Maine
Dairy
Industry
Association

January 24, 2006

Dana Coale, Deputy Administrator
USDA-AMS-Dairy Programs
1400 Independence Avenue, SW
Washington, DC 20250-0225

Re: Testimony in opposition to the proposal by Agri-Mark Cooperative to amend Class III and IV price formulas in all Federal Milk Marketing Orders

Dear Deputy Administrator Coale,

The Maine Dairy Industry Association (MDIA) represents all the dairy producers in the state of Maine. Though Maine is not officially part of the Federal Order system, virtually all our producers fall under the pricing and pool system set by the Federal Order through the plants who are processing our farmers' milk.

MDIA opposes the current proposal under review to adjust the make allowance on Class III and Class IV products to offset higher costs in the manufacturing sector. We do not object to the processors attempts to recover their costs through the federal order system, but we strongly object to the manner in which it is proposed – by reducing the minimum prices paid to the farmers.

We understand that a Cornell University is working on a processing model that will lead to a comprehensive update of the make allowance. MDIA would ask that any short-term adjustment to the Federal Order that occurs before the study and model is complete should be revenue neutral to the other key sectors participating in the Order and not a cost shifting approach that robs Peter to pay Paul.

Agri-Mark Dairy Cooperative has many members in Maine and we have always made an effort to work with them and other coops and processors to deal with difficult issues that have ripple effects on the whole dairy industry. Despite that positive working relationship, we find ourselves on opposite side of this issue because the mechanism being suggested through this order change will result in a fairly substantial reduction in blend prices for the producers.

PO Box 5013 * Augusta, ME 04330 * (207) 798-5544 * mainedairy@aol.com

For Maine farmers, the majority of our milk is shipped into the Class I market. The value of this milk is already downgraded due to inclusion in the Federal Order One pool. The proposed adjustment of the make allowance on Classes III and IV is estimated to reduce the price in those classes in the range of 5 to 9 cents/cwt. However, for those areas like ours that have primarily Class I sales, the impact in likely to be significantly higher since the Class I price is tied to the Class III and Class IV pricing structure. Some economists have even estimated that the negative impact to the minimum producer price could be as much as 30 cents/cwt or greater. This is an unacceptable burden to shift to the producer level.

Our organization does represent producers who are members of Agri-Mark. MDIA is acutely aware of the financial pressures being experienced by their processing divisions and those of other cooperatives. At the same time, dairy producers are also dealing with dramatic increases in fuel and other energy costs. Not only have the direct costs of motor and heating fuels increased to the farmer, but farmers have also had substantial cost increases indirectly due to fuel prices, such as fertilizer, feed, and equipment costs, and trucking – a huge expense borne by the farmer just to ensure his milk gets to the processor. Farmers are also experiencing other cost increases in the areas of labor and employment costs and insurance fees. The current Federal Order system does not allow for regional differences in the total costs of production, so the impact of these costs increases would have twice the negative impact if the make allowance is changed as proposed. The net effect would result in further production and farm losses in Maine and the Northeast and significant adverse effects upon the local and regional economies.

For our farmers who are members of cooperatives, the pressure is even greater because of the financial assets and equity tied up in the operation of the coop's processing operations. But while the cooperative's farmer members may be liable for the financial losses associated with a difficulty in recouping processing expenses, all dairy producers are squeezed by the minimum pricing and pooling system that severely limits their options and ability to recover their costs.

The reality is that under Federal Order minimum pricing, producers are not able to increase their price to the buyers of their milk in order to cover increasing input costs because the Federal Order minimum price becomes the de facto price that is paid farmers. The processors should be able petition to change the order to recover their costs, but should not be allowed to do so at the expense of the producers, which is what is being requested through this proposal.

Lately we have seen dramatic restructuring of corporate giants in an effort to combat rising costs, such as the changes recently announced by Ford Motor Company's U.S. Division. Working within the Federal Order system does make it a bit more challenging than the usual supply and demand system of pricing goods and services, but we hope that all internal options to reduce costs would be explored by the dairy processing sector before proposing such a detrimental cost shifting to the producer level.

Within Federal Order One, and especially within New England, many processors are having a difficult time procuring enough milk to meet the demand. This is especially true in Class I plants, that are the recipients of an overwhelming majority of Maine's raw milk. In Maine we have not seen any decreases in the demand for milk, nor have we seen a reduction in the premium structure. And yet, because of pooling, we have not been able to receive the full value of our Class I milk despite the high demand for it. We should not be forced by the Federal Order system to have our milk check further reduced by bearing the responsibility for cost increases on Class III and IV plants on top of that.

