

January 19, 2022

Efforts to Stabilize the Maine Dairy Industry

*A Presentation to the
Vermont House Committee on Agriculture and Forestry*



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Executive Director
MDIA

Maine Milk Commission



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Maine Milk Commission

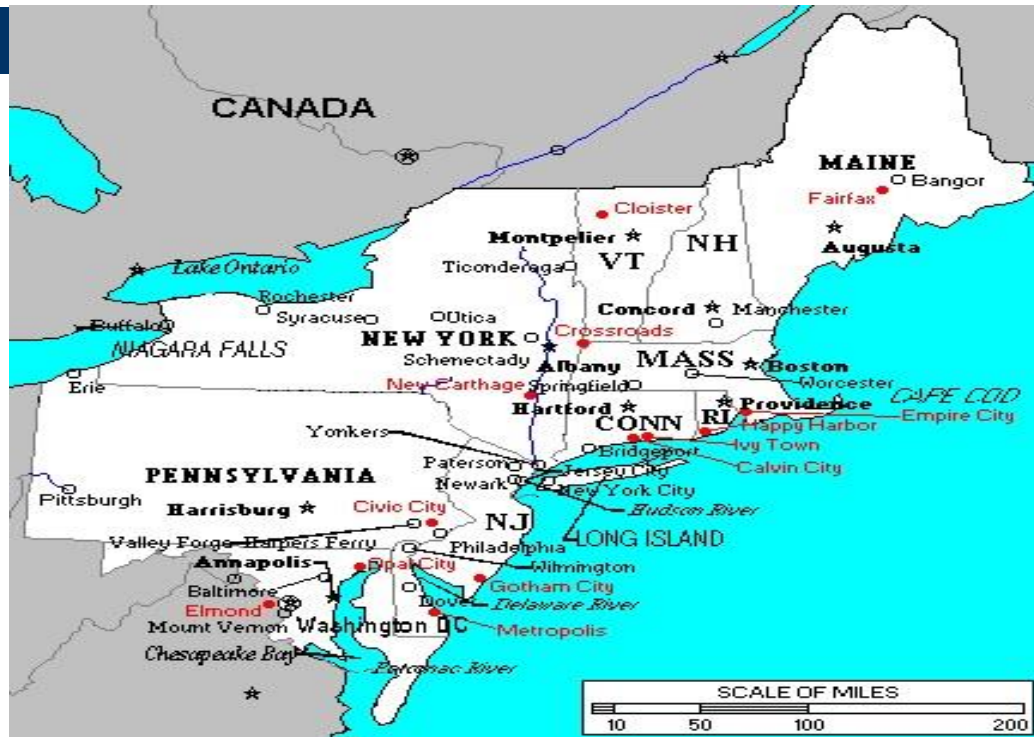
The Need for Regulation



Maine milk can only be shipped in one direction, or must stay within Maine



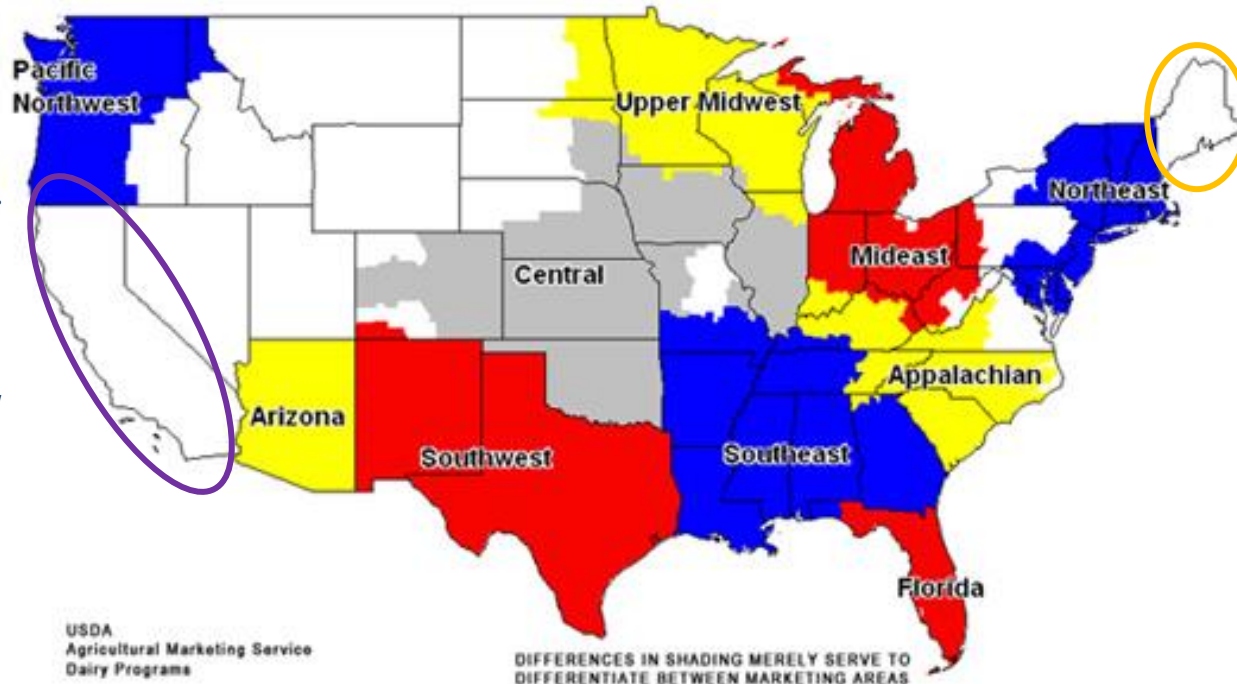
FMMO 1 Marketing Area



Industry Consolidation has resulted in the majority of Maine Milk being pooled & priced into FMMO-1

Federal Milk Marketing Order Areas

A new CA federal order was recently approved to be included in the federal pricing system.



