

Land O'Lakes-Western initiating supplemental base reduction measures

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From letter addressed to Land O'Lakes Dairy Members from Pete Garbani, Director of Milk Supply Western Region, dated March 16, 2012:

This letter reaches you at a time when our state is experiencing extremely high milk production. A mild summer combined with improved producer margins through the fall led to significant increases in milk production as we entered 2012. As of this writing, production within both the State of California and your cooperative continues on an upward trend. More specifically we have received or sold over 17 million lbs. per day in early March and volumes are still growing. As such we continue to seek alternative markets for your milk. Our efforts thus far have resulted in deep discounts to clear the market and as production continues to grow these alternatives will become increasingly less attractive.

Given these circumstances Land O'Lakes is initiating the following supplemental base reduction measures:

1. Consistent with our letter dated March 5, 2012, members who produce above their newly revised base volume will be assessed \$10/cwt. **however we have delayed the effective implementation for measurement purposes until April 1, 2012.** Our delayed implementation is focused on assisting patrons with orderly volume reductions however it is imperative that this excess production be eliminated.
2. **Additionally, effective April 1, all Tulare and Southern CA members will be required to reduce production by an additional 6%.** We intend to use the lower of your recently revised base volume or March 1st – 7th 2012, average daily volume as the starting volume for reduction purposes.
3. In return for reducing production to your temporary base volume, Land O'Lakes will increase your premium by \$.30/cwt. (above any existing premium) on your remaining production. You will be eligible for this premium if and only if you achieve the targeted volume reduction on your dairy.
4. If the targeted volume reduction is not achieved, you will not be eligible for the \$.30/cwt. premium and you will be assessed at least \$10/cwt. on the production above your temporary base volume. This is necessary to clear the market of milk.
5. Your volume will be measured on a monthly average basis.
6. **This temporary base volume will be in place for three (3) months beginning April 1, 2012 and extending through June 30, 2012. Beginning July 1, 2012 we will revert back to our normal base production volumes and the additional premium of \$.30/cwt. will end.**

We recognize the stress these measures may have on your dairy and our effort is to achieve the necessary reduction in milk production while trying to mitigate some of the financial implications to your operations.

Going forward it is our intention to annually review our members' production as it relates to your base volumes and adjust accordingly.