

Understanding Credit Days

Dairy farmers try to keep their production in line with their respective quota. However, milk production is not an exact science. Therefore, dairy farmers are provided with credits, which allows them to over or under-produce within a month and carry it over into the next month.

The credit system allows dairy farmers to over and under-produce their quota within a range defined by the Board. The current range is +15 days and -30 days of credits. This means a dairy farmer can over-produce by 15 times his daily quota and under-produce by 30 times his daily quota on a rolling basis.

There are maintenance policies in place to prevent individual dairy farmers from going too far under or over their individual credit limits. There are financial consequences to those whose production exceeds their quota and credit limits. Dairy farmers are fully paid for milk shipped up to their maximum. Production exceeding the 15-day maximum is both not paid for and is assessed a penalty. At the other extreme, production falling below -30 days of under-production is considered lost production.

For example, if a dairy farmer has daily quota of 50 kilograms, he can over-produce at any time to a maximum of 750 kilograms, or 50×15 . Conversely, he can under-produce at any time to a minimum of -1,500 kilograms, or 50×-30 . The following example illustrates the effect on a dairy farmer's current credit position of producing above his quota during a 30-day month.

Starting Credits	Monthly Quota	Butterfat Shipments	Difference	Credits Bought/Sold	Ending Credits	Marginal Market	Credits Lost
0	1500	1800	300	0	300	0	0

This dairy farmer's over-production of 300 kilograms is added to his starting credit position of 0 kilograms to give him an ending credit position of +300 kilograms (+6 days), which is within his maximum of +750 kilograms.

All dairy farmers over or under-producing have the opportunity each month to "re-balance" their credit position by participating on the credit exchange. The dairy farmer above could have chosen to bid to buy up to 300 kilograms of credits. If successful, he pays whatever price the exchange clears at for each successful kilogram purchased, and his credit position is then adjusted toward zero. Conversely, a dairy farmer on the same exchange, assuming he has a negative credit position of -300 kilograms, can sell up to 300 kilograms. If successful, he receives whatever price the exchange clears at for each successful kilogram sold, and his credit position is then adjusted toward zero.

The credit exchange operates in the same manner as the quota exchange.