ME is not officially in Federal Order One – but the 2 major fluid processing plants in ME **are** subject to federal order pricing because they sell < 25% of their product into states that **are** in the federal order – so ME dairy farmers are paid federal order pricing by those plants.

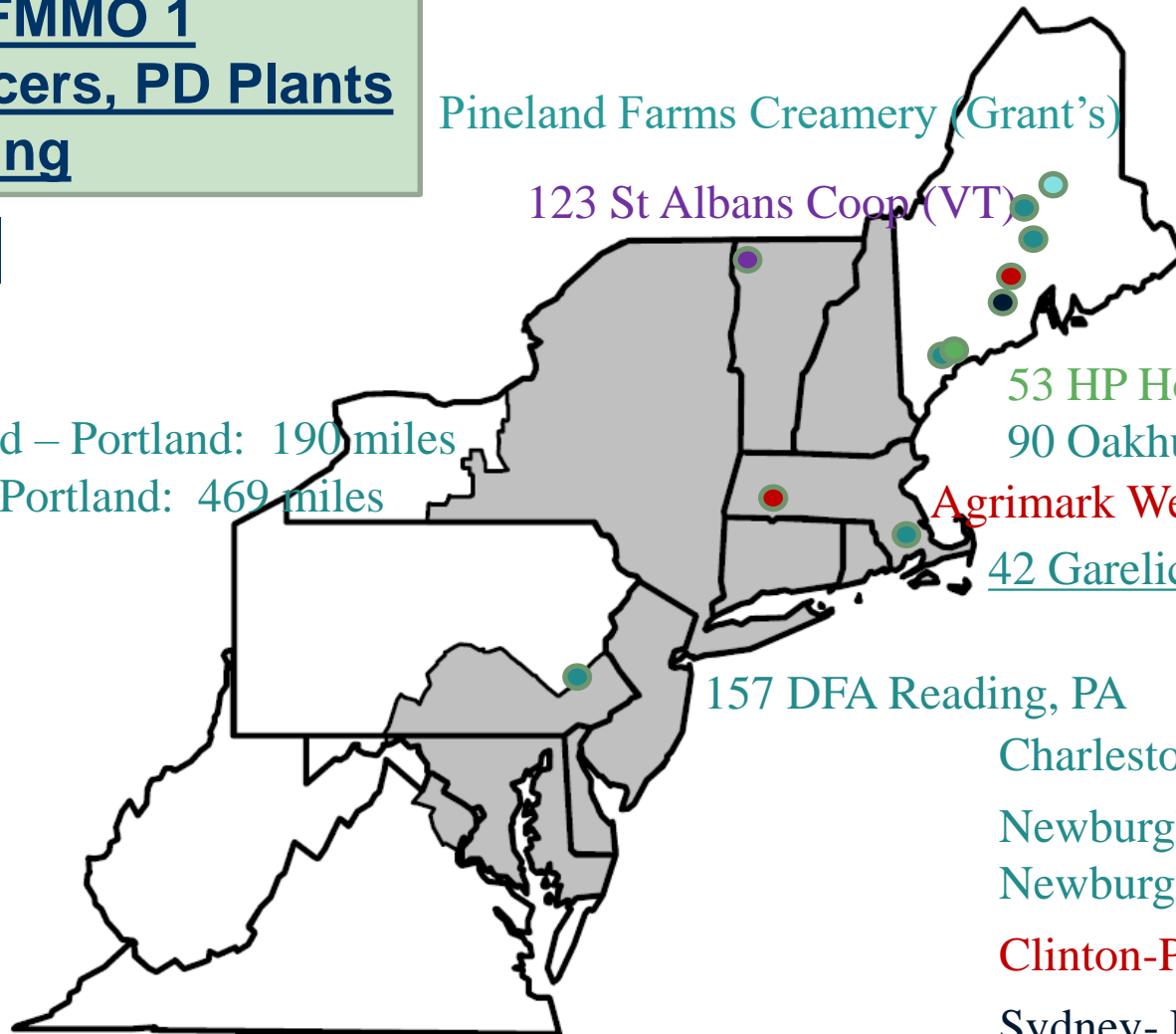
2018 Maine Dairy Industry Profile

- 221 Dairy Farmers
 - 216 FMMO 1 Pool Producers
- 615 mil lbs raw milk production
 - 608 FMMO 1 Pooled Milk
- Average farm
 - 2.7 mil lbs
 - 150 cows
- Range
 - 500k lbs – 10 mil lbs
 - 50 cows – 2500 cows

- Pool Plants
 - 90 Oakhurst PD Plant
 - 53 HP Hood PD Plant
- Non-pool plants
 - Pineland Farms Creamery
 - Houlton Farms Dairy
 - Smiling Hill Farms
- Producer Handlers
 - 21 & increasing
- Artisanal
- Small scale Processors and Manufacturers

Maine and FMMO 1 Pool Producers, PD Plants and Balancing

W. Springfield – Portland: 190 miles
Reading, PA-Portland: 469 miles



Pineland Farms Creamery (Grant's)

123 St Albans Coop (VT)

Farmer A Charles

Farmer B, Newbu

Farmer C Clinton

Farmer D Sydney

53 HP Hood Portland

90 Oakhurst Dairy Portland

Agrimark West Springfield

42 Garelick Farms Franklin

157 DFA Reading, PA

Charleston-Portland: 129 m

Newburgh-Portland: 124 m

Newburgh-Franklin: 272 m

Clinton-Portland: 83 miles

Sydney- Portland: 65 miles

Maine Supply for the Boston Fluid Market

- FMMO 1 Total: 27 billion lbs
- ME Pool Milk: 608 billion lbs
- FMMO 1 Producers: 9,700
- Maine: 221

