

Report and Recommendations of the
Vermont Milk Commission
January 2018



VERMONT

Agency of Agriculture, Food and Markets

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Report and Recommendations of the Vermont Milk Commission for the 2018 Federal Farm Bill

Executive Summary

The Vermont Milk Commission was required by the Vermont Legislature in 2017 to review and recommend items for the 2018 Federal Farm Bill that would assist dairy farmers and the dairy industry in Vermont. The Legislature requires a report and recommendations be provided to the Federal Congressional Delegation and the Vermont Legislature.

The Vermont Milk Commission completed a series of seven meetings that included testimony and presentations by 54 individuals representing 47 organization and 4 individuals. With the compilation of this report and recommendations for the 2018 Federal Farm Bill, the Milk Commission has met its legislative charge from the 2017 session “*to review and evaluate proposals that enhance and stabilize the dairy industry in Vermont and New England and that may be appropriate for inclusion in the federal Farm Bill 2018.*”

The Vermont Milk Commission makes the following recommendations for the 2018 Federal Farm Bill.

Title 1 – Commodities -Dairy

Margin Protection Program – *This is a high priority of the Milk Commission.*

The Milk Commission supports the following changes:

- Remove the 10% reduction in the feed cost calculation that was implemented in the 2014 Farm Bill.
- Corn, Soybean and Hay Prices –Utilize USDA Agricultural Marketing Service data on corn sold to farmers for feed, average the 11 pricing points for soybean meal in the United States and use a price for high quality hay for the feed cost calculation.
- Change in the Margin Protection Program to a one-month calculation and payment versus the current two-month approach.
- Waiving the premium for Beginning and Socially Disadvantage Farmers as defined by USDA to take part in the Margin Protection Program.
- Allow flexibility to move in and out of the Margin Protection Program for famers to use other risk management programs. Dairy farmers would not be required to enroll for the life of the Farm Bill.
- Reinvest dairy farmer premium payments into the Margin Protection Program for potential indemnity payments to farmers – not into the federal government general fund.
- The Milk Commission reviewed supply management concerns closely and determined not to recommend any specific supply management program.

Federal Order Reform – Class I Fluid Milk Pricing - *This is a high priority of the Milk Commission.*

The Milk Commission supports the following:

The National Milk Producers Federation (NMPF) and the International Dairy Foods Association (IDFA) have a proposal to adjust the calculation for the Class I fluid milk price within the Federal Order System for all Federal Orders.

Higher Solids Standards in Fluid Milk - *This is a high priority of the Milk Commission.*

The Milk Commission supports the following:

- An updated study on the impact of expanding milk solids standards nationally for 2017.
- The requirement that all fluid milk sold nationally meets the higher milk solids standards.
- If not successful in getting higher milk solids standard nationally, should be considered for Federal Order Number 1 in the Northeast.

Title 2 – Conservation

Conservation Title – Land Conservation Ag Conservation Easement Program (ACEP) and Ag Land Easement Program (ALE) - *This is a high priority of the Milk Commission.*

The Milk Commission supports the following changes to the ACEP program:

- Restore funding nationally for this program to \$500 million which would increase the ability to conserve more farms in Vermont.
- Allow for state or region-specific deed terms to improve flexibility.
- Remove the ALE plan as part of minimum deed terms which addresses the concern of flexibility to meet on-farm changes in management.
- The ability for local entities to become certified to manage the conservation easement process should be continued to maintain and improve efficiencies.

Regional Conservation Partnership Program (RCCP) - *This is a high priority of the Milk Commission.*

The Milk Commission supports the continuation of the Regional Conservation Partnership Program and a waiver for the match requirement for non-profit organizations in the 2018 Federal Farm Bill.

USDA Environmental Quality Investment Program (EQIP) - *This is a high priority of the Milk Commission.*

The Milk Commission supports the following changes to the EQIP program:

- The opportunity to waive the requirement of an agreement by the farmer to implement the whole farm plan over the life of a Farm Bill should be added. The plan should be developed but the farmer can prioritize implementation over the life of the Farm Bill and can continue the plan into a subsequent Farm Bill cycle.
- USDA EQIP payment cap should be increased to \$1,000,000 for the life of the Farm Bill.
- Edge of field monitoring costs should not be counted against the funding cap within the EQIP program.
- Add the ability to have pre-approval of some project costs – able to begin project before contract is complete. USDA should explore the use of performance bonding with contractors to allow payment of costs during the work of the project. Contractors need to cover costs while implementing the project and many do not have the capacity to wait until the end of the project for payment.
- Allow partner organizations working on common goals with USDA Natural Resources Conservation Service to share specific farm data to improve efficiency and to further environmental conservation activities.

USDA Conservation Reserve Enhancement Program (CREP) - *This is a high priority of the Milk Commission.*

The Milk Commission supports continued funding of the CREP program and the requests to improve rental rates for this program to more specific Vermont rates.

Title 3 -Trade

Foreign Market Development Program

The Vermont Milk Commission supports continued funding of the Market Access Program at \$400 million per year.

USDA Secretary Perdue recently provided to the Report to the President of the United States from the Task Force on Agriculture and Rural Prosperity. This report supports increased access to global markets.

Title 4 – Nutrition

USDA Food Programs and the Women, Infants and Children's (WIC)- *This is a high priority of the Milk Commission.*

The Milk Commission supports the inclusion of milk and dairy products as part of all USDA Food Programs and would encourage flexibility and ability for choice within these programs to provide a full range of fat levels in milk and dairy products to participants. The Milk Commission also supports full funding of all USDA Food Programs in the 2018 Farm Bill.

Title 6 Rural Development

Telecommunication and Infrastructure Loans and Loan Guarantees

The Milk Commission supports increased funding for the Telecommunication and Infrastructure Loans and Loan Guarantees to continue to expand and strengthen broadband coverage in rural communities.

USDA Secretary Perdue recently provided to the Report to the President of the United States from the Task Force on Agriculture and Rural Prosperity. In this report, there is a renewed commitment to the expansion of greater broadband connectivity in rural communities.

Rural Business- Cooperative Service

The Milk Commission supports continued funding of the Rural Business- Cooperative Services programs within USDA Rural Development to provide needed funding sources for the dairy industry and cooperatives in Vermont.

Title 7 – Research and Extension

The Milk Commission supports the following proposals for Research and Extension:

- Title 7 Research and Extension was underfunded in the last Farm Bill.
 - Support infrastructure upgrades at all land grant college for agricultural teaching and research.
 - Expand research funding to Extension nationally to address climate and weather extremes.
- Develop focused research, Extension and education initiatives for on-farm robotics, ag technology, innovation and workforce development to address farm labor shortages as well as dairy product research and development. Increased funding would benefit University of Vermont Extension to be able to take on these initiatives.

Title 9 – Energy

Rural Energy for America Program -Renewable Energy Systems & Energy Efficiency Improvement Loans & Grants

The Milk Commission supports the Rural Energy for America Program and supports funding for Vermont dairy farmers to install anaerobic manure digesters on their farms. Funding should be returned to \$50 million per year level in the 2018 Farm Bill.

Title 11 – Crop Insurance

Noninsured Crop Disaster Assistance Program (NAP)

The Milk Commission supports allowing flexibility to determine a regional range for Relative Feed Value (RFV) on mixed hay and haylage for the Northeast that would be more representative of the feed used on Dairy Farm for milk production. USDA would need to determine what documentation was acceptable to set a regional RFV range within the NAP crop disaster insurance program.

Title 12 – Miscellaneous – *This is a high priority of the Milk Commission.*

Animal Health – Bovine Johne’s Disease

The Milk Commission would recommend that the Johne’s Disease Control Program be reinstated in the 2018 Farm Bill and be funded at \$100 million and that USDA implement a goal of eradication of Johne’s Disease by 2030 in the United States.

Animal Health – National Animal Health Laboratory Network

The Vermont Milk Commission supports the expansion of the authorization for the National Animal Health Laboratory Network and continued funding and authorization for collaborative work.

Other Legislative Issues not addressed in a Title of the Farm Bill

Immigration Reform

Due to Vermont dairy farmer’s reliance on immigrant labor, the Milk Commission supports a federal guest worker program be included and implemented in any comprehensive immigration reform.

Organic Standards

The Milk Commission supports the following changes to organic standards:

- Proposal from organic industry for all certifying agents to be licensed and trained by USDA, with expectations to consistently inspect dairy farms to organic standards, with specific attention to the access to pasture requirement and transition of livestock to organic production.
- Organic Production Market and Data Initiative Proposal should be funded and expand collection of organic data at a cost of \$5 million per year nationally.

Food Safety Modernization Act

- The Vermont Milk Commission recommends the Food and Drug Administration consider a granting program to upgrade feed mills to meet new requirements.

Nonmilk Beverages – Truth in Labeling – *This is a high priority of the Milk Commission.*

The Milk Commission supports truth in labeling of beverages to remove the word milk from nut and plant-based beverage containers and marketing materials.

USDA Insurance Program – Milk as a Commodity

Funding for all insurance program is an important issue within the Farm Bill. At this point, milk is in a category with livestock and a request is being made to move milk to a commodity status which would increase the federal funding available for the American Farm Bureau Revenue Insurance program. If this change cannot be completed prior to negotiations on the Federal Farm bill, the Milk Commission supports inclusion of milk as a commodity in the 2018 Farm Bill.

Rural Opiate Issue

The Milk Commission recognizes the issue of opiate addiction impacts everyone in the state of Vermont including those involved in agriculture. USDA Secretary Perdue recently provided Report of the Task Force on Agriculture and Rural Prosperity. Within this report, one of the recommendation is to modernize healthcare access which includes: *Improved access to mental and behavioral care, particularly access to prevention, treatment, and recovery resources is vital to address the nationwide opioid crisis and other substance misuse in rural communities.* The Milk Commission supports this recommendation and funding for this vital initiative.¹

Staffing Levels and Hiring Freeze for USDA in State Offices

There were overall concerns with USDA FSA and NRCS staffing levels in Vermont. Nationally USDA FSA and NRCS has been under a hiring freeze and if attrition occurs, there is a national level process of filling the vacancy. The hiring freeze is adversely impacting the ability of the Vermont office to assist farmers in implementing environmental conservation practices. The national level process of hiring does not benefit employees that are in the Vermont offices that may wish to move up into vacant positions, but the national level process is slow and cumbersome, and the local employee may not be selected. These may not be Farm Bill issues but are impacting Vermont farmers that wish to implement environmental conservation activities on their farms.

¹ Report to the President of the United States from the Task Force on Agriculture and Rural Prosperity - Secretary Sonny Perdue, Chair – p.24. <https://www.usda.gov/sites/default/files/documents/rural-prosperity-report.pdf>

Report and Recommendations of The Vermont Milk Commission for the 2018 Federal Farm Bill

The Vermont Milk Commission was required by the Vermont Legislature in 2017 to review and recommend items for the 2018 Federal Farm Bill that would assist dairy farmers and the dairy industry in Vermont. The Vermont Legislature requires a report and recommendations be provided to the Federal Congressional Delegation and the Vermont Legislature. This report provides an overview of the Milk Commission and its charge, an overview of the Vermont Dairy Industry, and recommendations from the Milk Commission for the 2018 Federal Farm Bill.

