



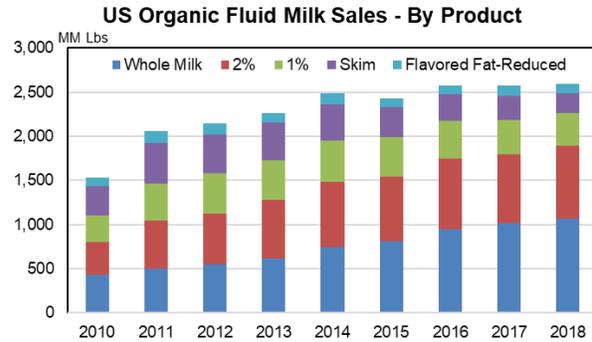
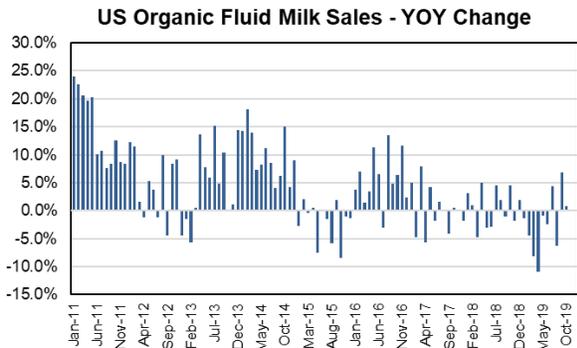
# Organic Dairy Market Report

## Q4 2019

### Organic Dairy Market Situation & Outlook

Organic milk prices in the US in Q4 were generally steady vs. Q3 with firmer prices on some individual products such as cream and milk powders. Pay prices to farmers by the leading organic dairy cooperative average \$29-30/cwt. currently based on 12.9% total solids. Including premiums and hauling, net pay prices to farms range from the mid-upper \$20's to low-mid \$30's depending on location and market. With \$20 class 3 conventional milk in November, there was little to no financial incentive for farms to transition to organic, nor is there much demand growth that would require an increase in milk supplies.

After trailing year ago levels in the first half of the year, organic fluid milk sales have picked up in the second half, excluding August. Organic fluid milk sales in October were 230 million pounds (~27 million gallons), up 0.9% vs. last year. Total fluid milk sales saw a rare increase in July, but fell back below year ago after that. Year-to-date sales of organic fluid milk and total fluid milk are both down around 2% vs. last year. These trends are expected to continue in 2020 given increasing competition from plant-based beverages and other drink choices. After double-digit increases in organic fluid milk sales prior to 2015, sales growth has been uneven in recent years with more incidences of sales declines vs. prior year. I believe consumers of organic products are more likely to switch to plant-based products from dairy/milk products. Given the much smaller volume of organic milk sales vs. the overall category, the impact on the organic is more noticeable than on the total milk category.



Organic whole milk sales for October 2019 were 104 million pounds, up 12% compared to a year earlier. Reduced fat milk (2%) sales were 75 million pounds, 1% higher than last October. Whole milk (45%) and reduced-fat milk (33%) accounted for 78% of total organic milk sales in October. Large declines were seen in low-fat (-12%) and fat-free milks (-16%) along with reduced-fat flavored milk (-11%). These trends are similar to those in the conventional fluid milk category with steady to slow growth in whole milk, but sharp declines in lower-fat and skim milk. Given the large amount of organic milk that is used for beverage purposes, the growth in full-fat milk sales has resulted in declining amounts of cream available for other products. This helps explain the relatively high cream and butter prices over the last few years.

Several important trends are observed when looking at annual organic fluid milk sales data since 2010. First, total organic fluid milk sales have leveled off near 2.5 billion pounds over the last 5 years, and 2019 will mark the sixth consecutive year of minimal to no growth. As noted above, with fluid milk absorbing the majority of organic milk production, but with milk production continuing to increase, the organic milk market

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has been oversupplied, particularly for skim. The other trend is the shift to full-fat from low-fat and skim milk over the past 5 years, which shows no signs of reversing and is consistent with conventional fluid milk trends. There are several implications from these trends to the organic milk market:

1. With demand for fluid milk stable, additional milk production will be pushed to other organic dairy products such as ice cream, yogurt, cheese, butter, and milk powders. However, if there is not enough demand from those uses, the organic milk will end up in the conventional market at a significant discount. Production limits from milk buyers can and are being used in an attempt to balance supply and demand.
2. Continued growth in full-fat and 2% milk will keep the organic cream market tight and organic cream prices high as a result.

### **Cow & Grain Markets – from USDA Organic Dairy Market News**

Organic cull dairy cows continue to be worth less than conventional cull cows. In late October at a livestock auction in Oregon, the top 10 organic cows sold for an average of \$46 per cwt. vs. \$67 for conventional cows. By early-mid November, the average price for the top 10 organic cows auctioned increased to \$52.60 per cwt, while the price for conventional cows slid to \$60 per cwt.