A significant portion of the request for this change in the make allowance was based on comparisons between operations and costs between Agri-Mark plants in the Northeast and California. Recognizing that California represents one of the fastest growing sectors of the dairy industry and is producing Class III and IV products that are direct competition with those produced by Agri-Mark and other Eastern and Mid-Western processors, it is also important to note that the majority of California's dairy industry operates outside of the Federal Order system and is governed by its own state pricing, pooling and marketing division under the California Department of Agriculture. Production and pricing conditions for Maine producers are quite different than those of California producers. It is highly unlikely that California milk will ever directly supply Maine plants with Class I milk. But the ramifications of this change in the make allowance could negatively impact Maine producers to the point that farms could no longer operate, reducing the supply of Class I milk to our plants. Under these circumstances there are two possible final scenarios. The first would be that Maine farms go out of business, Maine plants close due to shortage of milk, and the many businesses that support the agricultural sector would also close. The resulting loss of jobs, tax revenue and economic activity in the economy could cause serious financial strain across the entire region. The second scenario would be that Maine farms go out of business, Maine plants are forced to get milk from further away, increasing the costs to process the milk and causing a tilt of milk flowing between orders that could upset the supply and demand balance. In both scenarios, costs to Agri-Mark would increase due to the need to bring milk in from other regions and compete with processors from other parts of the country for that milk. That will not alleviate their current difficulties, but only add to them in the long run.

While Maine may not be a large dairy state on the national scale, we are an important part of the agricultural economy in the Northeast. We are the second largest dairy state in New England and are the largest agricultural sector in Maine, according to the latest NASS census. The vast majority of our farmers are multi-generational family businesses providing milk to Class I plants that ship milk across the Northeast. In this post 9-11 era, having a local, safe food supply is critical for the health of the general public. Milk is a staple and our farmers have proudly been supplying consumers for hundreds of years.

The Maine dairy industry generates $570 million annually to the State's economy. Maine's dairy farmers, processors and agri-businesses combined also contribute over $25 million per year in state and local taxes – including almost $10 million in property tax revenues to support local rural communities. The industry provides jobs for almost 4000 Maine people that generate earnings of nearly $150 million each year.[1] In addition, we maintain approximately 250,000 acres of open farmland in Maine that is a key component of the State's number one industry – tourism – by providing access to our land to support snowmobiling, hiking, cross-country skiing, hunting and fishing and many other economic enterprises.

[1] Data from "The Impact of the State's Dairy Industry on the Economy of Maine", May 2004.

PO Box 5013 * Augusta, ME 04330 * (207) 798-5544 * mainedairy@aol.com

The Maine Dairy Industry Association represents 360 small businesses (dairy farms) that produce 70 million gallons of fresh, quality, local milk each year.[2] The producers support a broad range of services that support Maine's entire agricultural sector. Combined they represent the economic engine that maintains our rural communities. The Federal milk order program recognizes the importance of small businesses and their significance in maintaining a consistent and local food supply through the application of the Regulatory Flexibility Act. Dairy producers should be given consideration for their need to recover costs just as much as a processing plant.

MDIA supports a change in the price discovery system that does not cover the costs of the processing sector by shortchanging the producer sector. Whether that could be accomplished by modifying Agri-Mark's proposal to include a means of strengthening Federal Order prices to dairy farmers through some mechanism to channel money down more directly from the consumer at the retail level, the value (and subsequently the price) of raw milk should not be devalued in order to ensure that processing facilities achieve profitability. The Federal Order needs to weigh the needs of all parts of the industry.

Thank you for considering these comments as you consider the proposal and move toward a decision. MDIA will continue to try to work with all segments of the industry to ensure a strong and secure supply of milk and milk products to Maine consumers.

Sincerely,

Dale Cole
President
Maine Dairy Industry Association

cc:

Hon. Peter M. Davenport, US Administrative Judge, US Department of Agriculture
Mr. Lloyd C. Day, Administrator, USDA Agricultural Marketing Service
Mr. Jack Rower, Marketing Specialist, USDA AMS/Dairy Programs, Order Formulation and Enforcement Branch
Mr. Erik Rasmussen, Market Administrator, Northeast Milk Marketing Area
Hon. Charles E. Summers, Jr., Regional Administrator Region I, U.S. Small Business Administration
U.S. Senator Olympia J. Snowe, Maine
U.S. Senator Susan M. Collins, Maine
U.S. Representative Thomas Allen, Maine District 1
U.S. Representative Michael Michaud, Maine District 2
Mr. Robert Wellington, V.P. for Economics, Communications & Legislative Affairs, Agri-Mark Dairy Cooperative
Governor John E. Baldacci, Maine
Mr. Stan Millay, Executive Director, Maine Milk Commission

[2] Information collected by the Maine Milk Commission, as of January 1, 2005.