Overview of the Vermont Milk Commission

The Vermont Milk Commission is codified in State statute under 6 V.S.A. Chapter 161 with the following purpose 6 V.S.A. § 2921(b):

(b) The general purposes of this subchapter are to protect and promote the public welfare by insuring at all times an adequate supply of clean, pure milk and cream of proper quality to meet the needs of the inhabitants of this State and to ensure the continuing economic vitality of the dairy industry by stabilizing the price received by farmers for their milk at a level allowing them an equitable rate of return. These purposes are to be accomplished through regulation of the milk-marketing industry, and through control in general, consistent with constitutional limitations, of the price of all fluid dairy products sold or offered or exposed for sale to the inhabitants of this State and by Vermont farmers, to the end that the public health and economic welfare of the State shall not be menaced or jeopardized.

The Milk Commission is comprised of nine members consisting of the following:

- One member of which shall be the Secretary of Agriculture, Food and Markets. The Secretary shall be chair of the Commission.
- Two dairy farmers with knowledge of the production and marketing of dairy products.
- One milk handler with knowledge and experience in the marketing of dairy products.
- Two members representing milk consumers and having no pecuniary interest in the sale of milk or milk products.
- One dairy farmer, who does not serve on the board of directors of any organization which handles or processes dairy products, nor is an officer of any organized farm organization in the State.
- One member from the House Committee on Agriculture chosen by the Speaker.
- One member from the Senate Committee on Agriculture chosen by the President Pro Tempore of the Senate.

The selection of these members, other than the Secretary and the members of the Vermont Legislature, is completed in the following manner.

- Two dairy farmers with knowledge of the production and marketing of dairy products.

- Nominations are submitted from each dairy farmer cooperative, and each proprietary handler purchasing milk from independent farmers, doing business in the State and registered with the Secretary of State's office shall submit the name of a Vermont dairy farmer to the Vermont Dairy Industry Association. This Association reviews all nominations and submits the names of four people to the Governor. The Governor appoints members from these nominations.
- One milk handler with knowledge and experience in the marketing of dairy products.
 - Each milk handler doing business in the State and registered with the Secretary of State's office shall submit the name of one such handler with knowledge and experience in the marketing of dairy products to the Vermont Dairy Industry Association. The Association reviews all nominations and submits the names of three people to the Governor. The Governor appoints a member from these nominations.
- Two members representing milk consumers and having no pecuniary interest in the sale of milk or milk products.
 - The Governor selects and appoints these two members.
- One dairy farmer, who does not serve on the board of directors of any organization which handles or processes dairy products, nor is an officer of any organized farm organization in the State.
 - The Governor selects and appoints this member.

The were no current Milk Commission members as all existing terms had expired. The following members were appointed using the required nominating procedures outlines above.

- Two dairy farmers with knowledge of the production and marketing of dairy products.
 - Paul Doton, Woodstock – 2-year term
 - Harold Howrigan, Fairfield – 3-year term
- One milk handler with knowledge and experience in the marketing of dairy products.
 - Jerry Booth, H.P. Hood, Barre, – 3-year term
- Two members representing milk consumers and having no pecuniary interest in the sale of milk or milk products.
 - Jane Clifford, Straksboro – 3 -year term
 - Linda Berlin, S. Burlington – 1-year term
- One dairy farmer, who does not serve on the board of directors of any organization which handles or processes dairy products, nor is an officer of any organized farm organization in the State.
 - Reg Chaput, North Troy – 3-year term
- One member from the House Committee on Agriculture chosen by the Speaker.
 - Representative Richard Lawrence, Lyndonville representing Caledonia - 4
- One member from the Senate Committee on Agriculture chosen by the President Pro Tempore of the Senate.
 - Senator Robert Starr, North Troy representing Essex-Orleans District

In the 2017 Legislative Session, the Vermont Milk Commission was provided a specific charge in session law. Act 77 - An act relating to rural economic development – requires the Milk Commission to complete a review of proposals for the 2018 federal Farm Bill.

Sec. 3. VERMONT MILK COMMISSION; EQUITABLE DAIRY PRICING

On or before October 1, 2017, the Secretary of Agriculture, Food and Markets shall convene the Vermont Milk Commission under 6 V.S.A. chapter 161 to review and evaluate proposals that enhance and stabilize the dairy industry in Vermont and New England and that may be appropriate for inclusion in the federal Farm Bill 2018. The Secretary of Agriculture, Food and Markets shall submit to the congressional delegation of Vermont proposals that the Milk Commission recommends for inclusion in the federal Farm Bill 2018.

The Vermont Milk Commission completed a series of seven meetings that included testimony and presentations by 54 individuals representing 47 organization or 4 individuals. The following people provided testimony, presentation and public comment to the Milk Commission.

Milk Commission Meeting Date	Name	Representing	Topic
September 26, 2017	Thea Schwartz	Vermont Assistant Attorney General assigned to the Agency of Agriculture, Food and Markets	Review of the powers of the Milk Commission from 6 V.S.A. Chapter 161. Schwartz reviewed Act 77 passed in the 2017 legislative session.
September 26, 2017	Senator Starr and Representative Lawrence	Senator representing Essex-Orleans District and Representative representing Caledonia – 4 and Milk Commission Members	Rationale and information regarding Act 77 and expectations for the Milk Commission.
September 26, 2017	Diane Bothfeld	Director of Administrative Services IV, Agency of Agriculture, Food and Markets	Statistics on the dairy industry in Vermont from 2009 through 3rd quarter 2017
September 26, 2017	Robert Wellington	Vice President for Economics and Legislative Affairs for Agri-Mark, Inc.	Information on milk prices paid to dairy farmers for 2017, predictions for 2018, and the market conditions
September 26, 2017	Leon Berthiaume	General Manager of the St. Albans Cooperative Creamery, Inc.	Information on milk volume in Vermont and the Northeast. Availability of dairy processing capacity in Vermont and the Northeast.

September 26, 2017	Tom Bivins	Executive Director of the Vermont Cheese Council	Overview of the artisan cheese industry
September 26, 2017	Sarah Isham	Senior Loan Officer, Vermont Economic Development Authority, Agricultural Credit Corporation	Overview on the financial condition of Vermont dairy farmers
September 26, 2017	David Lane	Vice President of Yankee Farm Credit	Overview on the financial condition of Vermont dairy farmers
September 26, 2017	Brian Kuper	Loan Officer for USDA Farm Services Agency	Overview on the financial condition of Vermont dairy farmers
September 26, 2017	John Rutherford	Director of Economics, Planning, and Operations for Dairy Farmers of America	Overview of Farm Bill programs that impact the dairy industry
October 13, 2017	Ed Maltby	Executive Director of the Northeast Organic Dairy Producers Association	Information on the oversupply of organic milk and pricing levels of buyers. Organic standard improvements.
October 13, 2017	Dan De LaBuere	National Farmers Organization (NFO) Dairy	Update on status of NFO dairy farmers in Vermont
October 13, 2017	Laurie Colgan	VT Agency of Education	Information on all school related feeding programs managed by the Vermont Agency of Education
October 13, 2017	Karen Flynn and Donna Bister	Vermont Department of Health, Women, Infant and Children Program (WIC)	Overview of WIC program in Vermont
October 13, 2017	Paul Remillard and Julie Jacques	USDA Farm Services Agency	Review of Milk Margin Protection (MPP) Data for Vermont
October 13, 2017	Jacques Rainville Jr.	Dairy farmer, Highgate, VT	Public Comment - concerned about the market for his milk
October 13, 2017	Merri Paquin	Dairy farmer, Williamstown, VT	Public Comment – Organic Dairy price drop and quota
November 7, 2017	Bob Gray	Executive Director of the States Ratification Committee	Farm Bill Process and other legislative issues in Washington, DC.

November 7, 2017	Tom Berry and Adrienne Wojciechowski	Senator Leahy's Staff	Farm Bill Timeline, interest in Milk Commission Recommendations and overview of Farm Bill Issues
November 7, 2017	Erica Campbell	Senator Sanders' Staff	Farm Bill Timeline, interest in Milk Commission Recommendations and overview of Farm Bill Issues
November 7, 2017	Ryan McLaren	Congressman Welch's staff	Farm Bill Timeline, interest in Milk Commission Recommendations and overview of Farm Bill Issues
November 7, 2017	Robert Wellington	Vice President for Economics and Legislative Affairs for Agri-Mark, Inc.	Altering the calculation of the Class I price
November 7, 2017	A public hearing was started at 1:00 p.m.		
November 7, 2017	Gil Livingston	President, VT Land Trust	Information on land conservation title of the farm bill specifically on conservation easements
November 7, 2017	Kyla Bedard	Northeast Organic Farmers Association of Vermont	Update on organic dairy industry in Vermont
November 7, 2017	Peter Clole	Vermont Holstein Association	Supports supply management
November 7, 2017	Louise Calderwood	Northeast Agribusiness & Feed Alliance	Margin Protection Program, the Conservation Title of the Farm Bill, Trade, Rural Development, Research and Extension, Animal Health and Food Safety
November 7, 2017	Art Whitman	Vermont Feed Dealers Association	Food Safety Modernization Act requirements for Feed Mills are very costly. Requesting federal assistance for smaller mills.
November 7, 2017	Ela Chapin	Vermont Housing and Conservation Board- Farm Viability Program	Importance of the Farm Viability program and conservation easement program
November 7, 2017	Jenny Nelson	Farmer ombudsman from the Dairy Farmers	Supports supply management.

		of America (DFA) lawsuit	
December 1, 2017	John Newton	American Farm Bureau	Dairy Revenue Insurance Program
December 1, 2017	Paul Ziemnisky	SVP, Global Innovation Partnerships -Dairy Management Inc.	Sales of fluid milk and work to increase sales in the US and internationally
December 1, 2017	Jill Hussels	RDN, Nutrition Specialist, New England Dairy Promotion Board	Increase in sales of milk and dairy products to schools in Vermont with programs for school breakfast
December 1, 2017	Vicky Drew	USDA, Natural Resource Conservation Service (NRCS) State Conservationist	Overview of all USDA NRCS programs that are active and available in Vermont
December 1, 2017	Laura DiPietro	Ag Water Quality Policy & Operations Manager	USDA NRCS program that are most helpful to Water Quality Improvements. Highlighted changes to programs to improve participation and funding levels.
December 1, 2017	Jill Arace	Executive Director of the VT Association of Conservation Districts	Information on the Conservation Title and areas of concern
December 1, 2017	Nancy Everhart	VT Housing and Conservation Board	Information on farmland conservation
December 1, 2017	Bruce Krupke	Executive Director of the Northeast Dairy Association	Information on the Federal Order program in the Northeast
December 1, 2017	Rob Vandenneuvel	Vice President of Industry and Member Relations at California Dairies Inc.	Information on higher fluid milk standards in place in California
December 1, 2017	Chuck Ross	Director, University of Vermont Extension	Information on the activities of UVM Extension that assist dairy farmers in Vermont
December 1, 2017	Julie Jacque	USDA Farm Services Agency Ag Program Specialist	Available insurance program for forage quantity and quality
December 19, 2017	Diane Bothfeld	Director of Administrative Services IV	Immigrant labor demographics
December 19, 2017	Robert Wellington	Vice President for Economics and	Update on Milk Price predictions for 2018