In mid-late December, trade activity for organic feed grade corn was moderate to light as demand eased ahead of the holiday. The market is trading \$0.76/bushel higher than the prior period. Several Midwest states report low test weights and high moisture due to poor growing conditions and a wet fall. Trade activity and demand is modest on organic feed grade soybeans, as most transactions were \$0.15/bushel lower than the prior period. Bid prices for organic corn and soybeans remain mostly unchanged. Organic soybean meal continues to trade between \$840-875/ton f.o.b. the crusher (vs. \$300/ton for conventional soy meal). Organic soybean oil prices are between \$0.60-0.65/lb f.o.b. the crusher (vs. low \$0.30's for conventional soy oil).

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## US Organic Dairy Prices

### Fluid Milk

- Prices are generally steady, but vary across the US. The lowest prices are seen in the East with \$25/cwt near the low end of the range, but with the upper end near \$30/cwt. Prices in the West are higher ranging from the upper \$20's to low-mid \$30's. Plant delivered prices can be several dollars higher depending on location and other factors. As a comparison, conventional milk prices have ranged from \$15-20/cwt (class 3) this year.

### Cream and Butter

- Organic cream prices moved higher in Q4 ahead of the peak holiday demand period. Cream prices ranged from \$4.25-5.00, up from Q3 levels.
- The most recent quarterly auctions by Mercaris saw organic cream prices at \$4.45-4.65/lb.
- Butter prices were \$4.50-5.00/lb in Q4 – 2 to 2.5 times the conventional price.

### Milk Powders

- Organic milk powder prices were mixed with NFDM moving higher from Q3 while WMP prices have eased lower. Organic NFDM was \$2.80-3.00 compared to \$1.25/lb for conventional product.
- Organic MPC and MPI have been around \$1/lb or higher than conventional product. There is only a small amount of organic MPC and MPI produced in the U.S. due to uncompetitive pricing versus Europe. Some product was made this spring with discounted milk during the flush.

### Whey Products

- Like MPC and MPI, organic WPC and WPI carry at least \$1/lb premium over conventional products, sometimes much higher depending on application and specification. Grade A WPC 80 was reportedly \$6.00/lb or higher in Q4. This is around 3 times the conventional price.
- Lactose for infant formula applications is trading near \$2.25-2.50/lb. with prices easing from Q3's levels when they were closer to \$2.75/lb.

### Cheese

- Organic Cheddar cheese prices moved lower in Q4, trading near prices for conventional block and barrel cheese.

<b>Organic Dairy Prices - Indicative Pricing Received from Industry Sources</b>						
	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
<b>Fluid Milk</b>						
- \$/lb total solids	\$2.45-2.85	\$2.50-3.00				
- West - farm (\$/cwt)	\$28-36	\$28-36				
- Central - farm (\$/cwt)	n/a	\$27-30				
- East - farm (\$/cwt)	n/a	\$25-30				
<b>Cream</b>	\$3.90-4.10	\$4.25-5.00				
<b>Milk Powders (\$/lb)</b>						
NFDM	\$2.45-2.85	\$2.80-3.00				
WMP	\$3.60-3.80	\$3.45-3.65				
MPC 85	\$3.75-4.25	n/a				
MPI	\$4.50-5.00	n/a				
<b>Whey Products (\$/lb)</b>						
Dry Whey	n/a	n/a				
Lactose (IF grade)	\$2.65-2.85	\$2.25-2.50				
WPC 80	\$4.00-5.00	\$5.00-\$6.00+				
WPI	\$5.00-6.00	n/a				
<b>Butter (\$/lb)</b>	\$4.50-5.00	\$4.50-5.00				
<b>Cheese (\$/lb)</b>	\$2.25-2.50	\$2.10-2.45				

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## **Organic Dairy Industry News**

By early December, comments were sent to USDA regarding the highly controversial “origin of livestock” rule in an attempt to finalize a 2015 proposal allowing dairy producers to transition animals into organic production once. Some in the industry have been upset with inconsistent interpretation and enforcement of the transition rules. Farms that raise their own organic replacement heifers and cows complain that some farms, mainly large farms, buy conventional heifers or cows and transition them into the herd. Raising replacement stock as organic is more costly than buying conventional stock and having a shorter transition period. This is an emotional issue for small farms and organizations of small farmers. In 2015, over 1,500 comments were received on the proposal.

