Task Force to Revitalize the Vermont Dairy Industry

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Vermont Sustainable Jobs Fund created in 1995 to nurture the sustainable development of Vermont's economy.

VSJF administers a deep-dive <u>business coaching program</u>, with a stable of 8 highly experienced C-suite coaches. We are part of VHCB's Farm & Forest Viability Network, and can work with value added dairy producers. For instance, over the past 10 years we worked with the owners of Crowley Cheese, Kimball Brook Farm, Butterworks Farm, and Wilcox Creamery, and we are just getting underway on a scope of work with the owners of Monument Farms.

In 2009, VSJF was tasked with administering the Farm to Plate Investment Program in order to create a 10 year strategic plan for strengthening Vermont's food system. The program was established to identify and then work collaboratively with others to implement a wide range of strategies that would expand the number of jobs and economic activity in the farm and food sector, and would expand access to healthy, local food to all Vermonters. At that time, we published a lengthy report on the dairy industry which included many recommendations for action. A Dairy Working Group was established in 2011 at the formation of the Farm to Plate Network and stayed together for 2 years before electing to merge with another working group made up primarily of service provider organizations. One concrete idea that emerged out of the Dairy Working Group at that time, which Reg Chaput championed, led to the formation of Dairy Vision which went on to exist for a few years.

In 2019, the Legislature reauthorized the Farm to Plate Investment Program for another 10 years and the <u>Vermont Agriculture & Food System Strategic Plan 2021-2030</u> was released in February, 2021. This plan includes 54 product, market and issue briefs relevant to the Dairy industry, including a brief on dairy, cheese, school food procurement, major metropolitan markets, marketing, labor and workforce, compost, climate change, water quality, payment for ecosystem services, consumer demand, business and technical assistance, access to capital, succession and supporting future farmers, to name a few. All of these Briefs can be found here: https://www.vtfarmtoplate.com/plan/.

While I realize that this Task Force is focusing a lot of time and attention on exploring ways to impact the Federal milk pricing system and the FMMO in particular, the work of Vermont Farm to Plate was never established to work on this strategy explicitly, nor is it within our ability or power to change on behalf of VT dairy farmers. Instead, we have been focusing on a host of other strategies and actions that can support the continued viability of the dairy industry in Vermont, in all its many forms – from conventional to organic, micro-, small, medium and large, to commodity and value-added.

While we may not be focusing on needed changes to the FMMO, the new Strategic Plan does contain a number of goals, objectives and high priority strategies of relevance to the dairy industry. What follows is a list of other important strategies and opportunities to support the revitalization of the dairy industry in Vermont. I recommend that you take some time to review pages 16-26 to learn more about the goals and objectives contained in the plan. Additionally, on pages 30-33, a number of high priority strategies will of interest to this Task Force including:

- 5. Support stabilization and revitalization of the dairy industry through: (1) a comprehensive dairy products marketing program focused on quality that would assist producers with limited marketing budgets; (2) by expanding opportunities to differentiate the milk supply by supporting farms and processors to increase production capacity for higher-attribute milk; (3) increased capital investment and funding for dairy processing, storage, and co-packing (particularly for cheese, yogurt, butter, etc).
- 7. Make significant investment in storage, processing, and distribution infrastructure in order to enhance product innovation and quality across all Vermont food products, expand regional market access for businesses, and increase the resilience of local supply chains. This includes investments in new facilities, upgrades and maintenance to existing facilities, and energy efficiency and renewable energy incentives for food system infrastructure.
- 8. Support product-specific value chain development. Strategies include bringing producers, distributors, and buyers together at matchmaking events, assisting producer-driven aggregation, distribution, and marketing enterprises, and funding the development of market opportunities in the Northeast.
- 11. Fund at least eight FTE additional business assistance provider positions to assist farmers with transfer and succession planning, access to capital, farm management, planning for transition or diversification to other products, and sales and marketing. This estimate includes four FTEs needed to work with dairy farms and two FTEs needed to work with other types of farms, specifically on succession planning.
- 12. Increase usage of and funding for cohort-based training, mentorships, and other forms of farmer-to farmer/business-to-business education which are proven to be successful, including dairy farmer learning cohorts.
- 16. Fund coordinated marketing efforts, such as a statewide marketing campaign for local agricultural products, marketing support in emerging metropolitan markets, shared marketing broker positions, a shared communications and content creator position between the Vermont Department of Tourism and Marketing and the Vermont Agency of Agriculture, Food and Markets, and/or marketing materials for specific products or associations.
- 27. Continue to support the Payment for Ecosystem Services (PES) Working Group, which is poised to be a central point of coordination and connection among the many needed PES research and design efforts. These efforts should focus on PES approaches that regrow or sustain Vermont's natural resource base so that it provides at least three ecosystem services: water quality, flood resilience, and climate stability.
- 28. Fund scientific research into how various agricultural practices affect soil and water quality, and how the impacts of these practices can be measured and valued in a Payment for Ecosystem Services program.
- 29. Assist food and farm businesses with navigation of municipal and state permit requirements and regulations. This will create a more supportive environment for business growth and diversification, especially as it relates to on-farm accessory businesses, farm employee housing, and development of off-farm processing, distribution, and storage infrastructure.
- 32. Work with Vermont's congressional delegation on reforming U.S. immigration and labor laws and rules.