		Legislative Affairs for Agri-Mark, Inc.	
December 19, 2017	Roger Albee	Former Secretary of Agriculture	Concerns for the dairy industry in Vermont
December 19, 2017	Dan Smith	Lawyer	Information on impact of California joining the Federal Order System
December 19, 2017	Matt Strasberg	Vermont Ag Mediation Program	Proposal for a statewide dairy working group
December 19, 2017	Dr. Qingbin Wang, and Ethan Thompson	University of Vermont	Economic Analysis of Anaerobic Digester Systems (ADS) on Vermont Dairy Farms
December 19, 2017	Ryan McLaren	Congressman Welch's Staff	Overview of the Goodlatte Bill on Immigration Reform
December 19, 2017	Rob Michalak	Director of Social Mission for Ben & Jerry's	Caring Dairy Program
December 19, 2017	Sarah Isham	Senior Loan Officer, Vermont Economic Development Authority, Agricultural Credit Corporation	Public comment – Concerns for the economic climate for dairy farmers in Vermont and encourage exploration of supply management.
January 10, 2018	Robert Wellington	Vice President for Economics and Legislative Affairs for Agri-Mark, Inc.	Public comment - Food security issues in Vermont and the Northeast and the role of dairy in providing one source of food for the population.

Based on the information provided as of January 10, 2017, this report provides the recommendations of the Milk Commission in support of the Vermont Dairy Industry for the 2018 Federal Farm Bill.

Overview of the Vermont Dairy Industry in Vermont

The dairy industry in Vermont is the largest form of agriculture and related product processing based on receipts in the state. According to the USDA National Agricultural Statistics Service, receipts for milk in 2016 total \$471 million.² In the 2012 USDA Ag Census, total agricultural receipts for Vermont were \$776 million with milk sales totaling \$505 million of the total or

² 2016 State Agricultural Overview -Vermont. USDA National Agricultural Statistics Service https://www.nass.usda.gov/Quick_Stats/Ag_Overview/stateOverview.php?state=VERMONT

65%.³ If value of cattle and calves are included, then the percentage moves to 73% of total agricultural receipts.

A study completed in 2015 using nationally collected data shows the dairy industry in Vermont has a \$2.2 billion impact on the state's economy yearly. Dairy also brings over \$3 million each day of circulating cash into Vermont from the sale of milk from the farm as well as processed dairy products like ice cream and cheese. The dairy industry, from the farms, related industry through dairy processing provides 6,000 to 7,000 jobs in Vermont with \$360 million in wages and salaries to Vermonters.⁴

The dairy industry is important to the state of Vermont, but the core business of dairy farming is continually challenged with milk prices, changing weather patterns, and generational change. Milk prices paid to farmers continue to show volatility. Milk prices are shown below in table 1 for 2009 through 2017.

Table 1. Milk Prices Federal Order Statistical Uniform Price- Middlebury Location⁵

	2009	2010	2011	2012	2013	2014	2015	2016	2017
AVE. MILK PRICE	\$12.16	\$16.07	\$19.99	\$17.98	\$19.60	\$23.63	\$16.49	\$15.25	\$16.78

In 2017, 25% of dairy farms produce milk under organic standards and market the milk through organic buyers. The volume of milk produced by these farms does not represent 25% of Vermont's total milk volume. The prices paid for organic milk are set by contract as an over-order premium above the federally set minimum milk prices. Organic milk prices had increased steadily from 2009 through 2016 but an over supply of milk versus market demand in 2017 have caused prices to decline. According to an economic analysis performed by Bob Parsons at the University of Vermont, from 2010 through 2016, organic prices paid to Vermont farms ranges from \$32.89 per hundredweight in 2010 to \$38.58 per hundredweight in 2016.⁶ The Milk Commission received testimony that prices had been lowered by as much as \$5 per hundredweight at the end of 2017. This decline in prices was also accompanied by a quota on milk production by one of the buyers of organic milk. Organic dairy farmers are experiencing economic challenges in 2017 that will continue into 2018.

³ 2012 USAD Ag Census -Historical Highlights: 2012 and Earlier Census Years - Vermont
https://www.agcensus.usda.gov/Publications/2012/Full_Report/Volume_1,_Chapter_1_State_Level/Vermont/st50_1_001_001.pdf and Market Value of Agricultural Products Sold Including Landlord's Share and Direct Sales: 2012 and 2007
https://www.agcensus.usda.gov/Publications/2012/Full_Report/Volume_1,_Chapter_1_State_Level/Vermont/st50_1_002_002.pdf

⁴ Milk Matters – the Role of Dairy in Vermont - <http://vermontdairy.com/>

⁵ Northeast Marketing Area Federal Milk Market Order 1 - <http://www.fmmone.com/>

⁶ E-Mail Bob Parson December 31, 2017

With the challenging economic situation and generational change, the number of commercial dairy operations in Vermont has declined. Correspondingly, the numbers of cows per farm has increased and the volume of milk per year has increase as well. Farms that have chosen to produce milk organically have remained relatively steady through the period of 2009 through 2017. Table 2 below shows the data from 2009 through 2017.

Table 2. Number of farms, Average number of cows per farm, Organic Dairy Farms and USDA National Agricultural Statistics Service Milk Production for the State⁷

Category	2009	2010	2011	2012	2013	2014	2015	2016	2017
# of VT Cow Dairy Farms	1,051	1,015	996	972	939	880	853	838	796
Ave. # of cows/ farm	128	133	135	138	142	150	155	155	162
Certified Organic Cow Dairy Farms	200	203	204	205	198	184	184	203	199
Milk Production- lbs. USDA	2.46 Billion	2.52 Billion	2.54 Billion	2.56 Billion	2.62 Billion	2.67 Billion	2.67 Billion	2.72 Billion	2.73 Billion

Dairy processing in Vermont continues to grow with a proliferation of small processors, either on-farm where the owner milks animals and processes the milk, or off-farm where milk is purchased and trucked in to be processed. These small processors, utilize less than 500 pounds of milk per day. Vermont has gained a strong reputation for high quality dairy products due to the numerous awards garnered by cheesemakers in the state as well as the cooperatives and other processors. Cheese has been a mainstay for award winning products, but all types of dairy products are now produced in Vermont and many are achieving awards for quality. Table 3 show the growth in dairy processors in Vermont since 2009.

Table 3 – On and off- farm dairy processing in Vermont – Agency of Agriculture, Food and Markets Statistics

⁷ USDA National Agricultural Statistics Service -Milk Production-
<https://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1103>

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Off-Farm Dairy Processors	27	26	27	29	36	58	64	78	78
On-Farm Dairy Processors	37	40	53	54	59	62	71	67	69
Total Dairy Processors	64	66	80	83	95	120	135	145	147

As of the writing of this report, the market situation for the Vermont Dairy Industry is challenging at best. The volume of milk in the Northeast, including Vermont is greater than the capacity to process the milk, especially during holidays when processors choose to close to give employees time off. In times of oversupply, milk from the farm is skimmed to market the cream and the remaining skim milk may be disposed of due to a lack of market. The disposal of skim milk represents a loss to dairy farmers and their cooperatives but also the disposal of a nutrient dense food that could be beneficial to at risk populations. Milk processing capacity is also needed in Vermont and the Northeast. There have been expansions of processing facilities and many have made investments to increase volume, but further capacity is needed. Investments in existing facilities as well as development of new processing capacity is crucial. National milk prices are low, and many farms are having difficulty meeting all costs of producing milk. The disposal of milk at a loss negatively impacts dairy farmer income.

Using available data, it is clear that dairy farmers on average have had difficulty meeting the cost of producing milk in Vermont and New England. The table below shows two different cost of production levels for dairy farms. There are many different means to calculate the cost of producing milk and USDA Economic Research Service has a long history and consistent method of estimating the cost of producing milk.⁸ The USDA estimates show that farmers have been having difficulty meeting the cost of producing milk in the last 5 years. Calendar year 2017 data is expected to show another difficult year for dairy producers.

Table 4 -USDA Cost of Production and Difference to value of production

	2012	2013	2014	2015	2016
USDA Total Operating Costs - VT	\$21.23	\$23.48	\$22.43	\$23.18	\$21.42
USDA Total Costs - VT	\$34.16	\$36.58	\$35.85	\$36.91	\$35.52
USDA Total Gross Value of Production	\$23.05	\$24.55	\$29.25	\$21.92	\$19.96
USDA Difference to Operating Costs	\$1.82	\$1.07	\$6.82	\$(1.26)	\$(1.46)
USDA Difference to Total Costs	\$(11.11)	\$(12.03)	\$(6.60)	\$(14.99)	\$(15.56)

⁸ USDA Economic Research Service- Milk Cost of Production Estimates - <https://www.ers.usda.gov/data-products/milk-cost-of-production-estimates/>

On the national level, milk volume is above national demand for milk and dairy products. According to US Dairy Export Council, for the first 11 months of 2017, exports represented 14.5% of milk solids output.⁹ Export markets are important to the dairy industry but can be unreliable with world wide fluctuations in supply and demand. Milk volume has grown in the Northeast with Vermont growing in milk production but other Northeastern states such as New York and Pennsylvania growing steadily as well. Processing capacity has been a concern in the Northeast. Commonwealth Yogurt in Brattleboro and Ben & Jerry's in St. Albans are expanding processing capacity in Vermont as well as investments by dairy cooperatives to increase throughput in existing plants. The Milk Commission heard from many participants regarding the imbalance between supply and demand of milk. Improvement in animal health could be made through reinstating the Johnes Disease Control program but with further commitment to expand this program to an eradication program. Eradication of Johnes Disease would require an indemnity program and may curb milk production. A goal would be to eradicate Johnes Disease by 2030.

In the organic milk market, supply is greater than demand. To add more milk to the organic supply, buyers must work with farmers to transition to organic production methods which could take as long as three years depending on the farm's current management practices. Due to the requirement for transition to organic milk production, milk buyers must project supply needs out three years into the future. Market demand did not materialize at the rate expected and at this time, there is more organic milk than is needed. Testimony provided to the Vermont Milk Commission stated that this imbalance may take two to three years to resolve in the organic market. According to the Northeast Milk Market Administrator, for the first 6 months of 2017, organic milk pooled on the Northeast Order grew 5.2 percent from the same period in 2016. During the same time, organic sales in the Northeast Area have declined 1.1 percent.¹⁰

The Milk Margin Protection Program was a new program in the 2014 Farm Bill. The USDA Farm Services Agency, University of Vermont Extension and the Agency of Agriculture, Food and Markets provided numerous training sessions to dairy farmers on the potential use of this program to manage milk price and feed margin risk. USDA Farm Services Agency documented that 743 farms or 85% of the dairies in Vermont were reached to discuss this risk management program through training or individual meetings. USDA Farm Service Agency provided data to the Milk Commission of declining use of this program by dairy farmers over the life of the Farm Bill. The Milk Margin Protection program has not provided adequate risk abatement for dairy farmers in Vermont and across the country. Due to the concerns with this program, many changes are proposed in the 2018 Farm Bill. Even with adjustments to the Margin Protection Program, it uncertain if dairy farmers will not return to the program.