ME = 2+% of
pool and producers

FMMO Class I = 8.7 billion
150 lbs fluid milk/person/yr

Boston+ metro: 6.0 million
people

Boston Metro Class I: 900 million lbs

ME population: 1.3 million people

ME Class I: 200 million lbs

ME Plants = 600 million
lbs

Boston plants = 1.1 billion lbs

(Garelick – Franklin & Hood – Boston)

2018
numbers



Maine Milk Commission

(State Order Pricing)

History and Background

- A Maine Milk Control Law was enacted in **1935** by the 87th Legislature to eliminate a number of serious problems confronting the dairy industry and the consuming public. Glaring conditions necessitating this corrective action included price wars, farmers failing to receive payment for milk deliveries, dealer bankruptcies, consumers receiving low quality milk, etc.
- Under the law, a Maine Milk Commission was created to arbitrate differences, establish minimum prices in designated areas after proper hearings and exercise general supervision over the milk industry. Its basic function was, and still is, **to ensure that there will be a plentiful supply of pure, wholesome milk available at all times, in all places, at reasonable prices.**



Maine Milk Commission

(State Order Pricing)

- The Maine Milk Commission is comprised of five members, four of whom are appointed by the Governor and shall serve a term of 4 years. Within its membership shall be the Commissioner of Agriculture, Conservation and Forestry, ex-officio and the remaining four members shall have no official business or professional connection or relation with any segment of the dairy industry.
- The Maine Milk Commission is financed by a \$0.05 per hundredweight fee on milk paid by licensed dealers. The Commission receives no general fund tax monies.
- Among the specified powers granted by the Legislature, the Commission has the authority to set minimum prices paid to producers as well as minimum retail and wholesale milk prices. The Milk Commission is authorized to audit dealers' books and to determine the utilization of all milk purchased.



Maine Milk Commission

(Studies to Determine Appropriate Minimum Pricing Levels)

Studies conducted via RFP/contract on 3-year rotation.

- Cost of Production (Producer Margin) – Ch. 26

Last completed on 2017 calendar year.

Awaiting Legislative review/approval – Jan/Feb 2019

- Cost of Processing (Dealer Margin) – Ch. 29

Study complete on 2018 processing costs.

Public comment period closed Nov 5, 2018.

Decision anticipated at Nov 20, 2018 monthly price setting hearing.

- Cost of Retailing (Retailer Margin) – Ch. 27

(Herbein & Company contracted to conduct this study with a final report due by December 2019.)

Chapter 3 Rule: Monthly Schedule of Minimum Prices

Minimum Wholesale & Retail Prices,
by size of container
(Based on Chapter 27 & 29 Studies)

Class I Federal Order Announced Price

Federal & State Promotion Fee

Producer Margin (Cost of Production
Adjustment, based on Ch 26 studies)

Over-Order Premium (Set by Co-ops) - %
of Class I sales = pd to farmers

Federal Components Pricing

Breakdown of Federal Order Pricing
Statistical Uniform Blend
(retroactive 2-months)

THE MAINE MILK COMMISSION SCHEDULE OF MINIMUM WHOLESALE AND RETAIL									
	EFFECTIVE	DATE:	October 28, 2018	ORDER NO:	11-18				
			MINIMUM	HANDLER	MINIMUM				
			WHOLESALE	FEE	RETAIL				
GALLON:	Whole Milk		\$3.36	\$0.20	\$3.74				
	Lowfat	2.0%	\$3.14	\$0.20	\$3.52				
	Lowfat	1.5%	\$3.06	\$0.20	\$3.44				
	Lowfat	1.0%	\$2.98	\$0.20	\$3.36				
	Skim		\$2.89	\$0.20	\$3.27				
1/2 GALLON:	Whole Milk		\$3.36	\$0.20	\$3.74				
	Lowfat	2.0%	\$3.14	\$0.20	\$3.52				
	Lowfat	1.5%	\$3.06	\$0.20	\$3.44				
	Lowfat	1.0%	\$2.98	\$0.20	\$3.36				
	Skim		\$2.89	\$0.20	\$3.27				
3 QUART	Whole Milk		\$2.82	\$0.15	\$3.12				
	Lowfat	2.0%	\$2.65	\$0.15	\$2.95				
	Lowfat	1.5%	\$2.59	\$0.15	\$2.89				
	Lowfat	1.0%	\$2.53	\$0.15	\$2.83				
	Skim		\$2.47	\$0.15	\$2.77				
1/2 GALLON:	Whole Milk		\$1.72	\$0.10	\$1.95				
	Lowfat	2.0%	\$1.61	\$0.10	\$1.84				
	Lowfat	1.5%	\$1.57	\$0.10	\$1.80				
	Lowfat	1.0%	\$1.53	\$0.10	\$1.76				
	Skim		\$1.49	\$0.10	\$1.72				
57 OUNCE:	Whole Milk		\$1.72	\$0.10	\$1.95				
	Lowfat	2.0%	\$1.61	\$0.10	\$1.84				
	Lowfat	1.5%	\$1.57	\$0.10	\$1.80				
	Lowfat	1.0%	\$1.53	\$0.10	\$1.76				
	Skim		\$1.49	\$0.10	\$1.72				
QUART:	Whole Milk		\$0.96	\$0.05	\$1.11				
	Lowfat	2.0%	\$0.90	\$0.05	\$1.05				
	Lowfat	1.5%	\$0.88	\$0.05	\$1.03				
	Lowfat	1.0%	\$0.86	\$0.05	\$1.01				
	Skim		\$0.84	\$0.05	\$0.99				
10 QUART:	Whole Milk		\$9.81	\$0.50	\$10.28				
	Lowfat	2.0%	\$9.25	\$0.50	\$9.72				
	Lowfat	1.5%	\$9.06	\$0.50	\$9.53				
	Lowfat	1.0%	\$8.86	\$0.50	\$9.33				
	Skim		\$8.65	\$0.50	\$9.12				
20 QUART:	Whole Milk		\$18.84	\$1.00	\$19.84				
	Lowfat	2.0%	\$17.73	\$1.00	\$18.73				
	Lowfat	1.5%	\$17.33	\$1.00	\$18.33				
	Lowfat	1.0%	\$16.93	\$1.00	\$17.93				
	Skim		\$16.51	\$1.00	\$17.51				
Class I Price	Actual	Nov-18	\$18.770	Per CWT	Protein Price Per Pound	Sep-18	\$2.0029		
Milk Commission Premium		Nov-18	\$1.040	Per CWT	Butterfat Price Per Pound	Sep-18	\$2.5442		
Producer Margin		Nov-18	\$1.630	Per CWT	Other Solids Per Pound	Sep-18	\$0.2098		
Total Class I Producer Price		Nov-18	\$21.44	Per CWT	Nonfat Solids Per Pound	Sep-18	\$0.6801		
Federal Promotion Fee		Nov-18	\$0.200	Per CWT					
Handling Fee		Nov-18	\$2.33	Per CWT					
Total Class I Dealer Cost		Nov-18	\$23.97	Per CWT					
Basic Price of Milk		Nov-18	\$18.770	Per CWT					
Class II Price & Margin		Sep-18	\$15.280	Per CWT					
Class III for		Sep-18	\$16.090	Per CWT					
Class IV for		Sep-18	\$14.810	Per CWT					
Producer Price Differential		Sep-18	\$0.620	Per CWT					
Statistical Uniform Blend		Sep-18	\$16.710	Per CWT					
Butterfat price per lb. Suffolk County, MA		October-18	\$2.5718						
Chicago AA Butter Price Announced		October 12, 2018	2.2500						