As you may know, the **Plan contains an 8-page** <u>Dairy Brief</u>, the lead author of whom was Laura Ginsburg from VAAFM, along with the following contributors: Brent and Regina Beidler, Beidler Family Farm and Organic Valley | Jeremy Stephenson, Spring Brook Farm and Creamery | Tom Bivins, formerly of the Vermont Cheese Council | Jen Lambert, Lambert Farm | Amy Richardson, Richardson Family Farm | Ingrid Van Steamburg, Pease Family Farm | Abbie Corse, The Corse Farm Dairy | Denna Benjamin, Riverview Farm | Roland Rainville, Rainville Farm. In addition, prior to the Strategic Plan being finalized last Fall, we met with representatives from all 3 farmer watershed organizations to get their feedback and input.

The Dairy Brief explored a number of trends, bottlenecks and opportunities faced by members of the industry. It contains sub-sections on bifurcation which addresses the issues relevant to different dairy farm sizes, consumer trends, forage based production systems, value-added processing, and alternative pricing strategies. There were a number of recommendations contained in that Brief including:

- Reinvigorate farmer cohort learning groups by funding a position that can coordinate meetings between farmers of different scales and in varying regions to share their specialized knowledge and allow farmers to connect with each other to broaden skill sets while providing social outlets. This could also be a coordination role between the many dairy support organizations who are already conducting on-farm events so as not to be duplicative and to make events welcoming to all. NOFA-VT hosted this cohort model several years ago with great success and it is an example of why New Zealand's dairy industry is so successful and adaptable. Cost: \$100,000 annually for a position and associated costs for successful meetings.
- Establish a formal mentorship program that will pay successful, retiring dairy farmers to work one-on-one with young farmers and help them navigate the challenges of being a new or beginning farmer, including animal health, farm management, and financial and personal challenges. This relationship keeps the inherent knowledge of land, cows, and dairy production going strong and does not de-value the worth of years in the industry. The Dairy Grazing Apprenticeship program could be a model for this system. Cost: \$12,000 per farmer/mentee relationship.
- Incentivize new farmers and farm transitions by starting a program similar to the Agency of Commerce and Community Development's Remote Worker Grant Program, that will help defray costs of starting a new dairy farm or taking over the operation of an existing farm through a family or business transition. For example, the program could seek out graduates of the Dairy Grazing Apprenticeship program to increase the amount of grass-based dairy farming, and target successful young farmers looking for an opportunity to start their own farm business. Cost: The program costs would be highly variable based on what would be covered. For example, defray closing costs on a farm purchase, provide a living stipend for a year, and provide a mentor to assist during the first two years of operation.
- Ensure that the current processing capacity is maintained or increased as this is critical to longterm farm sustainability. Incentivizing or funding plant maintenance and energy efficiency upgrades will keep this critical and expensive piece of the supply chain in operation and will attract additional types of milk production in the state as companies expand product lines.

- Expand opportunities to differentiate the milk supply by supporting farm and processor transitions to, or increasing production capacity for, higher-attribute milk (grass-fed, organic, GMO-free) that responds to consumer trends and positions Vermont as the leader of innovative dairy production.
- Provide incentives and ensure current funding opportunities benefit dairy farms to move towards energy efficiency, including equipment upgrades, renewable energy generation systems, and work in concert with the needs of milk hauling and processing companies.

Also of relevance to this Task Force, in the <u>Cheese Brief</u>, the authors made the following recommendations:

- Align the dairy cooperative system with in-state cheese making in order to embrace more types of milk storage, including cheese-quality milk and raw milk for cheese production.
- Vermont's congressional delegation and the Vermont Agency of Agriculture, Food and Markets should support overhauling the milk classification system to better embrace Vermont's current needs and future growth trends.
- Clarify and codify cheese labeling nomenclature.
- New business models for support and logistics businesses should be developed, such as haulers, cooperatives, and lab staff specifically for cheese and soft dairy production. Utilize grant programs to assist these businesses with equipment purchases, business planning, and workforce development.
- Increasing annual investments in the Vermont Cheese Council's marketing initiatives to \$150,000 would provide immediate returns for smaller cheese makers.
- Develop a comprehensive dairy products marketing program focused on quality that would assist producers with limited marketing budgets.