⁹ US Dairy Export Council - U.S. export volumes highest in more than a year - Alan Levitt January 5, 2018 - <http://www.usdec.org/research-and-data/market-information/market-commentary-archives/market-commentary/market-commentary-01-05-18>

¹⁰ The Market Administrator's Bulletin, Erik Rasmussen, August 2017, P.3
http://www.fmmone.com/MA_Bulletin/Monthly/bull201708.pdf

The dairy farmers' ability to manage price risk was also addressed by a potential new program designed by the American Farm Bureau. Dairy Revenue Insurance would provide another tool for dairy farmers to manage risk. The existing Livestock Gross Margin Insurance program is also available to dairy farmers but is limited by funding. Funding for all insurance program is an important issue within the Farm Bill. At this time, American Farm Bureau is working with USDA Farm Services Agency in Washington, DC to change the status of milk within the insurance program. At this point, milk is in a category with livestock and a request is being made to move milk to commodity status which would increase the federal funding available for the new insurance program. If this change cannot be completed prior to negotiations on the Federal Farm bill, the Milk Commission supports making this change as part of the Farm Bill.

Another area of challenge for Vermont farmers is the implementation of water quality standards to meet the Total Maximum Daily Load (TMDL) requirements set by the Federal Environmental Protection Agency (EPA). Dairy farms have been working on water quality requirements for several years and the investment by dairy farmers has been substantial. As new and more extensive practices to protect water quality are required and challenging economic situations exist on dairy farmers, funding assistance is critical. USDA Natural Resource Conservation Service (NRCS) has provided funding that has been augmented by state and farmer investment. In 2017, USDA invested over \$16 million through the EQIP program to protect water quality on Vermont farms.¹¹ The level of federal funding as well as concerns with program limits and requirements are also challenging for dairy farmers. Several adjustments to these assistance programs were provided to the Milk Commission during testimony.

Vermont remains a predominantly rural state and access to broadband internet at a speed required to operate new applications is still a challenge. Access to higher speed broadband will be critical to farmers to implement water quality applications that rely on strong connections. Real time in the field adjustments to planting and fertilizer rates due to geographic information system linked to computer terminals on the tractor are not science fiction but reality. Stronger and faster broadband connections are needed by today's farmers.

University of Vermont Extension has been critical in working with farmers to implement water quality requirements on farms. Extension has provided up to date research and information assisting farmers with making the best choices as they implement water quality improvements. Extension assists dairy farmers in other aspects of their operation, but funding is critical for base operations as well as continued research.

The Vermont Farm Viability Program is also important to dairy farmers in Vermont. This program is authorized in the Farm Bill but has never received an appropriation. In Vermont, the program has been managed by the Vermont Housing and Conservation Board which provides base funding that is augmented through grants and charges for services. This program has been helpful to dairy farmers in business planning including decision making when implementing water quality improvements on farms, which at times could be a greater investment than the farm can accommodate.

¹¹ Testimony State Conservation Vicky Drew to the Milk Commission December 1, 2017

The conservation of farmland through the sale of easements is an important program in Vermont. The sale of easements on farmland has provided funding for generational transfer of the farm, investment in water quality improvements and farm infrastructure and access to land for new and beginning farmers. USDA NRCS funding is critical to this program and in the 2014 Farm Bill funding was decreased. The Milk Commission received testimony on the need for increased funding and other changes to the program to improve its efficiency.

As of the writing of this report, the US is involved in negotiations with Canada and Mexico for the North American Free Trade Agreement (NAFTA). National information shows that NAFTA is extremely important to the dairy industry with Mexico as the largest importer of US dairy products. U.S. dairy exports to Mexico equaled \$1.2 billion in 2016.¹² As of the writing of this report, negotiations on NAFTA continue with no end date in sight. There are also concerns of practices in place in Canada that are adversely impacting the US Dairy Industry and many other countries.¹³ NAFTA is not a Farm Bill issue but is of great concern to the dairy industry. Within the Farm Bill there are two programs that can assist companies to export products, the Foreign Market Development Program and the Market Access Program. Many growing dairy processors in Vermont have been taking advantage of these programs through the Food Export Northeast program that the Agency of Agriculture, Food and Markets promotes and integrates into domestic export programs. Enhanced funding for these programs is a benefit to all Vermont farms, but these programs are used extensively by dairy product processors.

Locally, Vermont has strong participation in USDA Feeding Programs such as School Breakfast and Lunch program and the Women Infant and Children (WIC) program. Low income and at-risk populations benefit from these feeding programs and dairy is a key ingredient. The 5 USDA Feeding Programs administered by the Vermont Agency of Education utilize over 785,000 gallons of milk per year.¹⁴ The WIC program adds volume of milk and dairy products representing 240,000 of fluid milk, 81,000 pounds of cheese and 108,000 pounds of yogurt in a 12-month period.¹⁵ USDA Secretary Perdue has recently allowed for 1 percent flavored milk to be added to the School Breakfast and Lunch program. Added solids to fluid milk could enhance the protein and minerals in milk improving nutritional standards taste for this population. Increasing choices and consumption of dairy products was of interest to the Milk Commission as a benefit to Vermont dairy industry.

A bright spot for the dairy industry in Vermont has been the implementation of anaerobic digestion of manure to produce methane that can be burned to produce electricity. There are 16 operating digesters in Vermont but there has been no new anaerobic digester in the state for several years. The benefits of anaerobic digestion of manure include another revenue stream of

¹² U.S. and Mexican Dairy Industries Make United Call for NAFTA to Protect and Enhance Free Dairy Trade, While Rejecting Canadian and EU Trade-Distorting Practices, Aug 28, 2017, Michael O'Keefe and Chris Galen <https://www.usdec.org/newsroom/news-releases/news-releases/news-release-08/28/2017>

¹³ International Dairy Groups Join U.S. in Calling for Action Against Unfair Canadian Trade Policies, Jun 27, 2017. Luke Waring, Peggy Armstrong and Chris Galen. <https://www.usdec.org/newsroom/news-releases/news-releases/news-release-06/27/2017>

¹⁴ Testimony Laurie Colgan to Vermont Milk Commission October 13, 2017

¹⁵ Testimony Karen Flynn and Donna Bister to Vermont Milk commission October 13, 2017

the dairy farm through the sale of electricity, collection and destruction of methane gas (a greenhouse gas contributor), separation of effluent into solids that can be used for bedding which eliminates a cost, and new management practices with remaining liquid effluent as a fertilizer to fields. An added benefit is that the remaining effluent has no odor and can be pumped through irrigation type equipment to fields reducing truck and tractor traffic and further greenhouse gas emissions. The investment in this technology is extensive and grant funds have been a mainstay to assist with that investment.

Managing risk for crops is an important issue for dairy farmers. Many use specific insurance programs for crops such as corn but few use a program that can protect loss of quantity and quality of feed. In previous years, a poor weather year that impacted quality and quantity of feed was covered in a disaster declaration and a reimbursement program. In the 2014 Farm Bill, farmers were required to manage the risk of loss of quantity and quality of feed through insurance. The current program is not widely used and there are issues with the calculation of feed value that could be improved to benefit northeastern farmers.

There are many other issues impacting dairy farmers that are not addressed in the Farm Bill. Immigration reform, organic standards, truth in labeling for dairy products (nut and plant based beverages), Food Safety Modernization Act, opiates in rural communities and changes to the Federal Order System of milk pricing.

Many dairy farmers in Vermont and throughout the nation rely on immigrant labor for key activities on the farm including milking the cows. Information provided to the Milk Commission estimates that 173 dairy farms employ immigrant labor with an estimated 600 to 700 immigrant laborers in Vermont.¹⁶ Access to domestic labor is limited and some farms have chosen to install robotic milkers to avert labor shortages for milking their cows. A permanent solution is needed for all immigrant labor throughout the US and the Milk Commission acknowledges that a national solution is required.

Organic standards also impact the Vermont Dairy industry. Organic standards are not a part of the 2014 Farm Bill, but the Congressional Delegation believes that issues with the Organic Standards may be addressed in the upcoming Farm Bill. Testimony to the Milk Commission highlighted issues with the Organic Standards that are impacting Vermont Organic dairy farms. There are concerns in the organic community that larger dairy farms are not being held to the same standards as smaller organic dairy farms. There are requirements for dairy animals to obtain 120 days' worth of feed from pasture and increased verification that all dairy farms across the nation are meeting that standard for all cows in all stages of lactation. Another area of concern is the transition of animals to organic production standards. The rules are being interpreted differently across the country. One interpretation is that a herd of dairy animals can be transitioned to organic being on all organic feed for one year. Once transitioned, all animals must be managed as organic and no more animals can be transitioned into the herd with one year of feeding. Another interpretation is that animals can be continuously transitioned into the herd

¹⁶ Erin Shea and Naomi Wolcott-MasClausland Demographic Information provided to the Milk Commission – December 19, 2017

with one year of organic feed. There are also concerns for those that act as organic certifiers with a call for training and professional licensing.

Truth in labeling of dairy products has been an issue for many years but with the proliferation of plant based beverages (milks) action is needed. The dairy industry believes that Food and Drug Administration (FDA) has the authority to mandate label changes for nut and plant based beverages to remove the word milk from their labels. Independent federal legislation has been introduced and this may become a 2018 Farm Bill issue. Truth in labeling is important so consumers understand what they are purchasing.

Food Safety Modernization Act is managed by the Food and Drug Administration and there are seven different rules. One of the rules impacts the production of feed for animals. The Milk Commission was provided testimony on the cost of implementing this rule on smaller feed mills in Vermont.

The Milk Commission recognizes the issue of opiate addiction impacts everyone in the state of Vermont including those involved in agriculture. USDA Secretary Perdue recently provided to the Report to the President of the United States from the Task Force on Agriculture and Rural Prosperity. Within this report, one of the recommendation is to modernize healthcare access which includes: Improved access to mental and behavioral care, particularly access to prevention, treatment, and recovery resources is vital to address the nationwide opioid crisis and other substance misuse in rural communities. The Milk Commission supports this recommendation and funding for this vital initiative.

