

## **Executive Summary Milk Commission Report 2019**

The dairy industry in Vermont in 2018 has seen farm attrition, a leveling off of dairy product processing growth and a decline in milk volume due to a fourth year of milk prices below the total costs of production as reported by USDA for 2017. These factors are having an impact on rural communities with less dairy farm income to be spent in these communities, which has a spillover effect on other forms of agriculture in our state due to the loss of local agricultural infrastructure. These rural communities are the same areas seeing population declines, declining school enrollment and a lack of people to fill existing jobs.

Secretary Tebbetts received a letter from Senator Robert Starr and Representative Carolyn Partridge on May 12, 2018 requesting the Secretary to:

*“immediately convene a series of meetings with cooperative leaders to explore implementation of a comprehensive supply management plan for the Vermont dairy industry.”*

The letter further requested that the supply management working group be composed of cooperative leadership and their respective economists from St. Albans Cooperative Creamery, Inc., Agri-Mark, Inc., Dairy Farmers of America and Land O’ Lakes as well as Senator Starr and Representative Richard Lawrence who both are appointed to the Vermont Milk Commission. The working groups additional charge included:

*“this leadership group should consider and report back to the Vermont Milk Commission about how continued State financial support of the State's dairy industry can serve as incentive and support for implementation of such a plan.”*

The Supply Management Working Group recommended the following parameters surrounding a growth management program:

- Any dairy price stabilization program would need to be implemented at the national level.
- Dairy farmer representation is critical on a board that works with the Federal Government.
- Program must not have barriers to new farmers starting dairy farming operations.
- A two-tiered stabilization program is preferred.

The working group also had areas of concern that would need further clarification for a growth management program to be enacted at the National Level.

- A two-tier system requires a base. The established base must not take on a value of its own.
- A two-tier pricing system would stabilize not enhance overall price.
- Consumer advocates could raise the alarm that dairy products prices would rise beyond the reach of income sensitive consumers if a program is implemented.
- A national two-tier stabilization program would need to be trade compliant.

The Milk Commission took the recommended parameters from the Supply Management Working Group and makes the following proposal to the Federal Congressional Delegation.

The Milk Commission endorses a program, to the equalize the supply and demand of milk to stabilize milk volumes at the national level and stabilize milk prices, that meets the parameters of the Supply Management Working Group. The continued unabated growth in milk production across the nation is causing an extreme imbalance in milk volume as compared to domestic commercial disappearance and exports of dairy products which depress milk prices paid to farmers.

The Milk Commission recommends a Growth Management Plan that would incorporate many detailed rules and regulations but would need to include the following subject areas:

- A dairy farmer governance board working in conjunction with USDA. The National Dairy Board model could be used for farmer representation with the addition of dairy economist and two dairy processors.

- Determination of a base milk volume for individual producers
- Determination of the volume of milk required to meet domestic and export needs as well as a 30-day emergency stock of dairy products, nationally, regionally and to the individual dairy farmer
- A means to provide strong signals to individual dairy farmers that milk over the required domestic and export volume and emergency stock is not desired
- A means for new dairy farmers to join family operations and or start new individual dairy farms.
- Detailed rules and regulations for the merging of dairy farming operations, the dissolution of farm partnerships and other changes in business structures

The specific recommendations for a Growth Management Plan include:

- Implementation at a national level and must be mandatory for all dairy producers to take part.
- An administrative fee for all dairy farmers and a flat rate is supported.

The dairy industry in Vermont in 2018 has seen farm attrition and a decline in milk volume due to a fourth year of milk prices below the total costs of production as reported by USDA for 2017, and a leveling off of dairy product processing growth. The chart below shows some of the challenges for an average size Vermont Farm.

Average Vermont Dairy Farmer – 3.4 million pounds of milk and 170 milking cows

Category	Total	Total year prior	% change prior year
Milk Income – 2018 FMMO milk price	\$524,280	\$570,520	-8.1%
USDA Total Costs 2017	\$871,420	\$1,207,680	-27.8%
USDA Value of milking cows 170 cows- 2018	\$212,500	\$289,000	-26.5%
USDA Value of Springing Heifer (40/year) 2018	\$55,000	\$64,000	-14.1%
Holstein Heifer Calf (40/year) 2018	\$2,760	\$8,160	-66.2%
USDA Beef Price Cow (700 lbs. dressed weight) 2018	\$452.34	\$486.92	-3.5%
USDA Interest Expense per Cwt. 2017	\$2,380	\$1,700	40%

Lower income, lower value of cows, heifers and calves, lower beef prices and increasing interest expenses are all impacting dairy farmers ability to cash flow and access credit due to impacts on the balance sheet. Milk price predictions for 2019 indicate a slight increase in average price over 2018. The dollar increase prediction for 2019 will be helpful but not sufficient to assist all dairy farmers to cover the cost of production.

Managing milk volume growth to meet both domestic and export needs and to supply a 30-day emergency stock of dairy products is the goal of the Growth Management Plan. To manage the growth of the United States milk supply to better align the volume of milk with demand, all dairy producers will need to be actively involved in the program. An equitable program must be established for all dairy producers regardless of farm location, farm size and or business structure. The alignment of milk volume with need would reduce volatility and provide stabilization of milk prices. For these reasons, the Milk Commission endorses a program, to the equalize the supply and demand of milk to stabilize milk volumes at the national level and stabilize milk prices for all dairy farmers.

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