Maine



Maine Milk Commission

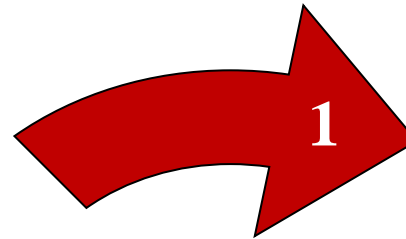
(Maine Milk Pool)

- The Maine Milk Pool was created by state statute in 1983, to allow the Commission to assess a Producer Margin (also known as a “Cost of Production adjustment”, or “an Adjustment for Maine conditions”) as needed through the Maine Minimum Price setting system.
- Established as a set amount, but calculated using the each milk dealer’s Class I utilization rate, the amount is collected each month from each milk handler/dealer, pooled together, and equally distributed to Maine dairy farms.
- Initially limited to 15-cents/cwt, the Producer Margin is established each month through rulemaking, after a public hearing during which testimony can be offered to update the Commission on the financial conditions of Maine farms. In later years, the Producer Margin has risen as high as \$1.68/cwt, however, declines in Class I sales have also lead to smaller percentages of the set amount being collected and distributed.

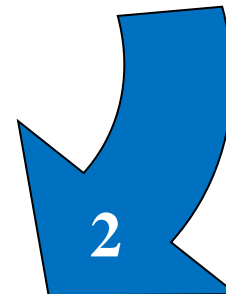
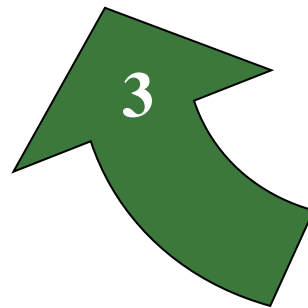
Maine Milk Pool Program

Flow of funding

Funds from Milk Processors
on milk sold in Maine
based upon premium
set by Milk Commission monthly



Processors
(Houlton Farms, Smiling Hill Farm,
Hoods & Oakhurst)
send funds to
Department of Agriculture



Agriculture distributes funds to Processors
for distribution back to farmers,
based upon department calculations



Maine Milk Commission

Chapter 14 Rule: 30 Days Notice

01 DEPARTMENT OF AGRICULTURE, CONSERVATION AND FORESTRY
015 MAINE MILK COMMISSION

SUMMARY: Notice requirement adopted by the Maine Milk Commission for distributors to give before terminating milk deliveries to a customer.

Distributors must give 30 days written notice by registered or certified letter before terminating delivery to any customer in their delivery area or in the traditional delivery areas of a distributor they have purchased. The 30 days notice requirement does not apply to cancellations resulting from failure to pay bills.

2. The notice will identify the closest delivery point where the distributor's product will be available for pickup by the affected customer.
3. The distributor will identify other distributors, if any, by name and address who are servicing the area and from whom a replacement supply may be available.
4. A copy of the notice dated and signed by an official of the distributor will be sent to the Maine Milk Commission identifying the customer by name and address, within the same 30 days requirement.