Changes to the Federal Milk Marketing Orders are usually obtained through a proposal, then an exhaustive hearing process, a proposal based off the hearing process, then a vote by all farmers in the Federal Order. There is a proposal being put forth to adjust the method of calculation for the Class I fluid milk prices within the 2018 Farm Bill. Changing Federal Orders in the Federal Farm Bill has been completed in the past, notably in 2000. In that Farm Bill the whole system was changed across the nation to fewer orders, new price calculations and plant based pricing. The proposal to change Class I fluid milk pricing is being put forth by the National Milk Producers Federation which represent the majority of dairy farmer cooperatives and the International Dairy Foods Association which representatives most dairy processors. The proposal does not increase or decrease pricing for dairy farmers or fluid milk processors. The goal of the proposal is to allow fluid milk processors to use futures and options markets on the Chicago Mercantile Exchange to manage risk. The current calculation of Class I fluid milk does not easily allow for the use of risk management tools by fluid milk processors. The proposed calculation change is very specific to hold all parties harmless with no gain or loss to dairy farmers or fluid milk processors. There is risk of proposing a very specific calculation as a part of the Farm Bill due to the negotiating process inherent in legislation. Alterations in the calculations could tip the balance of gain and loss to either dairy farmers or fluid milk processors.

Another change to the Federal Order system surrounds the ability to donate milk for further processing to feeding programs. Currently the Federal Order system assigns the lowest Class

Milk price to milk that is disposed of due to oversupply. If some cooperative wishes to donate oversupply milk to be processed into cheese or fluid milk, the corresponding price for that Class of milk is assigned. Even though this is a donation, the reporting is required, and the Federal Order requires payment by the receiving party (the cheesemaker or fluid milk processor) negating the benefit of the donation. The donation can cost more than disposing of the milk.

An overall call to make the Federal Order System more responsive to changing market conditions, and examine product class pricing, zone differentials, exports and general administration. There are also proposals to reduce the current 10 federal orders to one order that covers the entire US.

Recommendations for the 2018 Federal Farm Bill

Title 1 Commodities – Dairy

The Vermont Milk Commission is concerned with the economic condition on Vermont Dairy Farms. The current risk management tool, the Margin Protection Program, has not provided adequate risk abatement to Vermont’s dairy farmers. The Margin Protection Program currently allows farmers to manage the margin between national all milk price and a calculated feed price. Farmers were required, if choosing to enroll, to take part in the program for the life of the Farm Bill, pay a \$100 fee for participation at the \$4 margin level and expend funds to “buy-up” margin protection to an upper limit of \$8 margin level. Table 5 below shows enrollment levels in this program since it began.¹⁷

Table. 5 - Vermont Farm Enrollment in Margin Protection Program

										Total	VT	
Margin level	\$4	\$4.50	\$5	\$5.50	\$6	\$6.50	\$7	\$7.50	\$8	Enrolled	#	% enrolled
											farms/yr.	
2015	207	1	15	7	83	203	18	54	0	588	874	67.12%
2016	527	1	0	4	18	15	0	1	0	566	838	67.54%
2017	456	0	0	1	5	3	0	0	0	465	802	57.98%

The table shows interest in the first year of the program to “buy-up” margin protection to manage farm risk. Farmer invested in the program, but few payments were made. USDA Farm Services Agency provided the following information¹⁸:

¹⁷ Margin Protection Program – Dairy Count of operations by coverage levels - <https://www.fsa.usda.gov/programs-and-services/Dairy-MPP/index>

¹⁸ Information provided to the Milk Commission Paul Remillard and Julie Jacque, USDA Farm Services Agency October 13, 2017

1. 2015 Vermont enrolled 588 out of 874 registered state dairy operations or 67%.
 - a. Of the dairy operations enrolled 63% enrolled for a “buy-up” level.
2. 2016 Vermont enrolled 566 dairy operations
 - a. Only 7% of the dairy’s enrolled opted for the “buy-up” option
 - b. Vermont paid \$27,540 for the May/June trigger
3. 2017 Vermont Enrolled 465 dairies
 - a. 21% enrolled since 2015 have dissolved
 - b. Only 2% of the dairy’s enrolled opted for the “buy-up” option

USDA Farm Services Agency also provided information on costs and payments in Vermont. Costs and the lack of a payment from this program decreased confidence in the program as shown by decreased “buy-up”. The program did make a payout once since 2015 and the total payment for Vermont was \$27,540 and was paid to 35 farms. The cost of enrollment for the farms in Vermont from 2015 to 2017 was \$770,771¹⁹ for “buy-up” premiums and administrative fee of \$161,900. The percentage payout in respect to farmer investment was 3.57% for farmer “buy-up” and 2.95% for administrative fee. Less than 10% of the farms enrolled in this program received a payment. There is great concern that the premiums paid by dairy farmers nationally, were not applied to the Margin Protection Program but went into the federal general fund. Milk Commission members reviewed this issue and will recommend that the premiums paid by dairy farmers be invested in the Margin Protection Program to provide indemnity payment to farmers and not be transferred to the federal general fund. This program, as currently written, is not serving the risk management need of Vermont dairy farmers.

The Milk Commission heard testimony on several adjustments to the Margin Protection Program and supports the following recommendations.

- Removing the 10% reduction in the feed cost calculation that was implemented in the 2014 Farm Bill.
 - More accurately reflect feed costs as part of the margin calculation. 10% reduction costing farmers \$1 to \$1.50 per hundredweight on the margin calculation, as calculated by Farm Credit Northeast.

The table below shows the Margin Protection feed cost calculation as compared to the USDA feed cost reporting in their cost of production data for the years of the Margin Protection Program. Calculations were done in 2014 for the feed cost in the Margin Protection Program but the program was still in development and no farmers could participate. The Margin Protection Program feed cost calculation contains prices for alfalfa hay, corn and soybean meal.

Table 6 Feed Cost calculations – cost per hundredweight in Vermont USDA Economic Research Service²⁰

¹⁹ Information provided to the Milk Commission Paul Remillard and Julie Jacque, USDA Farm Services Agency October 13, 2017

²⁰ USDA ERS -Milk Cost of Production Estimates- <https://www.ers.usda.gov/data-products/milk-cost-of-production-estimates/>

	2014	2015	2016
Margin Protection Program average Feed Cost Calculation ²¹	\$10.61	\$8.78	\$8.07
USDA Purchased Feed	\$11.80	\$11.13	\$10.90
USDA Home grown, harvested feed	\$5.20	\$6.76	\$5.41
USDA Grazed Feed	\$0.24	\$0.43	\$0.23
USDA Total Feed Costs	\$17.24	\$18.32	\$16.51

The Margin Protection Program calculation is for a national feed cost, but it is clear from the table above that the calculation is not representative of the feed costs incurred by Vermont farmers according to USDA.

Other recommendations are also important to adjust the feed cost calculation of the Margin Protection Program. **The Milk Commission supports these changes which include:**

- Corn Price – National Agricultural Statistic Service data is for corn sold by farmers and does not reflect the cost of processing corn and selling that to dairy farmers to feed cattle. USDA Agriculture Marketing Service does collect data on corn sold to farmers for feed.
 - Corn purchased and fed to dairy cattle is estimated to be 20% higher than as sold by a corn farmer. Improve the calculation of feed price – more accurately reflecting dairy farmer costs.
- Hay Cost – data set includes all hay at a variety of feed quality levels. Dairy farmers must purchase high quality hay to maintain milk production. Quality of the hay should be reflected in the price calculation.
 - Improve the calculation of feed price – more accurately reflecting dairy farmer costs.
- Soybean Meal – data set has used a pricing point in Illinois as an indicator for the whole nation. Data exists for 11 pricing points in the United States. All pricing point data should be averaged and used in the calculation.
 - Improve the calculation of feed price – more accurately reflecting dairy farmer costs.

Other changes to improve the Margin Protection program are to adjust premium levels, adjust margin levels and calculate the price monthly instead of every two months. The premium levels for the program to purchase further insurance should be reviewed and recalculated. The data used in the 2014 Farm Bill occurred over 5 years ago, and these rates should be recalculated.

The margin level currently ranges from \$4.00 to \$8.00 per hundredweight for the difference between the all milk price and the feed calculation. The Milk Commission recommends changing the margin to \$6.00 to \$10.00 per hundredweight. Since the beginning of the Margin Protection program, the 2 – month calculation has only been under \$8 margin level 6 out of 23 total calculations with the average of 2-month calculations \$9.72 with the lowest margin level at \$5.76 and the highest level at \$15.51. The margin range of \$6 to \$10.00 per hundredweight is a more realistic margin level that would provide protection to dairy farmers.

The Milk Commission supports the change in the Margin Protection Program to a one-month calculation and payment versus the current two-month approach. Changing the

²¹ Milk Margin Protection Program - <https://www.fsa.usda.gov/programs-and-services/Dairy-MPP/index>

calculation of the margin and payment from an every two-month occurrence to a one-month occurrence is useful to dairy farmers that need to meet all financial requirements monthly and may have difficulty waiting for a potential payment from this program. During the current Farm Bill, the Margin Protection Program would have provided more potential payments if a one-month calculation were used versus the 2-month average. Using the one-month calculation, the margin was under \$8 twelve out of 46 calculations versus 6 out of 23 total calculations on a two-month basis.

Other proposed changes to the Margin Protection Program include greater flexibility for dairy farmers to enter and exit the program, to make the program more compatible with Livestock Gross Margin Insurance, add in a supply management aspect to the program as was originally proposed in 2014.

To encourage participation in the Margin Protection program, the following changes are proposed:

- Premium waivers for beginning farmers or socially disadvantaged farmers
 - USDA definitions exist for both categories. Encourage use and protect those that are more vulnerable and may not have cash flow or reserves to manage risk.
- Farmers not required to lock into the program for the whole life of the Farm Bill.
 - Flexibility to use the best program available
 - Ability to be enrolled in either Margin Protection Program, Livestock Gross Margin Insurance and or any new insurance programs such as the Dairy Revenue Insurance program being proposed by American Farm Bureau on a year by year basis.

The Milk Commission supports waiving the premium for Beginning and Socially Disadvantage Farmers and to allow flexibility to move in and out of the Margin Protection program for farmers to use other risk management programs such as the Livestock Gross Margin Insurance and the proposed Dairy Revenue Insurance from American Farm Bureau.

Several individuals that addressed the Milk Commission through the hearing process or through public comments indicated support for some form of supply management on national milk production. The original proposal for the Margin Protection Program did include a production disincentive program (supply management) proposal. The proposal included the following requirements:

If the calculated margin between milk and feed costs dropped below a \$6.00 per hundredweight two-month average for two consecutive calculation periods, then the production disincentive program would be triggered. As part of this proposal, farmers would have the choice of establishing a historic base of milk production. If the base is established and the calculated margin falls below \$6.00 for two consecutive calculation periods, then farmers would receive a lower payment for their milk from milk handlers. The money not paid to dairy farmers would be collected by USDA and used to purchase dairy products for USDA feeding programs to reduce supply and expect to adjust the supply and demand balance to improve milk prices. Farmers that

did keep production just below the established base would not see reduced payment for the milk produced. If the margin level continues to decline in subsequent months, the reduction in payment for milk to dairy farmers increases and the requirement to produce milk below base to not have a deduction changes. The table below shows how this program would work.

