

Breakdown of Contract Pricing

In 2008 the New England farmgate pay price consisted of a base price plus Market Adjustment Premiums (MAP)ⁱ for WhiteWave of \$26.25; for HP Hood, \$26.90; and for CROPP (which does not have a MAP but has a base price plus a regional premium), \$27. WhiteWave and Hood have a regional pricing system, which is not shared publicly, and CROPP posts its base price plus regional adjustments on its website. All the companies have discretionary programs that can be negotiated, with seasonal bonuses that vary from \$3 for 4 months to as little as \$0.50 for two months. The effect on net income of the seasonal bonuses is difficult to assess on a region-wide basis because the impact is subject to many variables including unpredictable weather, crop conditions, and the price of purchased feed. Moving into the Midwest, farmgate prices for producers drop by as much as \$4.50/cwt even though USDA studies show that operating costs are around the same as the Northeast. Producers in the Midwest and the West have an average base price of approximately \$22.50/cwt. The determination of pay price in other parts of the country follows the same pattern as in the Northeast, with little variance between processors. Processors also “exchange” milk with each other from areas in surplus (the West for example) to satisfy markets in the East.

CROPP pay price is easier to evaluate with only a base price plus regional payments but the Horizon and Hood price can give a higher return based on the farm’s production system. Since 2006, WhiteWave has led the market slightly, but only by less than a dollar.

Overview of pay-price in New England.

	HP Hood			Horizon Organic			Organic Valley*		
	2006	2008	2009	2006	2008	2009	2006	2008	2009
Base price	26.0	24.9	25.3	24.0	25.0	25.0	26.0	28.25	27.25
MAP	-	2.0	1.0	2.0	2.5	2.0			
Short (3/ 4 months)	2.00	2.0	2.0	1.5	3.0	4.0	**		(1.00)
Short									2.00
Long (8 months)				0.75	1.50	1.50			
Trucking charge/yr	-	-		-	-		900	900	2,160
Average year round price ***									
Long				26.5	28.5	28.0			
Short	26.5	27.4	26.8	26.5	28.5	28.33	26.0	28.25	27.17

*Organic Valley requires producers to purchase preferred stock equivalent to 5.5% of their annual base gross income; historically this investment has an 8% return on required amount in Class B Stock. Profit sharing is activated if Organic Valley’s 2.2% profit goals are met or exceeded.

**\$1.00/cwt for milk produced in Oct, Nov, Dec, provided the average is greater than the average for May, June, July.

*** Seasonal bonus paid is multiplied by the number of months and divided by a complete calendar year.

Horizon’s MAP for 2009 was changed in May 2009, Hood in March and OV in February

ⁱ Market Adjustment Premium and seasonal payments are paid at the discretion of the processor.