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Seasonality is a Problem for NY Dairy Industry

by

Harry M. Kaiser

Department of Agricultural Economics

New York State College of Agriculture and Life Sciences, Cornell University

Milk production seasonality has long been recognized as a serious problem facing the New York dairy industry, particularly among manufacturers of non-fluid dairy products. Uneven monthly supplies of raw milk between spring and fall (average difference of 13 percent from 1980-86) raises handlers' operating costs and reduces their level of efficiency. The costs to handlers are primarily due to excess capacity in trucks, storage facilities, and plants, which may be run at capacity in the spring, but run at levels far below capacity the rest of the year. Because dairy cooperatives generally bear the majority of these costs, farmers ultimately pay the price of seasonality.

To try to even out seasonality, federal and state milk marketing orders in New York State have used seasonal price incentive programs (the Louisville plan) since 1967. During spring, deductions from the farm price discourage excess production; in the fall, premiums to the price stimulate additional production. Most experts agree that this program has had limited success in evening out seasonality. Two reasons have been cited: First, the level of the deducts and premiums has not been changed for 17 years, so inflation has eroded them substantially in real terms. Hence, the financial incentive for dairy producers to reduce seasonality is diminished. Second, because the deducts and premiums are not recorded on producers' milk checks, a significant proportion of farmers are unaware that the program exists. In a recent survey of 1,200 farmers, 35 percent were unaware of the Louisville plan.

Several Northeast cooperatives have addressed the problem by offering their own seasonal plans in addition to the marketing order program. Some have used substantial Louisville-type premiums and deductions while others have instituted base-excess programs. It is probably best for the industry as a whole to adopt an effective seasonal plan within the federal order structure rather than using individual firm or cooperative level plans. This would keep seasonality from becoming a competitive factor among handlers.

There are a number of ways to reduce seasonality in New York. One way is to switch from a Louisville program to a base-excess program which has a more significant penalty for overproduction in the spring. Currently, there is an amendment pending in the New York-New Jersey Milk Marketing Order to do this. This plan is better than the current program because more producers would be aware of it and it offers more significant financial incentives/disincentives for farmers to change their pattern of seasonality.

Another alternative is to modify the existing Louisville plan in both federal orders. I would suggest three changes. First, double the current level of take-outs/pay-backs to make the incentives/disincentives more significant. Second, rather than using an absolute amount, which becomes eroded by inflation over time, use a percentage of the market price for the premiums and deducts. And to make producers aware of the program, print the take-outs and pay-backs on the milk check.

Finally, educational programs to assist highly seasonal farmers to reduce their seasonality also would help. A joint venture by Cornell Cooperative Extension, dairy cooperatives, milk handlers, DHI, and dairy regulatory agencies would go a long way in solving the problem.