AFBF FEDERAL MILK MARKETING ORDER WORKING GROUP
BACKGROUND ON INTERNATIONAL DAIRY PRICING
AUGUST 2019

Issue:
In much of the United States, dairy products are priced using Federal Milk Marketing Orders. These orders utilize end-product pricing formulas that incorporate manufacturing yields, make allowances and wholesale commodity prices for cheese, butter and dry milk products.

Milk pricing regulations vary in major dairy exporting or producing regions such as the European Union, New Zealand, Australia and Canada. In these countries, milk pricing largely reflects the returns the co-op or processor expects to get from the marketplace based on its product mix. This background paper examines each country's milk pricing system.

Background:

New Zealand

Milk pricing in New Zealand is formula-based, but rather than using wholesale commodity prices like the U.S. does, milk pricing in New Zealand is based on revenue from milk and dairy product sales, less costs including but not limited to operating costs and capital recovery. The revenue and costs that factor into this formula largely come from Fonterra, a New Zealand-based multinational dairy co-op owned by more than 10,000 New Zealand farmers.

Revenue is calculated by scaling up Fonterra's actual sales prices of reference commodity products including commodity whole milk powder, skim milk powder, buttermilk powder, butter and anhydrous milkfat to reflect milk price volumes for that period. Operating costs are calculated as the manufacturer's specification of resource usage for modern powder plants, but with Fonterra's unit costs, collection costs and supply chain costs. Overhead costs are based on Fonterra's costs, but reflect the narrower scope of milk price business.

Payments are made on the 20th of each month. Estimated farmgate prices are announced at the beginning of June and are adjusted to reflect market prices through the rest of the season. The price does not include returns from non-powder commodities, such as cheese and casein, as most of the additional milk collected by Fonterra and other cooperatives is used for milk powders.

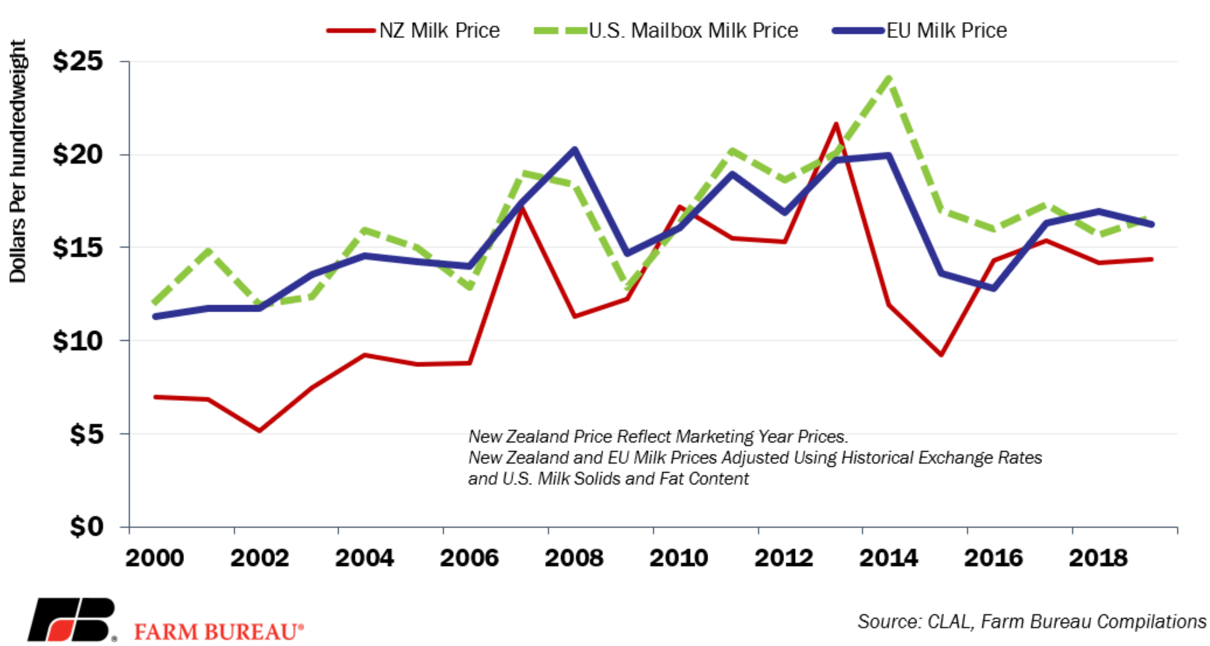
European Union

Processors in the European Union, such as FrieslandCampina, Arla and Glanbia, typically announce a milk price each month. The company or cooperative has the discretion to pay what it feels is appropriate. The marketplace dictates that the price be in line with market conditions, although the price can signal to farmers if the co-op or processors need more or less milk at a given time.

FrieslandCampina pays member dairy farmers a guaranteed monthly price, which is based on the trend of milk prices published by benchmark companies in Germany, Denmark, the Netherlands and Belgium. If there is an adjustment to the estimate of milk prices, it can be incorporated into the subsequent monthly guaranteed price. The guaranteed monthly price received by member farmers per 100 kilograms of milk is calculated using farm-specific protein, fat and lactose content, plus a full and partial outdoor grazing premium (as appropriate), and a premium for special milk flows. Arla, a dairy cooperative based in Denmark, prices its milk similarly. Glanbia, based in Ireland, is more subjective in its pricing scheme as it pays a support payment to its member producers.

Figure 1 highlights the U.S. annual average milk box milk price and the value of U.S. milk is priced using New Zealand milk solids values or EU weighted average milk prices.

Figure 1. U.S. Mailbox Price and Average Value of U.S. Milk Under New Zealand and EU Milk Pricing Systems



Canada

Canada has a different pricing scheme altogether. The Canadian government provides support prices, which are established by the Canadian Dairy Commission. These prices mirror those at which the CDC markets butter and skim milk powder within its various programs. Support prices are used by the marketing boards of each province as a reference to determine the price processors pay for the portion of milk used in butter, skim milk powder, cheese, yogurt, ice cream and other dairy products. Prices are announced yearly in mid-December and take effect the following February. Canada also operates on a total quota system, which is adjusted monthly by the CDC and affects the prices paid to dairy farmers.

Australia

Since the deregulation of milk prices in Australia in 2000 and 2001, all prices are determined by the market. There is no legislative control over the price processors pay farmers for their milk. Returns are affected by market and product mix, marketing strategies, utilization and efficiencies in the factory processing capacity, as well as other factors.

Current Farm Bureau Policy:

None