Table 7 – Dairy Market Stabilization Program Milk Payment Reduction Factors ²²

Range	\$5.00 < Margin < \$6.00 for 2 consecutive mos.	\$4.00 < Margin < \$5.00 for 2 consecutive mos.	Margin < \$4.00 for 1 month
Milk payments are made to the greater of these =>	98% x (DMSP Base) <i>a</i> Or 94% x (Actual Marketings)	97% x (DMSP Base) Or 93% x (Actual Marketings)	96% x (DMSP Base) Or 92% x (Actual Marketings)
No payment reduction is made if:	Actual Marketings < (98% x DMSP Base)	Actual Marketings < (97% x DMSP Base)	Actual Marketings < (96% x DMSP Base)

The Milk Commission heard testimony from dairy organizations and the Congressional Delegation that there was no support for addition of this production disincentive program to the Margin Protection Program in the 2018 Farm Bill from dairy organizations and or other congressman and senators. Individual farmers provided testimony supporting supply management. No individual or group provided a specific proposal to the Milk Commission on supply management.

The Milk Commission reviewed supply management concerns closely and determined not to recommend any specific supply management program.

The State of Pennsylvania secretary of Agriculture supports adjusting the Margin Protection in a letter provided to the Milk Commission, The Northeast Dairy Foods Association also stated support for the Margin Protection program and added that collection of the premiums for the program be held in escrow and used to offset the cost of an indemnity payment as needed.

Title 1 Commodities - Dairy

Federal Order Reform – Class I Fluid Milk Pricing

The National Milk Producers Federation (NMPF) and the International Dairy Foods Association (IDFA) have a proposal to adjust the calculation for the Class I fluid milk price within the Federal Order System for all Federal Orders. The proposal was developed by a task force of

²² Congressional Research Service- Dairy Policy Proposals in the 2012 Farm Bill, Randy Schnepf, Specialist in Agricultural Policy, September 18, 2012 page 23

NMPF members, with IDFA with a goal to improve the risk management of Class I milk pricing while preserving the farm-level revenue that the Class I formula generates for producers' milk checks. These two organizations are important lobbying groups in Washington, DC, and represent dairy farm cooperatives and dairy product processors across the United States. In the past, IDFA has advocated for total dissolution of the Federal Order System of Milk Pricing and the Milk Commission heard testimony that IDFA is not taking that position in this Farm Bill.

The current classified pricing system, uses the higher of the Class III or IV price in each month, plus a location-specific differential in each milk marketing order region, to set the monthly Class I fluid milk price. The use of the "higher of" makes it difficult for Class I milk bottlers to hedge risk because of the uncertainty of which class will be the mover for a particular month. However, the "higher of" calculation as the Class I mover has benefited dairy farmers since its implementation, and this value needed to be reflected in any alternative pricing formula going forward.

The current Class I system would be adjusted using the simple average of advance Classes III and IV as the Class I mover. This will reduce some of the unpredictability of pricing beverage milk, as it gives processors the ability to hedge Class I milk prices using Class III and IV prices futures. To compensate for any loss of the "higher-of" pricing approach, this proposal applies a \$0.74/cwt increase to the monthly skim milk value in each federal milk marketing order. The \$0.74/cwt. represents the average value of the "higher-of" system dating back to 2000. The adjustment is needed so that moving to an average of the two market-determined manufacturing class prices does not diminish the contribution to the blend price provided by Class I revenue. The addition of the \$0.74/cwt. may decrease volatility in the Class I pricing within Federal Orders.

The pricings would be calculated as follows:

Average of advance Class III and Class IV advance prices) + \$0.74 = base Class I price.

Class I differentials by Federal Order will be added to the base price.

There are concerns with this proposal being added to the 2018 Farm Bill. Specific proposals are seldom passed as written through the federal legislative Farm Bill process. During the negotiations, the calculation could change, and the \$0.74/cwt. value may be decreased. The Milk Commission heard testimony of the critical nature of the \$0.74/cwt. addition to keep dairy farmer pricing whole going into the future. There are concerns that not all Class I fluid milk bottlers and or dairy farmers agree with this proposal.

The Milk Commission supports this proposal.

The Northeast Dairy Foods Association supports this pricing change.

Title 1 – Commodities – Dairy

Higher Solids Standards in Fluid Milk

Milk solids include protein and minerals and can improve the texture of lower fat fluid milk products with a minimal increase in calories. The State of California has higher solids standards for bottled fluid drinking milk sold within their state boundaries. The goals of the higher solid milk in California is to keep all bottled milk as close as possible to the milk as it is produced by the Holstein cow. On-average milk from Holstein cows contains 3.5% butterfat and 8.75% solids not fat and 87.8% water. The general philosophy behind enhanced fluid milk standards is to replace the fat that is removed with other milk solids to maintain the total solids in milk at ~12% (except for non-fat skim milk which is at 9%). Whole milk across the United States is very similar to the milk as it is produced by the cow, but as fat is removed from milk the solids levels decline as well. The table below shows the different between milk in California and that in the remainder of the United States.

Table 8 - Fat and Solids levels in fluid milk in California and the rest of the United States²³

<u>Bottled Milk Fat Level</u>	California	United States
Whole	3.5%	3.25%
Reduced Fat	1.9 - 2.1%	2.1%
Low Fat	0.9 - 1.1%	1.2%
Non Fat	0.2%	0.2%
<u>Solids-Not-Fat</u>		
Whole	8.7%	8.25%
Reduced Fat	10.0%	8.25%
Low Fat	11.0%	8.25%
Non-Fat	9.0%	8.25%

The increase in solids in California is supported by the Dairy Council of California with the following information.

Milk produced in California must meet specific standards that are higher than the federal standards. This is accomplished by fortifying milk with nonfat milk solids, which improves the taste, mouth feel and nutritional benefits. Nutritionally, this makes California milk superior, with more protein, calcium, vitamins and minerals ... and minimal additional calories.²⁴

The table below shows the comparison of higher solids milk to current federal guidelines.

²³ Information presented to the Milk Commission by Rob Vandenheuvel on December 1, 2017

²⁴ Dairy Council of California, California Milk: What is the Difference? - <https://www.healthyeating.org/Milk-Dairy/Health-Benefits-of-Milk/Article-Viewer/Article/502/California-Milk-What-is-the-Difference>

Table 9- Comparison of Higher Solids Milk to Federal Standard Fluid Milk²⁵

Nutrient	Skim Federal guidelines	Higher Solids		1% Federal Guidelines	Higher Solids		2% Federal Guidelines	Higher Solids
Calories	83	91		102	105		122	125
Protein (g)	8.26	8.75		8.22	8.53		8.05	8.53
Fat (g)	0.20	0.61		2.37	2.38		4.83	4.7
Carbohydrate (g)	12.15	12.30		12.18	12.18		11.71	12.18
Calcium (mg)	299	316		305	314		293	314
Phosphorus (mg)	247	255		232	245		224	245
Potassium (mg)	382	419		366	397		342	397
Vitamin A (IU)	500	524		478	500		464	500
Vitamin D (IU)	115	120		117	98		120	98

According to the Dietary Guidelines for Americans, there are 4 nutrients of concern which Americans are not consuming in adequate amounts. These are calcium, potassium, vitamin D and fiber. Milk provides 3 of these nutrients in substantial amounts—calcium, potassium and vitamin D—and with the added solids in fluid milk, the levels of these key nutrients are higher. Inclusion of higher solids in fluid milk across the nation could allow Americans to make progress in achieving the Dietary Guidelines for calcium, potassium and vitamin D with a very limited increase in calories.²⁶

The impact of expanding these milk solid standards in drinking milk nationally was considered in 2010 by the Federal Dairy Caucus of which Representative Peter Welch from Vermont was a member. As a part of this exploration, the caucus requested an analysis from the Food and Policy Research Center at the University of Missouri. The analysis was completed by Scott Brown. In 2010, this analysis showed that these standards taken nationally would use 350 million pounds of milk solids, would provide a \$0.27/cwt. increase to dairy farmer prices but would cost consumers \$0.17 per gallon.²⁷ **The Milk Commission supports an updated study on the impact of expanding these milk solids standards nationally for 2017.** There are many different regulatory as well as market factors in place that were not in 2010. The changes to dairy safety net programs in the 2014 Farm Bill and the increase in the export of dairy products may show a different impact.

The Milk Commission supports the requirement that all fluid milk sold nationally meets the higher milk solids standards. The Milk Commission has heard concerns regarding costs to

²⁵ Dairy Council of California, California Milk: What is the Difference? - <https://www.healthyeating.org/Milk-Dairy/Health-Benefits-of-Milk/Article-Viewer/Article/502/California-Milk-What-is-the-Difference>

²⁶ Dairy Council of California, California Milk: What is the Difference? - <https://www.healthyeating.org/Milk-Dairy/Health-Benefits-of-Milk/Article-Viewer/Article/502/California-Milk-What-is-the-Difference>

²⁷ Food and Agricultural Policy Research Institute, university of Missouri, August 2010. The Effect of Adopting California Fluid Milk Standards in the United States. FAPRI Report #07-10. Scott Brown (browns@missouri.edu) page 7 -8

consumers, new market entries of brands of fluid milk with higher solids, the need for milk bottling plants to retool facilities and trying to keep alliances together on the fluid milk pricing and the Margin Protection Program adjustments. The adjustment to the Class I fluid milk pricing program includes a provision that holds farmers harmless on the pricing changes proposed on an average basis. The same could be done for the increase in milk solids in fluid milk for fluid milk bottlers. In the 2010 study, it was reported that California provides a “make allowance” of \$0.0987 per pound of nonfat solids which has not changed since the inception of the higher milk solids standards, indicating that this level of make allowance may be sufficient.²⁸ Once the impact is analyzed based on 2017 market factors, fluid milk bottlers could be provided a “make allowance” to assist bottlers on average for any increased cost of implementing higher milk solids in fluid milk. The Milk Commission was provided information on the marketing of Class I fluid milk.

The higher fluid milk standards can be implemented on a state by state basis. The standards can be passed through state legislatures, but would need Congressional approval to require milk coming into the state to meet the requirements due to interstate commerce requirements. **The Milk Commission, if not successful in getting higher milk solids standard nationally, could work to implement these standards for Federal Order Number 1 in the Northeast.**

Title 2 – Conservation

Conservation Title – Land Conservation Ag Conservation Easement Program (ACEP) and Ag Land Easement Program (ALE)

Land Conservation with Federal Funds is important to agriculture in the state of Vermont with over 400 farms and 75,000 acres conserved using federal money as cost share.²⁹ State of Vermont and private or donated funds are also used as a part of the cost -share. Farmland conservation and the sale of the easement is recognized tool for farmers in Vermont to achieve land stewardship, transition and growth objectives of owners and assist young farmers to obtain land.

