

Act No. 129 (2020) report:
Vermont Dairy Industry Price Regulation:
Assessment and Recommendations



Department of Financial Regulation
Commissioner Michael Pieciak
Director of Policy Jill Rickard

Legislative charge

- Assess the long-term sustainability of Vermont dairy farming under the existing federal milk market order pricing system, current market conditions, and dairy cooperative operation.
 - Evaluate the longterm sustainability of dairy farming in VT.
 - Make recommendations for revising regulating dairy pricing and other market regulation in the State

Vermont dairy farming under current regulatory and market conditions

- Vermont's largest agricultural industry; approx. \$2.2B in economic activity per year
- Costs of production exceed available purchase price under FMMO; market volatility
- VT dairy farms have decreased by 69% since 1997 and 37% in the last 10 years
- Significant consolidation of farms (in line with other industries)
- Decreased demand for fluid milk; increased demand for dairy overall
- Dairy cooperative consolidation and diversification
- COVID-19

Pros & Cons of FMMO

- Neutral regulator and calculator
 - Orderly market conditions; adequate fluid milk supply
 - Transparent, publicized minimum price
 - Audit function
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- Not improving income situation of farmers or helping small farms stay in business
 - Final price not announced until after milk is sold
 - Issues with price calculation

Alternatives and supplements to the current system

- Changes to FMMO pricing formulas
- Risk management
- State milk marketing order
- Regional compact
- Supply management
- Increased focus on organic
- Increased support for innovation and farm management

Maine: State order & tier program

- Maine Milk Commission sets minimum prices for producers, wholesalers, and retailers (FMMO price + reflective regional premium)
 - Most processors sell > 25% products outside of Maine; majority of producers receive the FMMO minimum price
- Tier program makes payments to farmers from the general fund when FMMO price is lower than costs of production; payment amount depends on current level of production for the year
 - Milk handling fee paid by first Maine entity to touch milk
- Quality seal for 100% Maine milk
- 30-day rule ensures producer can find a home for milk will if processor terminates agreement
- Unique geography of Maine
- Farms still consolidating

Supply management: VT working group & Dairy

- VT supply management working group tier growth management system
- Dairy Together market access fee program proposal
 - Set annual production growth limits but allow a farm to pay a market access fee to expand production
 - Fees distributed among farms that limit their production
 - Study: positive impacts if implemented in 2014 Farm Bill
- Cost-benefit analysis
- Requires action by Congress

Support for innovation & farm management

- Educational & financial support for onfarm technologies, lower cost, lower input production methods
 - Grazing: Increase price, lower cost of inputs
 - Farm hygiene and milk quality management to boost price
 - Technical and financial planning (UVM Extension & VHCB)
 - Reduce transport costs with additional bulk storage and more efficient cooling systems
- NDBIC: increase market appeal
 - Brand ambassador
 - Recyclable packaging

Conclusion & next steps

- No easy fixes
- Engage dairy stakeholders
- Cost-benefit analyses
- Support action at federal level
- Support on-farm management & innovation