Small farm advocates favor a strict interpretation of the original National Organic Program Final Rule in 2000. One such organization, the Northeast Organic Dairy Producers Alliance, is asking for a strong Final Rule that will specify organic dairy animals must be raised organically from the last third of gestation or be raised organically for one year when an entire established conventional herd is transitioned to organic, which is allowed only once and has to be completed within one year. A certified entity is not eligible for the exemption if transition has been used previously by a Responsibly Connected person who has a 10% or more ownership share in that legal entity. Once a distinct herd is transitioned to organic, all animals must be raised organically from the last third of gestation. Existing organic operation's replacement dairy animals must all be organic from the last third of gestation unless the stock is from their own herd transition. Cycling dairy animals in and out of organic dairy production must be prohibited.

National Milk Producers Federation (NMPF) filed comments to keep organic-dairy farming accessible to farmers considering entry into or expansion within the business. On the transition issue, NMPF emphasized in its comments that the transition from conventional to organic shouldn't be tied to the producer, but instead to the certified dairy operation, arguing that eliminating a farmer's ability to transition a second or a third farm from conventional to organic – which is being proposed by organic-farm advocates seeking to raise barriers of entry to their business — is overly restrictive and unnecessary.

The second, more controversial issue, involves the use of non-organic breeding stock to produce organic heifers. When Congress passed the Organic Food Production Act as part of the 1990 Farm Bill, it specifically stated that breeding stock from any source, organic or non-organic, could be used to produce organic heifers if the breeding stock were organically managed for at least the last third of gestation. NMPF believes this is appropriate, arguing that advocates who want only organic breeding stock to produce an organic heifer – again, reducing competition in the organic sector — are taking a position inconsistent with current law. NMPF's comments to USDA suggests that the agency either work with Congress to change the law or make it abundantly clear that when the rules are followed (e.g. currently a bred non-organic cow must be raised organically for at least last trimester), non-organic breeding stock can produce organic heifers. NMPF's comments also note that from the time a heifer whose mother began feeding an organic diet to when that heifer is milked, that heifer would have spent at least 27 months managed as organic — much more time than the 12 months used for a one-time herd conversion, leaving no scientific basis for such a restriction. Finally, the comments point out that there is no violation of the one-time transition rule when using non-organic breeding stock, as that breeding stock never transitioned – tying the two issues in its main comments.

The full comment can be viewed at the following link:

<https://www.nmpf.org/nmpf-files-comments-to-origin-of-livestock-docket-using-plant-based-analogy/>

The House and Senate ag spending bills required USDA to issue a final rule within 180 days of the signing of the final spending bill, so some resolution should happen by mid-2020.

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## **Global Dairy Organic Market**

### **European organic milk prices**

Organic milk prices in Europe are below prices seen in the US. In the Netherlands, a large processor of organic milk announced the December 2019 pay price for organic milk at 45.74 euros/100 liters (\$23/cwt USD), down from 47.00 in November and 47.50 in September and October. The price applies to those organic milk producers supplying an average of 600,000 kilograms of milk, containing a fat content of 4.41%, protein content of 3.47% and a lactose content of 4.51%, on an annual basis. In October, organic milk prices were near 47.00 in Germany (46.97) and Bavaria (47.38) while prices in France were slightly higher at 49.49. Organic milk prices in Austria were lower at 42.53. (source: USDA Organic Dairy Market News)

The European Milk Board recently reported there is a steadily growing demand for organic products in Europe, which is leading to more conversions of farms to organic production. In Germany, organic milk production increased nearly 20% in 2017 and 2018. Given this growth, a new annual report has been developed to analyze the costs of producing organic milk in Germany. For 2018/19, the report showed production costs were nearly 72 cents per kg of organic milk. The net cost was about 60 cents per kg after factoring out government subsidies. Farm groups pointed to the study's findings and compared it to organic milk prices in the upper 40's. As in the US, farmers are upset they can't cover their cost of production at current market prices.

### **Chinese organic food market growth**

A recent survey by a top research group suggests that within 5 years China's organic food market will surpass the US multi-billion-dollar organic food market. Central to this thought is that organic dairy is projected to be one of the most significant segments that will dominate the organic market landscape. China is an important market for Arla Foods, one of the largest dairy companies in the world, as China is the 4<sup>th</sup> largest market for organic packaged food and beverages. The growth of organic products in China is largely due to past food scandals such as the melamine scandal which has led consumers to look for premium and organic products that are perceived as trustworthy and healthy.

### **Omsco celebrates 25 years and looks ahead**

Omsco, the UK's largest farmer-owned and run organic dairy co-operative, marked 25 years at its annual conference in October. The cooperative has 250 members and produces over 50% of the UK's organic milk supply. They also export value-added organic dairy products and ingredients, an area they view as growth opportunities. For example, Omsco is the UK's biggest exporter of butterfat to the US market, and through a partnership with Wyke Farms, supply 10% of UK's cheddar exports to the US. They view partnerships with other companies around the world as a key to their continued growth.

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