KEY POINTS ABOUT MARGINAL MILK PRICING

- Agri-Mark Dairy Cooperative understands that any program which seeks to directly affect the supply of milk produced or shipped by individual dairy farms puts a burden on those farms and should not be taken lightly. However, the cooperative also believes that the extraordinary levels of inadequate farm milk income coupled with extreme price volatility have put an even greater burden on all dairy operations. A program that successfully addresses these income and price issues will be the least burdensome to farms in aggregate when all things are considered.
- Marginal Milk Pricing is a program whose intent is to send the appropriate pricing signals about the negative value of marginal milk production to individual farms when milk supply exceeds demand and farm milk prices collapse. It intent is also to move supply and demand into better alignment and return farm milk prices to adequate levels. It is not intended to transfer money among dairy farmers or be in effect any longer than needed.
- Any program must be evaluated in comparison with the status quo. Current U.S. dairy policy has resulted in tremendous stress on dairy farm finances and provides greater risk to local milk production than any program which seeks to occasionally reduce milk production fairly across all dairy farms and regions in order to better align supply and demand and provide adequate price recovery.
- Relatively small imbalances in milk supply and demand result in proportionally much larger changes in farm milk prices and individual farm revenue. As such, the production of a small volume of surplus milk can actually decrease the total value of milk produced nationally, hence the marginal value of that surplus milk is negative in aggregate.
- Unfortunately, lower milk prices initially send a signal to individual farms to increase production to maximize their declining income and meet cash flow requirements. This further aggravates the problem.
- Under the Marginal Milk Pricing, the program goes into effect when net farm price falls below pre-set levels and sends a strong economic signal to dairy farmers relative to the marginal value of excess milk production.
- A penalty equal to the Class III price is paid by dairy farmers who continue to produce milk above and beyond a very current adjusted base level. Penalty revenue generated is used to purchase cheese and thereby increase demand. This provides a demand balancer to compensate for the continued overproduction by those farms. The cheese is donated to charitable food programs
- The base level is calculated using a farm's actual milk production during any three consecutive month period in the last year. The adjustment is a small percentage change in those base pounds based upon how low the net farm price has fallen.
- When farm milk prices return to pre-determined adequate levels, Marginal Milk Pricing program ceases operation.
- A recent University study has concluded that Marginal Milk Pricing can be an effective program to reduce farm milk price volatility and return more adequate prices to dairy farmers. It will also result in much lower government expenditures as increased farm revenue will be coming from the marketplace.