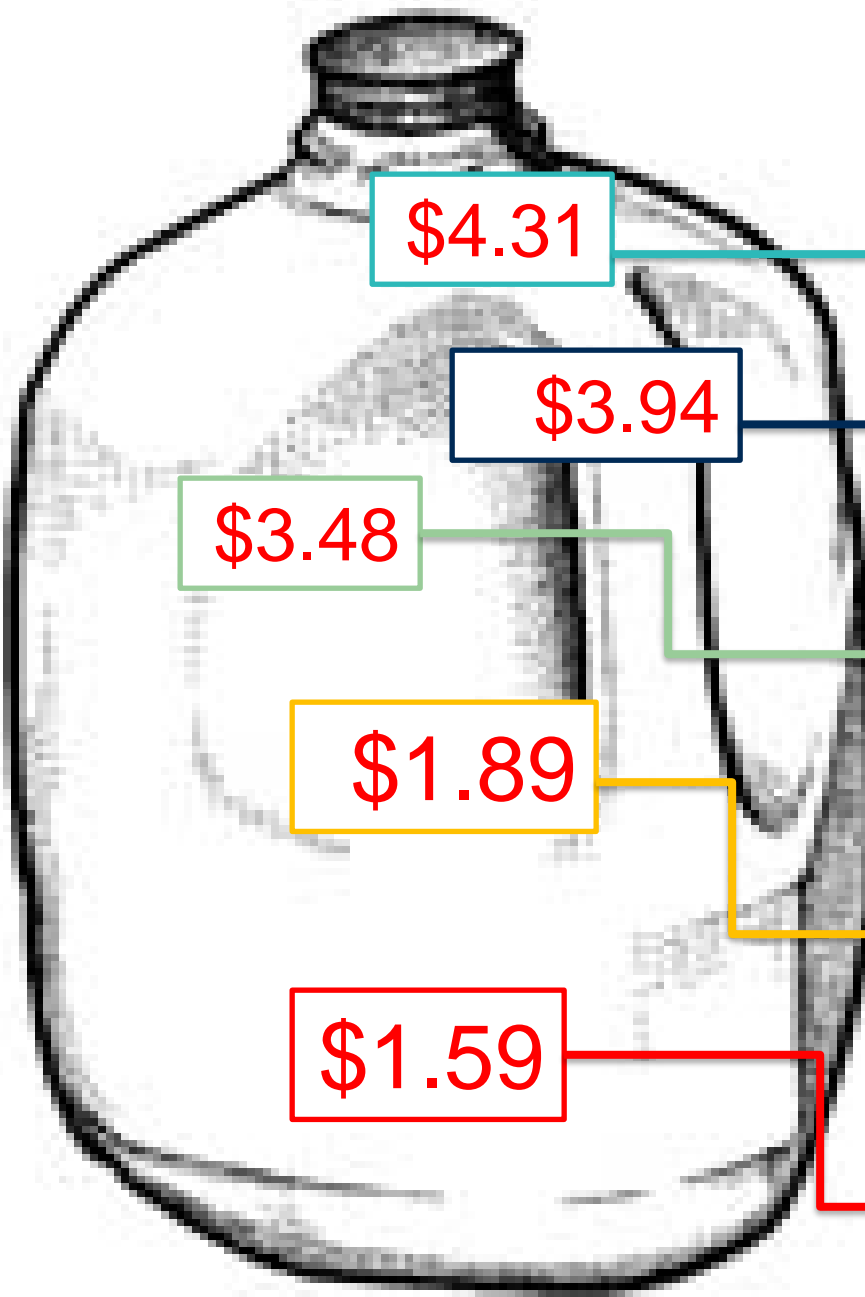
STATUTORY AUTHORITY: 7 M.R.S.A. §2953 (PL 1975, c. 5A Section 2, May 11, 1989).

EFFECTIVE DATE: January 1, 1990

- November 2021 Prices
- Based on information from the Maine Milk Commission



Milk Money



\$4.31

Average Price Paid
by Maine Consumer[†]
(\$49.53/cwt)

\$3.94

Maine Retail
Minimum Price[†]

\$3.48

Minimum Price Paid
to Maine Processor[†] (\$39.67/cwt)

\$1.89

[†] Prices per 1 gallon whole milk

Maine Farmer Short-run
Breakeven Cost of Production*
(\$21.94/cwt) *2020 Maine Cost of Production Study, adopted by the Maine Milk Commission, pending Legislative approval of major substantive rule & incorporation into the Maine Dairy Stabilization "Tier" Program.

\$1.59

Minimum Price
Paid to Farmer (\$17.69/cwt)
(Federal Order Statistical Uniform Blend Price)



What goes in the Milk Check?

- + Blend Price
- + Over-order premium
- + Quality or Volume premiums
- + Components (protein, butterfat, other solids)
- + **State Premiums**



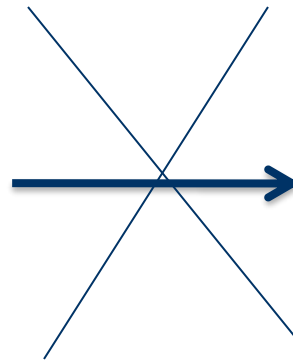
What comes out of the Farmer's Milk Check?

- Transportation (Stop & Hauling / Fuel Adjustment)
- Promotion (15¢ / cwt)
- Maine Milk Commission (2.5¢ / cwt)
- MDIA (1¢ / cwt {mandatory})
- Co-operative dues & equity share payments
- Marketing Charges (often charged by the Co-op)
- CWT Program (2¢ / cwt)
- Other designated payments
 - *Loan payments
 - *Monthly Bills

MODERN DAIRY FARMING



The Pricing Disconnect....



Maine's Organic Dairy Farmers also Feel the Pinch – but slightly differently



Maine organic dairy farmers can benefit from the predictability of contract pricing, but are subject to significantly higher input costs & compliance requirements for certification.

Increasing competition from milk-alternative beverages and slower-than-anticipated growth in organic milk sales have created slack in the supply-and-demand balance of organic milk, leading to an erosion of premiums, addition of marketing/transportation charges, implementation of quota limitations on production, and reduction in contract prices.



Early Maine State Efforts

1984 – Maine dairy farmers created a volunteer group to talk about industry challenges & find ways to work together to solve them. (Creation of Maine Dairy Industry Association)

1991 – Created the Maine Dairy Farm Stabilization Act & Vendor Fee (*MRSA Title 36; Part 7; Ch. 708-A* - Collected 5-cent/gal on milk processed in Maine and paid \$ from dedicated account back to Maine dairy farmers.)

1994 – Massachusetts enacted similar legislation, which was struck down by the courts (*West Lynn Creamery, Inc. v. Healy* 512 US 186 - 1994)

1994 – Maine revised its program in response to the court case.