The Milk Commission heard several concerns regarding the land conservation program. The concerns include:

- Funding was cut for the program in last Farm Bill. A reduction from \$732 million to \$250 million on a national basis was a part of the 2014 Farm Bill.³⁰

²⁸ Food and Agricultural Policy Research Institute, university of Missouri, August 2010. The Effect of Adopting California Fluid Milk Standards in the United States. FAPRI Report #07-10. Scott Brown (brownsc@missouri.edu) page 7

²⁹ Information provided to the Milk Commission by Gil Livingston, Vermont Land Trust on November 7, 2017

³⁰ Information provided to the Milk Commission by Gil Livingston, Vermont Land Trust on November 7, 2017

- The Milk Commission heard testimony to restore funding nationally for this program to \$500 million which would increase the ability to conserve more farms in Vermont.
- Deed requirements from USDA – not flexible to meet state needs.
 - More state or region-specific deed terms (current – one size fits all), improves flexibility.
- Inconsistency in Agriculture Land Easement (ALE) Plan requirements. Across the country each state or region can implement different requirements under the ALE plan.
 - Request to remove ALE plan as part of minimum deed terms. Concern that ALE plans need to be flexible to meet changes on the farm and not be a part of permanent easement deed
- The process to conserve farmland is complex and burdensome to farmers and local land conservation organizations. The ability for local entities to become certified to manage the conservation easement process should be continued. The Vermont Housing and Conservation Board achieved this certification in 2017.

The Vermont Milk Commission supports the proposed changes to the Land Conservation Ag Conservation Easement Program and Ag Land Easement Program as shown in the list above.

Title 2 – Conservation – Regional Conservation Partnership Program (RCCP)

Regional Conservation Partnership Program (RCPP), promotes coordination between USDA Natural Resource Conservation Service (NRCS) and its partners to deliver conservation assistance to producers and landowners through easements, contracts or agreements. Vermont has benefited from the RCCP program for work on water quality and on the use of conservation easement on Vermont farms. Vermont received \$16 million in RCCP program funds to focus on water quality in the Lake Champlain Basin, and this is an excellent example of the impact and synergy of this Farm Bill program to bring together partners in the State of Vermont.³¹ There are concerns for the matching requirement for partner organizations to obtain and complete projects using RCPP funds. Smaller organizations can struggle to meet the match requirements. The match requirements should be waived for non-profit organizations that apply for and obtain RCPP funds. **The Milk Commission supports the continuation of this program and the waiver for the match requirement for non-profit organizations in the 2018 Federal Farm Bill.**

Title 2 – Conservation

USDA Environmental Quality Investment Program (EQIP)

³¹ Information provided by Vicky Drew, USDA NRCS State Conservationist on December 1, 2017

The USDA EQIP Program is of great importance to the farmers in Vermont as a funding source to make environmental upgrades on farms to protect water quality. The EQIP program provides financial and technical assistance to agricultural producers to plan and implement conservation practices that protect and improve soil, water, plant, animal, air and related natural resources on agricultural land and non-industrial private forestland. In 2017, the EQIP program invested \$13,714,242 through 459 contracts and an additional \$2,713,546 through 46 contracts using RCPP EQIP Dollars according to USDA NRCS.³² EQIP is one of the main funding sources that dairy farmers use to implement conservation practices on their farms.

The Milk Commission was provided information on the importance of this program to Vermont dairy farmers but also the concerns and means to improve this program. These concerns and possible solutions include the following:

- USDA EQIP assistance requires development of a whole farm plan for all environmental issues found on a farm. Prior to beginning any work or receiving any funding, farmers are required to agree to implement the whole farm plan for their farm over the life of the farm bill. These plans can exceed the \$450,000 cap and can be intimidating to the farmer who may be unsure of farm income levels over multiple years to meet cost share requirements.
 - The opportunity to waive the requirement of an agreement by the farmer to implement the whole farm plan over the life of a Farm Bill should be added. The plan should be developed but the farmer can prioritize implementation over the life of the Farm Bill and can continue the plan into a subsequent Farm Bill cycle.
- USDA EQIP payments are capped at \$450,000 for the life of the Farm Bill. With complex projects and whole farm plans, this cap is not high enough.
 - There is a request to increase the cap. The cap should be increased to \$1,000,000 for the life of the Farm Bill.
- Edge of field monitoring of runoff is important to determine water quality protection. The cost of edge of field monitoring is currently counted against the \$450,000 cap per farm for USDA EQIP funds for the duration of the Farm Bill.
 - There is a request to have edge of field monitoring costs not be counted against the funding cap within the EQIP program.
- USDA EQIP contracting and payments needs to be simplified for farms.
 - Add the ability to have pre-approval of some project costs – able to begin project before contract is complete. USDA should explore the use of performance bonding with contractors to allow payment of costs during the work of the project. Contractors need to cover costs while implementing the project and many do not have the capacity to wait until the end of the project for payment.
- USDA NRCS works closely with partners in Vermont to implement water quality improvements. Inefficiencies arise due to the inability to share data collected for federal programs with non-federal entities.

³² Information provided by Vicky Drew, USDA NRCS State Conservationist on December 1, 2017

- There is a proposal to allow partners that are working on common goals to share specific farm data.

The Vermont Milk Commission supports all the proposed changes to the USDA EQIP program.

Title 2 – Conservation

USDA Conservation Reserve Enhancement Program (CREP)

The Conservation Reserve Enhancement program is used in Vermont to remove environmentally sensitive land from production to improve water quality. The farmer receives a lease payment for taking the land out of production for 15 to 20 years. In Vermont, the land taken out of production has been used as buffers to waters of the state, to eliminate gully erosion in fields with installation of grassed waterways and to protect wetland buffers. With more investment in water quality protections, new practices are being discovered each year. There is not sufficient flexibility within the CREP program to fund new and innovative practices. The program requires a 20% match of the federal funds and the State of Vermont has provided those funds through the Capital Bill in the Vermont Legislature. An Memorandum of Understanding is maintained with the Commodity Credit Corporation and the State to enact this program.

There is a concern with this program based on the calculation of rental rates for land taken out of production. The rates may not accurately reflect rental activities in all counties of Vermont. There is a proposal to find a different source of rental rate data. There is also a request to provide more flexibility in the type of projects that could be funded within the CREP program. The request includes allowing states to set practices that could be funded for each year.

The Milk Commission supports continued funding of the CREP program and the requests to improve the program.

There were overall concerns with USDA NRCS staffing levels in Vermont. Nationally USDA NRCS has been under a hiring freeze and if attrition occurs, there is a national level process of filling the vacancy. The hiring freeze is adversely impacting the ability of the Vermont office to assist farmers in implementing environmental conservation practices. The national level process of hiring does not benefit employees that are in the Vermont offices that may wish to move up into vacant positions, but the national level process is slow and cumbersome, and the local employee may not be selected. These may not be Farm Bill issues but are impacting Vermont farmers that wish to implement environmental conservation activities on their farms.

Title 3 -Trade

The dairy industry both in Vermont and nationally benefits from trade. Vermont dairy product producers regularly market products internationally and many smaller dairy product processors are benefiting from assistance from USDA to learn about exporting products and completing the exporting process. The program that benefit dairy processors in Vermont is within the Foreign Market Development program especially the Market Access Program. The Market Access

Program funds Food Export USA Northeast that works directly with the Vermont Agency of Agriculture, Food and Markets to bring Vermont agricultural products into international markets. Dairy processors have benefited by attending international trade shows and from information on preparing products for the export market, including packaging and labeling input. The following recommendations were provided to the Milk Commission:

- Increase funding for Market Access Program (MAP) Nationally \$200 million – move to \$400 million. In Vermont this program helps to fund Food Export USA Northeast work. For every \$1 spent in export market development, \$24 is returned in export revenue.

The Vermont Milk Commission supports continued funding of the Market Access Program at \$400 million per year.

Northeast Dairy Foods Association, Inc. asks Milk Commission to support research and marketing programs.

USDA Secretary Perdue recently provided to the Report to the President of the United States from the Task Force on Agriculture and Rural Prosperity. This report supports increased access to global markets.

Title 4 – Nutrition

USDA Food Programs and the Women, Infants and Children's (WIC) program are important to Vermont. Both programs assist economically distressed persons to acquire food either in school and organized settings or through vouchers at local supermarkets and stores. These programs require dairy products be accessible to participants. Recently USDA Secretary of Agriculture Perdue allowed for 1% fat flavored milk to be a part of the School Lunch program.

The Milk Commission supports the inclusion of milk and dairy products as part of all USDA Food Programs and would encourage flexibility and ability for choice within these programs to provide a full range of fat levels in milk and dairy products to participants. The Milk Commission also supports full funding of all USDA Food Programs in the 2018 Farm Bill.

Northeast Dairy Foods Association, Inc. requests Milk Commission support changes to school lunch program to allow all types of flavored milk to be sold in schools as determined by individual school districts.

Title 6 - Rural Development

Telecommunication and Infrastructure Loans and Loan Guarantees

USDA Rural Development assists local communities to improve the economy and quality of life in rural America. The Telecommunications Infrastructure Loans & Loan Guarantees program is

a very important program utilized in Vermont that supports the dairy industry through the expansion and improvement of broadband coverage in rural communities.

USDA Secretary Perdue recently provided to the Report to the President of the United States from the Task Force on Agriculture and Rural Prosperity. In this report, there is a renewed commitment to the expansion of greater broadband connectivity in rural communities.

The Telecommunication and Infrastructure Loans and Loan Guarantees provides financing for the construction, maintenance, improvement and expansion of broadband services in rural areas. Broadband access in rural communities is critical for the dairy industry with more and more management by farmers as well as farm related service providers using mobile technology with on-line applications. Funding should increase to improve broadband and high-speed internet in Vermont. A lack of connectivity makes use of new technologies more difficult decreasing the competitiveness of our dairy industry and local rural businesses.

The Milk Commission supports increased funding for the Telecommunication and Infrastructure Loans and Loan Guarantees in the 2018 Farm Bill.

The Pennsylvania Secretary of Agriculture supports the expansion of broadband into rural communities.

Call to Action #1 in the Task Force on Agriculture and Rural Prosperity 2018 from USDA Secretary Perdue is Achieving e-Connectivity for Rural America.

Title 6 - Rural Development

Rural Business- Cooperative Service

USDA Rural Development has several grant and loan programs to support local and rural businesses to provide financial backing and technical assistance to stimulate business creation and growth. The programs work through partnerships with public and private community based organizations and financial institutions to provide financial assistance, business development, and technical assistance to rural businesses. These programs provide capital, equipment, space, job training, and entrepreneurial skills that can help to start and/or grow a business. Business Programs also support the creation and preservation of quality jobs in rural areas.

Programs within USDA Rural Business – Cooperative Service that are used in Vermont include the following: Business & Industry Loan Guarantees, Intermediary Relending Program, Rural Business Development Grants, Rural Business Investment Program, Rural Economic Development Loan & Grant Program, Rural Microentrepreneur Assistance Program, Value Added Producer Grants, Rural Cooperative Development Grants, Rural Energy for America Program (REAP) Energy Audits & Renewable Energy Development Grants, Rural Energy for America Program (REAP) Renewable Energy & Energy Efficiency Loans & Grants and Strategic Economic and Community Development.