One new strategy that may be worth considering is to dedicate some of the ARPA funds coming to VT to pay for new affordable housing construction either on or near dairy farms and in communities that host dairy processors. We all know there is a significant labor and housing shortage facing our state. This has caused the Cabot cheese plant to reduce its operations 2 days/week because of a lack of labor. And part of the reason why labor cannot be attracted is because of a lack of affordable housing. A quick estimate of the need for dairy farm and plant workers and the number of housing units could be assembled across the state, in time for the Legislature to appropriate ARPA funds to VHCB specifically for the purpose of building dairy industry worker housing.

Finally, one observation that I have is that public discourse and policy tends to focus on the "Dairy Industry" as if the industry is monolithic rather than diverse. While the FMMO is important to many in the industry, it does not apply to organic dairies nor to many value-added producers. Thus, I thought it might be helpful to offer an additional framework within which this Task Force could consider relevant strategies. It is by no means complete or all-inclusive but I hope you find it helpful in some way.

Revitalization & Differentiation Strategies within a Diverse (cow) Dairy Industry

What can Vermont farmers and dairy processors control for themselves?

What can Vermont legislators, VAAFM, Congressional Delegation, dairy industry leaders control vs influence?

Leaderhip matters
Ownership matters
Values matter

Scale is a factor

Consumer demand and trends

Diversity within the (cow) Dairy Industry

- small number of large farms who sell to their coop
- medium farms get bigger or will sell/lease to larger farms
- larger number of small farms who make differentiated products and manage their own sales/marketing focused on attributes and components
- some # of independent farms that are feeding into Booth Brothers
- some independent cheese makers sell their excess to coops to balance supply/components
- some are vertically integrated and control their own supply

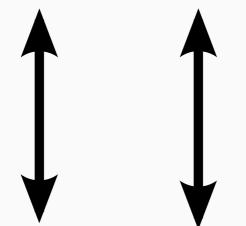
Differentiation Strategies for Dairy: Centering Farmers

Increase Revenue Strategies

- Steady pricing at federal milk order level + balance of supply and demand
- Program for Ecosystem Services \$ for performance
- Participate in special assurance/compliance programs (e.g., Caring Dairy, Milk with Dignity) if offered
- Higher prices paid for components (e.g., sole source components for value added manufacturer, special attributes)
- Higher margin, value-added products made on-farm (cheese, yogurt, ice cream)
- Specialization (e.g., raising heifers for others)
- Vertical integration to capture more margin
- Direct sales with story, brand / marketing
- Insurance and margin protection schemes (e.g., MPP-Dairy)
- Apply / receive grant funds (e.g., NRCS, Clean Water grants, WLEF grants)

Reduce Expenses Strategies

- Receive economic supports (e.g., Current Use)
- Reduce purchased feed (e.g., grow own hay, corn, grains, grass)
- Work with FFVP service provider to improve business mgmt
- Receive state supports for farm worker housing
- Be vertically integrated in order to reduce certain costs
- Build healthy soils, improve forages, reduce nutrient run off
- Replace workers with robots



Differentiation Strategies for Dairy: Centering Processors

Increasing Revenue Strategies

- Steady pricing at federal milk order level + balance of supply and demand
- Increase sales via attributes differentiation, new marketing strategies, packaging improvements
- Increase sales via value-added product lines that are consumer responsive
- Innovate new types of value-added, specialized products and get them to market
- Increase margin on each unit sold, across all products (e.g., increase price paid by wholesalers and/or consumers)
- Improve skills and productivity of workers
- Increase vertical integration (e.g., Cabot vs. old St. Albans Coop;
 OV vs. Horizon)
- Assurance/compliance premiums via special programs for consumer differentiation (e.g., Caring Dairy, Milk with Dignity)

Reducing Expenses Strategies

- Maintain outlets for all components (balancing)
- Pay farmers as little as possible for inputs to reduce COGs (of course, this is not good for farmers!)
- Reduce overhead
- Dial in on all expense lines
- Don't give out distribution checks to shareholders build cash and/or reinvest in plant & equip. (inc. efficiency)

Strategies that Benefit both Farmers and Processors by gov't and industry associations

- VAAFM / Industry innovation initiatives (e.g., VDBIC)
- Additional GF \$ as match for federal grants which focus on VT dairy farmers / processors
- Industry level marketing (e.g., DM&PC)
- VAAFM communications strategy
- Overall regulatory environment (i.e., state policies)
- Low cost capital (i.e., VACC, FSA, etc.)
- Workforce training and education (e.g., VT Tech, 2+2)
- Special program development (e.g., PES)
- Business / Technical Assistance (FFVP Network of Service Providers)
- Working Lands Enterprise Fund
- State subsidized industry to maintain it (e.g., MA)
- Federal policy (e.g., FMMO, immigration reform)
- More \$ to VHCB specifically for affordable housing development for dairy farms and dairy processor/manufacturers workers (either on-farm or in near-by-town)