Regional & Federal Changes

1997 – Northeast Dairy Compact was ratified by NE states and approved by Congress.

Maine repealed its Dairy Farm Stabilization / Vendor Program.

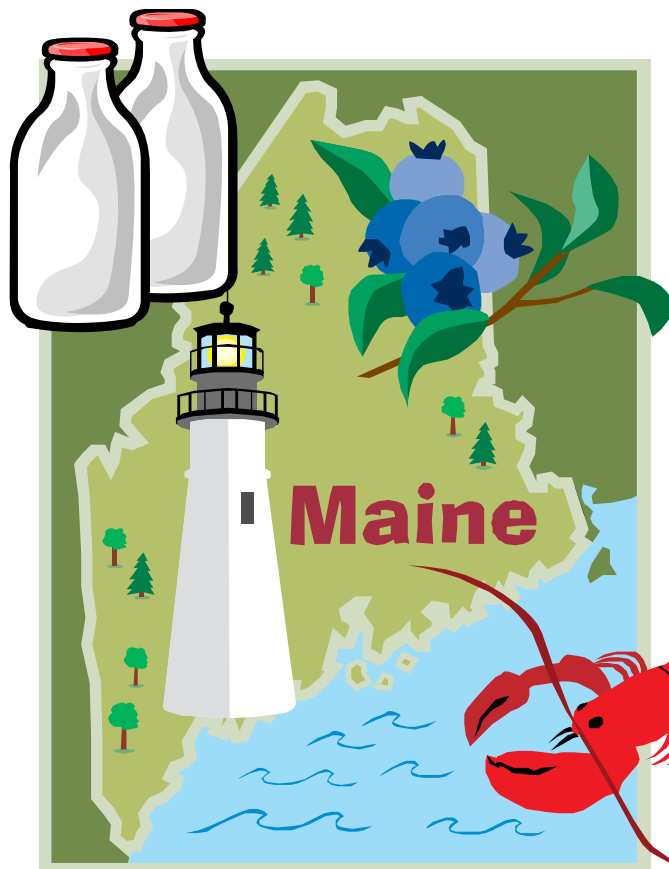
2000 – Federal Order System implemented component based pricing (instead of the Minnesota-Wisconsin price discovery system).

2001 – Northeast Dairy Compact failed to be re-authorized by Congress.

A Maine way to deal with the problem...

*Letters
to the
Editor*

Commissioned a
Public Opinion
Poll – asking
Maine consumers
questions about
how much they
wanted/supported
dairy farms in
Maine – and would
they pay more to
keep them.



*Inviting
Legislators to
tour farms &
meet with farmers*

Getting the local
media to cover
stories about
struggling farms –
putting a face to
the problem

The Tier Program Concept

Fill the gap between the
price farmers are paid
and their cost
of production





Current Maine Dairy Stabilization Program Tier Levels

(Effective 7-1-2012)

Tier Level:	Annual Production Range:	Target Price:
Tier 1	0 – 16,790 CWT	\$21.00
Tier 2	16,791 to 49,079 CWT	\$20.36
Tier 3	49,080 to 76,803 CWT	\$18.01
Tier 4	Over 76,803 CWT	\$17.83



Traveling through the Tiers

June – Everyone's production starts at 0 pounds = Tier 1

Move through the Tiers

More cows = move faster



Understanding How to Calculate the Tier Payments

(August 2021 prices)

Basic Price for Milk (Statistical Blend) \$18.44

Over Order Premium for + \$.52
(average / 33% Class I utilization of \$1.04)

= \$ 18.96



Traveling through the Tiers

Each farm's production is
individually tracked each month

Each farm's Tier Payment is
individually calculated
for each month



Understanding How to Calculate the Tier Payments

(August 2021 prices)

	<u>Support Level</u>	<u>Minimum Price</u>	<u>Tier Payment</u>
Tier 1	\$21.00	\$18.96	= \$2.04 / cwt
Tier 2	\$20.36	\$18.96	= \$1.40 / cwt
Tier 3	\$18.01	\$18.96	= no payment (-\$.95)
Tier 4	\$17.83	\$18.96	= no payment (-\$1.13)



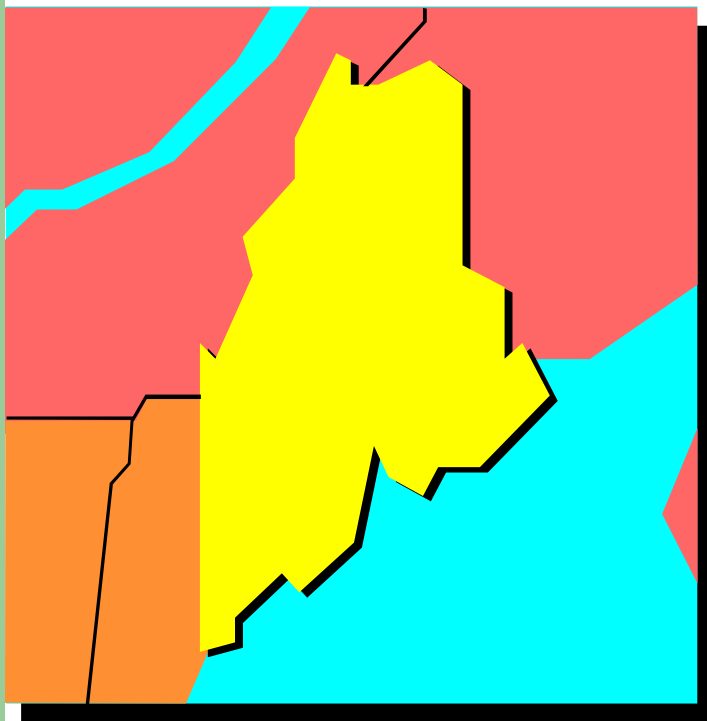
2019 Cost of Production Study

Tier levels

Tier Level:	Annual Production Range:	Cash Operating Costs / Average Short-run Breakeven Costs:
Tier 1	0 – 16,790 CWT	\$23.05
Tier 2	16,791 to 49,079 CWT	\$21.44
Tier 3	49,080 to 76,803 CWT	\$20.93
Tier 4	Over 76,803 CWT	\$20.21

