairy has access to and therefore there is no independent data for volumes of organic milk produced, how it is used or the number of organic animals being milked. USDA AMS does publish retail sales of organic milk which make up approximately 75% of organic milk that is consumed as fluid milk.¹ USDA AMS reported sales of retail fluid organic milk in 2008 at 1,676 million lbs. In 2012 it was 2,157 million lbs. and in 2017 total retail sales was 2,577 million lbs. This shows a slowing of growth of retail sales from roughly 8% annually to less than 1%. The USDA AMS reports that the average retail price for branded organic product from 2006 to 2018 is \$3.77 per half gallon with a high of \$4.21

¹ Ye Su, Scott Brown, Michael Cook, Stability in Organic Milk Farm Prices: A Comparative Study, No. 150735, 2013 Annual Meeting, August 4-6, 2013, Washington, D.C., Agricultural and Applied Economics Association at 7 (June 3, 2013), <http://ageconsearch.umn.edu/bitstream/150735/2/Stability%20in%20Organic%20Milk%20Farm%20Prices%20A%20Comparative%20Stud%20AAEA%203180.pdf>.

in 2016 and a low of \$3.48 in 2014. The highest month for sales was January 2018 with 234 million lbs. with an average retail price of \$3.88 per half gallon. Organic Valley (CROPP Cooperative) and Horizon Organic (Danone NA) together control about 84% of the organic milk supply.² In March 2015 CROPP Cooperative raised its pay price to reflect an increase in costs of production and “a surge in market demand.”³ In 2016 the twelve month average mailbox pay price was \$35.68 per hundred pounds (CROPP Cooperative); in May 2017 it dropped to \$30.10 which included the dropping of the \$2 market adjustment premium (MAP) and the start of an inventory management deduction of \$1 . In 2018 the twelve month average mailbox pay price is \$29.52. In less than two years the deficit in supply was replaced by a significant surplus that resulted in a quota being imposed and a 25% reduction in pay price. While sales were at the monthly highest level because of an increase in organic whole milk sales, growth of sales in non-fat organic dairy products were dropping at a rate of 4% annually, and the retail price was consistent, the average pay price was plummeting. For those operations whose certifier does not allow continuous transition of conventional animals, it will take a minimum of three years to have a significant response to a shortage of supply by increasing cow numbers, unless they have sufficient available capital to purchase organically certified milking cows. They will also be limited by their land base. For those entities whose certifiers allows continuous transition, they can respond within one year of seeing an increase in demand and pay price. USDA NASS organic census shows an increase in the number of organic dairy cows from 2014 to 2015 was 1,068. The increase in organic cows from 2015 to 2016 was 38,326. This ability to expand rapidly gives those continuous transitioning operations economic advantage to increase profits quickly with a higher pay price. Large scale operations whose certifiers allow continuous transition were able to increase their volume quickly as they market their milk directly to store brand and private label contracts which are now the number one sellers of organic dairy products. To give an idea of the difference between dairies’ sizes in Texas and Wisconsin, a NASS survey showed there was 76 times more organic dairies in Wisconsin than Texas, yet Texas produced 1.3 times more milk. Put another way, the average dairy’s production in Texas was 80 million pounds, while the average dairy in Wisconsin produced 810,000 pounds. The inconsistencies in applying the Origin of Livestock regulations result in economic advantage for those whose certifiers allow for more than a one-time transition as they can respond more quickly to changes in the supply side market. With a deficit they can increase the number of milking cows and heifers quickly while the pay price is high. When the price drops they can sell their less productive milkers to minimize losses in the knowledge that they can buy in more animals if the demand changes. On the contrary, those producers who are not allowed continuous transition are unable to reap the benefits of higher pay price when demand grows yet supply has not yet caught up because other producers are allowed to fill the gap in supply. This is not a fair market system and needs to be remedied.

² Ye Su, Scott Brown, Michael Cook, Stability in Organic Milk Farm Prices: A Comparative Study, No. 150735, 2013 Annual Meeting, August 4-6, 2013, Washington, D.C., Agricultural and Applied Economics Association at 21 (June 3, 2013), <http://ageconsearch.umn.edu/bitstream/150735/2/Stability%20in%20Organic%20Milk%20Farm%20Prices%20A%20Comparative%20Stud%20AAEA%203180.pdf>.

³ Letter from CROPP Cooperative November 2014

3. **Undermine the integrity of the organic market:** The majority of organic dairies rely on selling their organic milk on the wholesale market and the integrity of that market is tied directly to their pay price. Once that integrity is undermined, consumers will pay less for organic milk and the only operations able to provide the organic milk are large scale operations that have access to capital. Conventional youngstock being brought onto operations on a continuous basis as is practiced now belies the trust of organic dairy consumers who expect that organic milk is coming from animals that have not been treated with antibiotics or other prohibited substances nor fed genetically modified or other prohibited feeds. ‘No antibiotics’ was the top concern of organic dairy consumers in the Natural Marketing Institute survey in 2005 and in all other surveys since then.

4. **Undermine the market for organic dairy replacements:** Currently there is no established market for organic dairy replacements that are organic from the last third of gestation. Although there are some private sales of both individual animals and herds there is no national reporting of the value of organically certified dairy animals. The fact that the number of organic dairy cows was able to expand by 38,326 in one year illustrates that the increase in organic dairy cows comes from continuous transition of conventional animals as it takes 24 -30 months to increase retention of heifer calves and grow organically certified animals from the last third of gestation. The organic dairy herds average a cull rate of between 20-24%⁴ and the USDA NASS data for 2016 shows a total number of organic cows of 267,523 who produce 133,761 heifer calves every year/lactation (50% male to female). If operations need to retain replacements at 25% of heifer calves for their own operations, there will be potentially 100,000 replacements per year, more than enough to supply all those who want to start or expand their herds. The inconsistent implementation of the Origin of Livestock brings uncertainty into the market for rearing and selling organic dairy replacements plus deprives established organic dairies of a secondary income stream that compensates for the investment of capital, sweat equity and building fertility in the land.

⁴ Ye Su, Scott Brown, Michael Cook, Stability in Organic Milk Farm Prices: A Comparative Study, No. 150735, 2013 Annual Meeting, August 4-6, 2013, Washington, D.C., Agricultural and Applied Economics Association at 21 (June 3, 2013), <http://ageconsearch.umn.edu/bitstream/150735/2/Stability%20in%20Organic%20Milk%20Farm%20Prices%20A%20Comparative%20Stud%20AAEA%203180.pdf>