

March 12, 2012

Production and Quota Update and Preparing for +5/-15 days

This memo provides producers with an update on the current production and quota situation in Saskatchewan. It also clarifies how the new flexibility limits of +5/-15 days will be applied.

Quota - Canadian Requirements Update

The Canadian Dairy Commission (CDC) production update has the supply of milk being greater than the Canadian Requirements for industrial milk production. The CDC is projecting a quota cut for April 2012. It should be noted that SaskMilk is under allocated and depending on the size of the quota cut, should be able to absorb this.

The CDC does feel this cut will be short term as they anticipate that Canadian Requirements to increase come August 2012.

Producers should not drastically cut production or get rid of cows. Summer production is historically low and milk is always needed in the fall to replenish stocks for Thanksgiving and Christmas.

To assist producers in managing their production needs in an efficient manner, SaskMilk is issuing fall incentive days to encourage producers to plan for fall milk production. The incentive days will be issued as follows:

August – 2 days

September – 2 days

October – 1 day

November – 1 day

Saskatchewan Production Update

Production continues to be strong for February and March is traditionally one of the highest production months. Board projections have SK cumulative position for February to be -0.78%. This will be a 0.44% gain from January.

If production trends continue with high volumes of milk off the farm and slightly higher than traditional butterfat composition, SK potentially could be in a penalty situation in June or July 2012. SaskMilk has factored the potential quota cut for April 1 into its long term projections.

The big unknown going forward is summer weather and feed quality. Using historical tests and estimated milk volumes SaskMilk is estimating SK cumulative position to be at -0.10% in September.

Preparing for the +5/-15 day limits

Producers should be making plans to adjust to the new flexibility limits of +5/-15 days which will be implemented for April production. This document provides a number of examples on how the new limits may affect your farm. The first 3 scenarios explain the impact for producers who are at or near the upper limit, while the final 3 examples demonstrate how the new lower limit will be applied.

If producers are uncertain of how the new limits will affect them, please contact the SaskMilk office.

Application of New +5 days Upper Limit

Any producer that finishes April production in a cumulative position above the upper limit of +5 days will receive zero payment for any production in excess of the +5 day limit. Producers whose cumulative position is greater than +5 days as of April 30, 2012 will be capped at +5 days going forward.

Below are three scenarios on how the +5 day upper limit can affect a producer whose cumulative position is greater than +5 days as of March 31, 2012. Scenarios 1 through 3 use a producer with a daily quota of 100 Kgs and a cumulative position of +7 days or 700 Kgs as of March 31, 2012.

Scenario 1 – Producer ships monthly allocation and does not transfer in credits

	Kgs of Butterfat
April Monthly Allocation	3,000
April Actual Production	3,000
April Transfer Credits	0
April Over/-under	0
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March Cumulative Position	700
April Unadjusted Cumulative Position	700
April Adjusted Cumulative Position	500
April Over Quota	200

In scenario 1, the producer will be paid for 2,800 Kgs of butterfat because 200 Kgs is over quota after the adjustment for +5 days is made. The producer's cumulative position is capped at 500 Kgs.

Scenario 2 – Producer ships monthly allocation and transfer in credits

	Kgs of Butterfat
April Monthly Allocation	3,000
April Actual Production	3,000
April Transfer Credits In	-1,500
April Over/-under	-1,500
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March Cumulative Position	700
April Unadjusted Cumulative Position	-800
April Adjusted Cumulative Position	-800
April Over Quota	0

In scenario 2, the producer will be paid for 3,000 Kgs of butterfat.

Scenario 3 – Producer ships less than allocation

	Kgs of Butterfat
April Monthly Allocation	3,000
April Actual Production	2,500
April Transfer Credits	0
April Over/-under	-500
March Cumulative Position	700
April Unadjusted Cumulative Position	200
April Adjusted Cumulative Position	200
April Over Quota	0

In scenario 3, the producer will be paid for 2,500 Kgs of butterfat as the producers cumulative position is below the upper limit of 500 Kgs.

Application of New -15 days Lower Limit

Any producer that finishes April production in a cumulative position below the lower limit of -15 days will have lost opportunity for any under production below the -15 day limit. Producers whose cumulative position is less than -15 days as of April 30, 2012 will be capped at -15 days going forward.

Below are three scenarios on how the -15 day lower limit can affect a producer whose cumulative position is less than -15 days as of March 31, 2012. The example uses a producer with a daily quota of 100 Kgs of butterfat and a cumulative position of -17 days or -1,700 Kgs as of March 31, 2012.

Scenario 4 – Producer ships monthly allocation and does not transfer in credits

	Kgs of Butterfat
April Monthly Allocation	3,000
April Actual Production	3,000
April Transfer Credits	0
April Over/-under	0
March Cumulative Position	-1,700
April Unadjusted Cumulative Position	-1,700
April Adjusted Cumulative Position	-1,500
Lost Opportunity	200

In scenario 4, the producer will be paid for 3,000 Kgs of butterfat. 200 Kgs of credits are lost as lost opportunity. The producer's cumulative position is capped at -1,500 Kgs.

Scenario 5 – Producer ships monthly allocation and transfer out credits

	Kgs of Butterfat
April Monthly Allocation	3,000
April Actual Production	3,000
April Transfer Credits Out	1,500
April Over/-under	1,500
March Cumulative Position	-1,700
April Unadjusted Cumulative Position	-200
April Adjusted Cumulative Position	-200
Lost Opportunity	0

In scenario 5, the producer will be paid for 3,000 Kgs of butterfat.

Scenario 6 – Producer ships less than allocation

	Kgs of Butterfat
April Monthly Allocation	3,000
April Actual Production	2,500
April Transfer Credits Out	0
April Over/-under	-500
March Cumulative Position	-1,700
April Unadjusted Cumulative Position	-2,200
April Adjusted Cumulative Position	-1,500
Lost Opportunity	700

In scenario 6, the producer will be paid for 2,500 Kgs of butterfat. 700 Kgs is lost opportunity. The producer's cumulative position is capped at -1,500 Kgs.