These numbers have been approved by the Maine Milk Commission, but have not been reviewed by the Maine Legislature or adopted for use in the Maine Dairy Stabilization “Tier” Program. (Est. dates of review: January-March 2022)

Milk Money – Part 2



Milk Handling Fee

First entity to touch
milk, pays fee to
state of Maine



Current Handling Fee Schedule

Effective March 2010

Class I Price of Milk		Class I of Milk	Per Gallon Fee
\$21.00	and over		\$ 0.04
\$20.00	to	\$20.99	\$ 0.08
\$19.50	to	\$19.99	\$ 0.12
\$19.00	to	\$19.49	\$ 0.16
\$18.50	to	\$18.99	\$ 0.20
\$18.00	to	\$18.49	\$0.24

Handling Fee increases incrementally by \$.04 every \$.50 of Class I price

Maximum Fee Rate = \$0.84 / gal

(reached when Class I price falls below \$10.99/cwt)

Milk Tier Program Flow of funding

Money *In* is NOT Money *Out*

Funds from Milk
Distributors or Retailers
(Handling fee)
i.e. Hood, Oakhurst
based upon rate set
monthly
by Federal Market Order 1

Distributors
or Retailers send
these funds to
Maine Revenue
Services

Agriculture requests
general fund transfers
(if necessary) based
upon calculations
& distributes funds to
200 farmers



Total Cost of the Tier Program 2003-2021

Total Dairy/Tier Program State Expenditures (19 years)	\$150,942,692
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Average Spent Per Year	\$ 7,944,352
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Annual General Fund Budget Line	\$ 2,500,000
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Total Handling Fee Receipts (Aug. 2005-Dec. 2021)	\$ 58,907,159
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Average Collected Per Year	\$ 3,681,697
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Low milk prices impact every state



Caution

The Tier Program IS Unique to Maine



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Amount of Milk
Produced on Farm

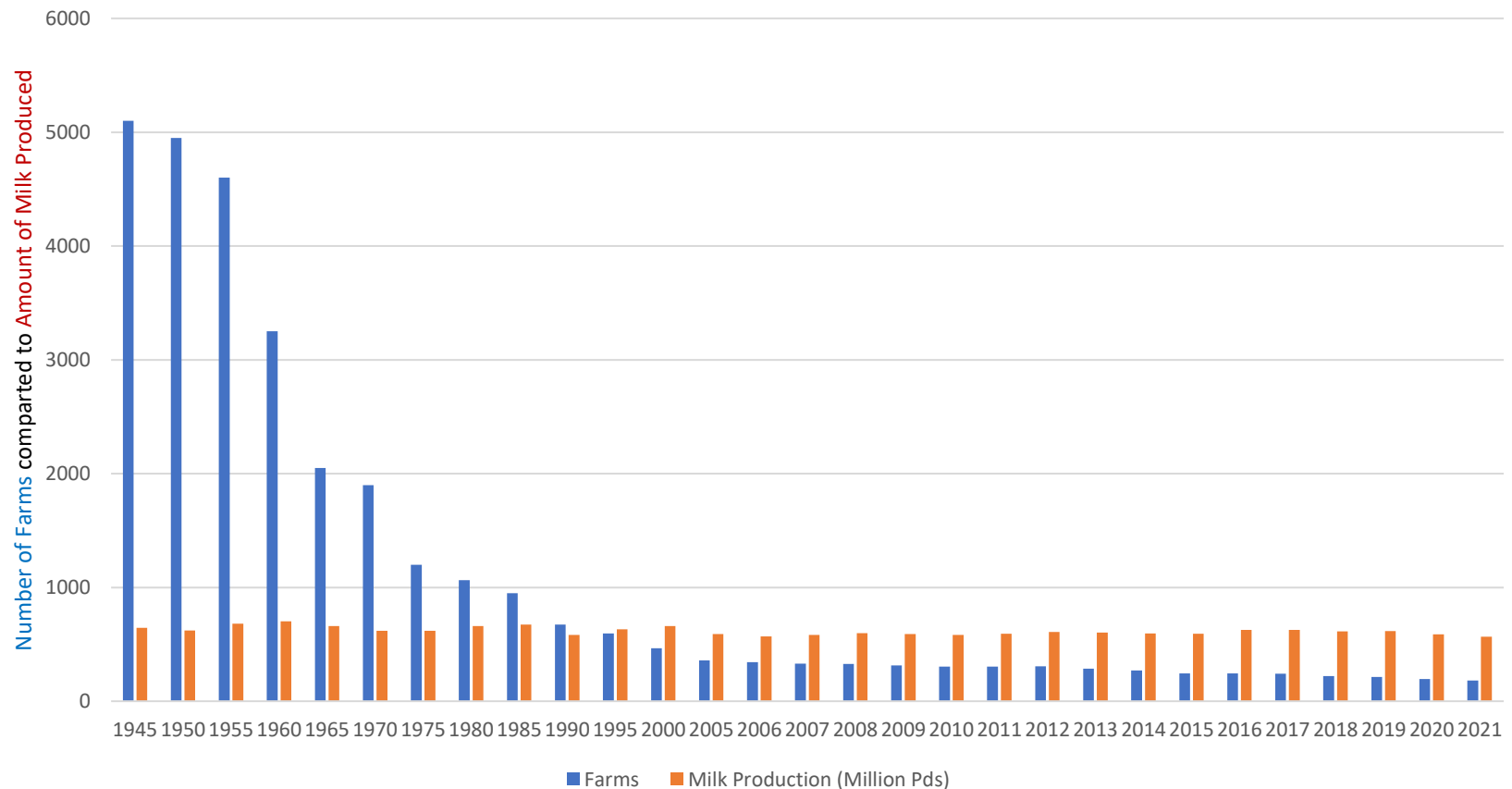
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Amount of Total Dairy Products
Maine People Consume