The Milk Commission supports continued funding of the Rural Business- Cooperative Services programs within USDA Rural Development to provided needed funding sources for the dairy industry and cooperatives in Vermont.

The Pennsylvania Secretary of Agriculture supports increased funding of the USDA Rural Development to provide support to dairy processing upgrades and new processing facilities due to the need for dairy processing capacity in the Northeast.

Title 7 – Research and Extension

University of Vermont Extension and the University of Vermont which is the Land Grant college in the state, are both extremely important to the dairy industry in Vermont. University of Vermont Extension provide valuable assistance to dairy farmers in all aspects of their business and especially in meeting water quality requirements. The University of Vermont operates a dairy research facility and provides new information to the industry on farm and processing innovation.

The Milk Commission was provided testimony on the following points and possible solutions:

- Title 7 Research and Extension was underfunded in the last Farm Bill.
 - Support infrastructure upgrades at all land grant college farms for teaching and training.
 - Expand research funding to Extension nationally to address climate and weather extremes.
- Develop focused research, Extension and education initiatives for on-farm robotics, ag technology, innovation and workforce development to address farm labor shortages as well as dairy product research and development. Increased funding would benefit UVM Extension to be able to take on these initiatives.

The Milk Commission supports the solutions proposed to increase funding to Title 7 and to upgrade the Land Grant College farm infrastructure for teaching and training of dairy farmers.

Title 9 – Energy

Rural Energy for America Program Renewable Energy Systems & Energy Efficiency Improvement Loans & Grants

The USDA Rural Energy for America Program (REAP) Renewable Energy Systems and Energy Efficiency Improvement Loan program provides guaranteed loan financing and grant funding to agricultural producers and rural small businesses for renewable energy systems or to make energy efficiency improvements. In Vermont, the REAP grants and loans have been used by famers to install anaerobic manure digesters and other energy production from biomass activities such as wood pellet heated greenhouses. The Milk Commission was provided testimony on the

economic benefit of anaerobic manure digesters on Vermont dairy farms that were over 500 cows. For farms that are under 500 cows, the economic benefits are fewer, especially if grant funding is not available. In the 2014 Farm Bill, funding for this program was decreased to \$20 million per year from \$50 million per year.

The Milk Commission support the Rural Energy for America Program and support to dairy farmers to install anaerobic manure digesters on their farms. Grant support is important to these farms but especially farms that are fewer than 500 cows. The Milk Commissions supports returning funding to the \$50 million per year level in the 2018 Farm Bill.

Title 11 – Crop Insurance

Noninsured Crop Disaster Assistance Program

Crop Insurance is available to Vermont dairy farms and many use this insurance for crops such as corn for silage and soybeans. In the past, disaster programs would provide support for loss of quality on feed due to extremely wet weather. In the 2014 Farm Bill, this type of assistance on a loss of quality was moved to an insurance program. The Noninsured Crop Disaster Assistance Program (NAP) provides financial assistance to producers of noninsurable crops when low yields, loss of inventory, or prevented planting occur due to natural disasters. Dairy farmers in Vermont do not extensively use this program and the Milk Commission was provided information on this program and how it does not meet the needs for Vermont. The concerns and possible solutions are as follows:

- Farmers need to take out a NAP policy and request forage quality as a buy up option at the time of purchase.
 - More upfront costs of program than before.
- Program requirements do not always fit farmer needs.
 - Forage must be sampled at the time of harvest – farmer usually test at time of feeding.
 - Representative forage sample required.
- Uses Relative Feed Value (RFV) to compare quality of harvest feed to national averages.
 - RFV testing – higher value the better. May be a more expensive feed test – not done very often.
- USDA Farm Services Agency (FSA) must use ranges of RFV that may not represent quality of dairy feed versus feed for beef or other livestock. Especially a concern for mixed legumes hay and haylage that Vermont farmers use extensively for dairy cattle feed for milk production.
- RFV ranges
 - There is a request to allow flexibility to determine a regional range for RFV on mixed hay and haylage for the Northeast that would be more representative of the feed used on Dairy Farm for milk production. USDA FSA would need to determine what documentation was acceptable to set a regional RFV range.

The Vermont Milk Commission supports increase flexibility in determining a regional range for RFV value for the NAP Insurance program.

Title 12 – Miscellaneous

Animal Health – Bovine Johne’s Disease

Johne’s Disease is a chronic wasting disease impacting dairy cattle nationally and in Vermont. Bovine Johne’s Disease Control Program was repealed in the 2014 Farm Bill. There are concerns in Vermont with the economic impact of Johne’s Disease on the dairy industry for lost productivity. A control program is important, but eradication of this disease should be a goal.

The Milk Commission would recommend that the Johne’s Disease Control Program be reinstated in the 2018 Farm Bill and be funded at \$100 million and that USDA implement a goal of eradication of Johne’s Disease by 2030 in the United States.

Title 12 - Miscellaneous

Animal Health

The USDA National Animal Health Laboratory Network is a very important to the continued health of the dairy herd in the United States as well as Vermont. **The Vermont Milk Commission supports the expansion of the authorization for the National Animal Health Laboratory Network and continued funding and authorization for collaborative work.**

Other Legislative Issues not addressed in a Title of the Farm Bill

There are many issues impacting Vermont dairy farms that are not a part of the Farm Bill. The Milk Commission received information on immigration reform, organic product standards, Food Safety Modernization Act, USDA Insurance with milk as a commodity, rural opiate issue and truth in labeling.

Immigration Reform

The Milk Commission was provided information on the status and demographics of immigrant labor on Vermont dairy farms. Approximately 173 dairy farms utilize immigrant labor out of the 796 dairy farms in Vermont. There are many concerns surrounding the continued viability of hiring immigrant labor to work on dairy farms due to more stringent immigration control initiatives on the Federal level. A federal solution for immigrant labor working on farms is needed for all types of farming operations across the country.

Due to Vermont dairy farmer's reliance on immigrant labor, the Milk Commission supports a federal guest worker program be included and implemented in any comprehensive immigration reform.

Organic Standards

Organic standards are set by USDA and are to be implemented equally throughout the United States. Vermont has just under 200 certified organic dairy farms and the Milk Commission was provided information on areas of concerns from the organic dairy industry. These areas of concern include the following:

- Professional License for Organic Certifiers – there is a concern that organic certifying agents are not being consistent across the United States for dairy farm inspections.
 - Proposal from organic industry for licensed certifying agents that are trained by USDA and are expected to consistently inspect dairy farms to organic standards.
- Consistent interpretation and implementation of Livestock Feed and Living conditions requirements in the Organic Standards.
 - Organic dairy industry would like consistency on transitioning of dairy animals to organic production and the requirement for 120 days of feed from pasture for all organic dairy herds.
- Funding has been made available for Organic Production Market and Data Initiative. This funding will end in 2018. The information gathered has been used for market information, determining risk management tools, tracking production trends and export markets.
 - Proposal to fund and expand collection of organic data at a cost of \$5 million per year nationally.
- End the one-year heifer and cow transition to organic loophole in the current organic standards.
 - One-time transition of heifers and cows to organic production over a 1-year term. Some farms and areas of the country continuing to transition cows on a yearly basis. This activity should end due to the growth in the organic dairy industry nationally. The industry is large enough now to have a market for organically raised replacement animals and milking cows.
 - Prioritize the Publication of the Final Rule for the Origin of Livestock. The rule was first published in 2008, but there has been no announcement on the implementation date. This rule would end the 1-year transition loophole.

The Milk Commission supports the following changes to organic standards:

- Proposal from organic industry for licensed certifying agents that are trained by USDA and are expected to consistently inspect dairy farms to organic standards, with specific

attention to the access to pasture requirement and transition of livestock to organic production.

- Organic Production Market and Data Initiative Proposal should be funded and expand collection of organic data at a cost of \$5 million per year nationally.

Food Safety Modernization Act

The Food Safety Modernization Act rules have been written and are being implemented by Food and Drug Administration. There are seven rules and the Feed Rule does have an impact on Vermont Dairy Farmers. The main impact is through the processing and distribution of grain to feed dairy cattle. The Milk Commission was provided information on the impact to grain processing facilities in Vermont. The following information and potential solution was provided to the Milk Commission:

- Food Safety Modernization Act Feed Rule will impact feed mills in Vermont. Expected implementation of upgrades to meet the requirements of the rule are \$100,000 to \$150,000 per mill. Tight margins on dairy feed, high accounts receivable due to low dairy prices and tougher lending requirements are all pressuring dairy feed mills in Vermont. There is no granting program through FDA for the implementation of this rule.
 - Request for financial assistance to implement the feed rule for Vermont and national feed mills.

The Vermont Milk Commission recommends the Food and Drug Administration consider a granting program to upgrade feed mills to meet new requirements.

Nonmilk Beverages – Truth in Labeling

The Milk Commission is also concerned with the misbranding of nut and vegetable based beverages as milk. Milk is the lacteal secretion of a mammal and there is current authority with FDA to regulate this misbranding of nut and vegetable based beverages. **The Milk Commission supports truth in labeling of beverages to remove the word milk from nut and plant based beverage containers and marketing materials.**

USDA Insurance Program – Milk as a Commodity

Funding for all insurance program is an important issue within the Farm Bill. At this time, American Farm Bureau is working with USDA Farm Services Agency in Washington, DC to change the status of milk within the insurance program. At this point, milk is in a category with livestock and a request is being made to move milk to a commodity status which would increase the federal funding available for the Farm Bureau Revenue Insurance program. If this change

cannot be completed prior to negotiations on the Federal Farm bill, the Milk Commission supports inclusion of milk as a commodity in the 2018 Farm Bill.

Rural Opiate Issue

The Milk Commission recognizes the issue of opiate addiction impacts everyone in the state of Vermont including those involved in agriculture. USDA Secretary Perdue recently provided Report of the Task Force on Agriculture and Rural Prosperity. Within this report, one of the recommendation is to modernize healthcare access which includes: *Improved access to mental and behavioral care, particularly access to prevention, treatment, and recovery resources is vital to address the nationwide opioid crisis and other substance misuse in rural communities.*³³The Milk Commission supports this recommendation and funding for this vital initiative.

Conclusion

The Vermont Milk Commission completed a series of seven meetings that included testimony and presentations by 54 individuals representing 47 organization or 4 individuals. With the compilation of this report and recommendation for the 2018 Federal Farm Bill, the Milk Commission has met with legislative charge from the 2017 session “*to review and evaluate proposals that enhance and stabilize the dairy industry in Vermont and New England and that may be appropriate for inclusion in the federal Farm Bill 2018.*”

The Vermont dairy industry continues to produce high quality dairy products that win awards nationally and internationally. Dairy farmers in Vermont continue to navigate challenging milk prices, cost of production of milk and increased scrutiny and regulations. The recommendations of the Milk Commission for inclusion in the 2018 Farm Bill will provide programs and actions that will support and enhance the risk management, funding for environmental conservation and other USDA programs.

³³ Report to the President of the United States from the Task Force on Agriculture and Rural Prosperity, Secretary Sonny Perdue, October 21, 2017 Page 24

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