Maine Dairy Farms vs. Milk Production 1945-2020

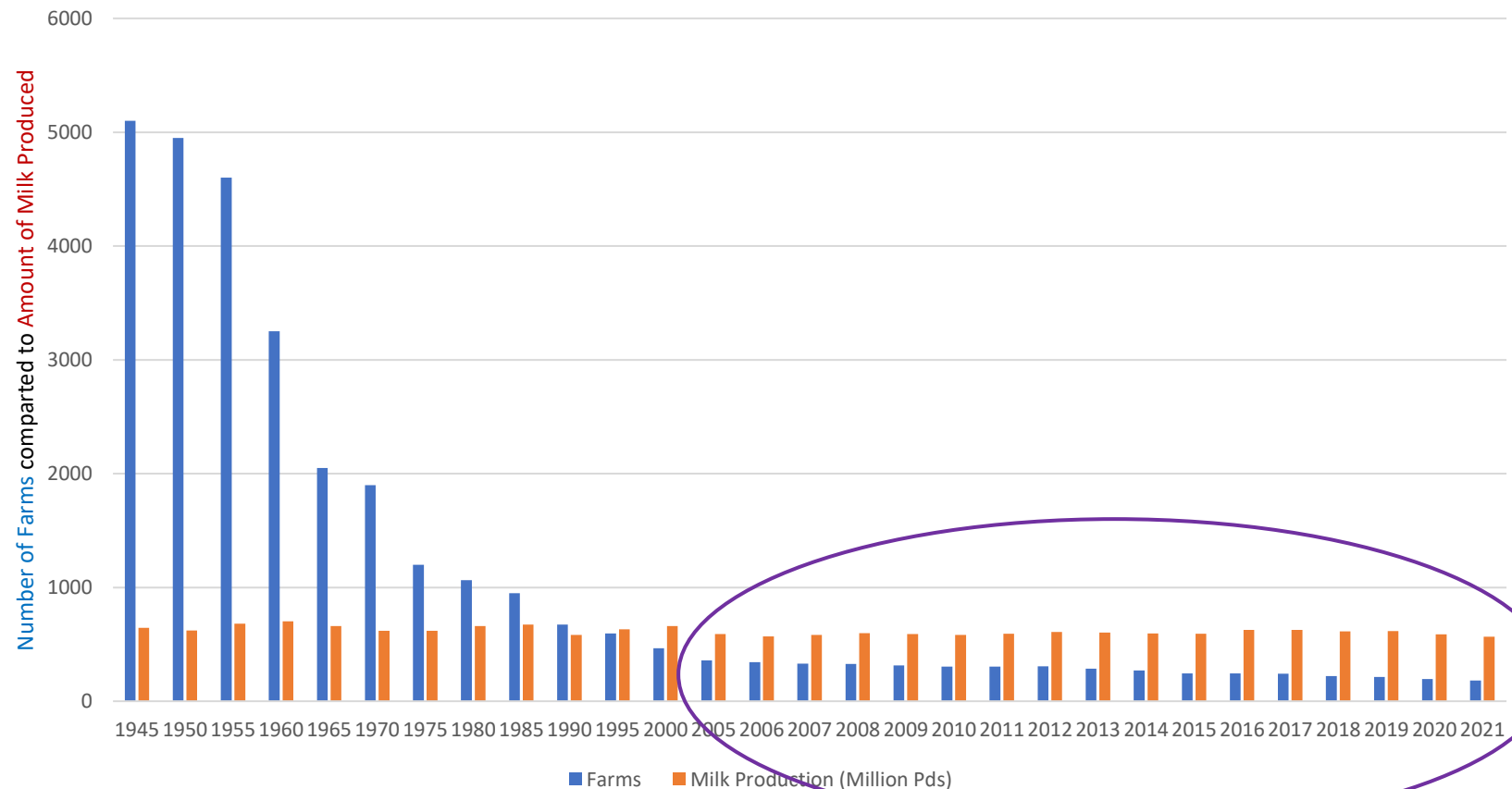
Maine's Milk Production & Farm Numbers 1945-2021





Maine Dairy Farms vs. Milk Production 1945-2020

Maine's Milk Production & Farm Numbers 1945-2021





Changes in Dairy Farm Numbers 2017 – 2020

	<u>2017</u>	<u>2020</u>	<u>% Loss</u>
Delaware	50	20	60%
New Jersey	109	40	63%
New Hampshire	216	94	56%
Michigan	2158	1153	47%
Massachusetts	220	125	43%
US	54599	31657	42%
Maryland	511	340	33%
Rhode Island	16	11	31%
Wisconsin	9037	6682	26%
Texas	467	351	25%
Minnesota	3844	3047	21%
New York	4646	3650	21%
Pennsylvania	6914	5430	21%
Vermont	841	664	21%
California	1892	1534	19%
Maine	246	214	13%
Connecticut	108	100	7%



Maine Dairy Industry's reaction to Pandemic Economy



Widespread QUOTA Limits

Farms & Dairy

Milk Prices Plummet

Labor Shortages



Shifting Markets

Restaurants & Public Venues Closed
or only Partially open/operating

DROUGHT

Supply chain
disruptions

Federal Legislative Issues



Since 2005
MDIA has been working
to find a national
solution that would
restore balance between
dairy farmers,
processors, & retailers.