STATE OF VERMONT

DEPARTMENT OF AGRICULTURE, FOOD & MARKETS
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Senator Olympia J. Snowe
250 Russell Senate Building
Washington, DC 20510

Dear Senator Snowe:

Thank you for your interest regarding dairy farming in Vermont relative to the effects of the Northeast Interstate Dairy Compact. First, let me say that dairying is the core of agriculture in Vermont. Milk represents three quarters of the cash receipts from farming. No other state is so dependent on a single agricultural commodity. In turn, Vermont produces about half of the milk in New England. Over 1,500 dairy farms in Vermont collectively generate over $1 million per day in milk sales. Dairy farming, combined with dairy product processing is one of the largest industries in the state.

Below you will find the number of farms in Vermont in each year since 1990. While farm numbers have dropped in every year except 1991, they have fallen at a rate slower than the national average. Since western states have been expanding rapidly in recent years, many other states are losing farms at rates significantly greater than Vermont's.

Year	Number of Farms
1990	2,370
1991	2,381
1992	2,325
1993	2,265
1994	2,178
1995	2,046
1996	1,974
1997	1,908
1998	1,815
1999	1,782
2000	1,659
2001	1,565

Farm numbers have been declining in Vermont since the 1880's. However, the number of individual operations does not tell the whole story. Dairying has transformed from a few cows on farm homesteads, common in Vermont through the early part of the last century, to a highly specialized, highly capitalized industry. As productivity has increased and commodity prices have declined, dairy farms have become larger and more efficient in order to continue to support one or more families.

The extended family has returned as a way of life for dairy farmers. Instead of the children leaving to purchase and operate their own farms, it is becoming increasingly common for the next generation to join forces with the parents and operate a larger farm together. In this way, the huge debt load normally required to start a farm operation can be avoided and everyone is able to have some relief from farm responsibilities because they are shared by a larger number of people. This is one way in which dairy farms are growing larger in Vermont.

The Compact has been an effective tool to keep more of these farms in business. The Compact draws a higher price from the marketplace than farmers, facing a limited number of buyers for their perishable product, would otherwise be able to extract. Despite the fact that farms are fewer in number than they were, they still number in the thousands. This is compared to the market power of only two companies that now dominate the milk processing industry in New England. Surely, these two giant firms could easily pit farmers against each other to secure their milk supply and at the same time minimize their costs. It is for this reason that Congress specifically allows the formation of cooperatives in agriculture. However, even the coops, acting on behalf of hundreds or thousands of members, have limited options when there are so few buyers in the market. Agriculture is unique in the degree to which it cannot be consolidated the way its input and supply industries can be. Farmers are not able to increase the price of their product in response to increased costs the way most businesses do.

Clearly, the Compact has helped keep farms in business. However, it is ridiculous to claim that any one factor is responsible for the rate of change in the entire industry. Other major changes affect the dairy industry at any given time. The price of milk, but also the price of replacement and cull animals and feed and other inputs determine the profitability of an operation. Many people love dairy farming for the way of life that it offers, but many are also worn out by the long hours, lack of help, hired or otherwise, to give them even a weekend away from work. The stock market has been very strong until recently. It is easy to decide that the financial returns for a large capital investment are better somewhere other than in a dairy farm. The age of senior operators on dairy farms continues to rise. With a strong overall economy, fewer of the children of these operators want to accept the long hours and low returns in agriculture. Changes in capital gains tax laws made it practical for farmers to get out of the business in the second half of 1997. No doubt that created a small rush in farm closings for a year or two.

The Dairy Compact has returned approximately $59 million to Vermont dairy farmers to date. The profit margin on dairy farms is very narrow. While this $59 million represents a very small fraction of the operating expenses on dairy farms, it represents a significant share of the net family income. In some of the years that the Dairy Compact has been in effect, the market price for milk has been fairly strong and the impact of the Compact has been modest. However, in the low years, I am sure that the Compact has allowed many dairy farm families to weather the storm. Forty two percent of the lifetime benefit of the Compact was paid in the year 2000, when market prices plunged to record lows. Had it not been for the Compact, the rate of loss of farms in Vermont would probably have been double what it was.

The Compact has elevated farm milk prices an average of four percent, or $0.55 per hundredweight over the period. But equally important is the function that it performs of stabilizing farm prices. By preventing downside swings, the Compact regulated price floor enables farmers to plan and budget with more certainty and to take advantage of credit opportunities based on reasonable income projections.

Much noise has been made lately about whether retail prices have increased due to the Compact or due to exercise of market power. Every time the price of milk climbs, it seems retailers use that as an opportunity to raise prices. If the price of milk can no longer fall as low, it can't climb as often or as steeply. It would seem that regardless of where the market power lies, stable milk costs should make milk prices to consumers more stable as well. The Compact Commission has taken care to insure that the School Lunch Program and the WIC program, which fund some of the most vulnerable dairy consumers, have been compensated for any increase in price resulting from the price regulation.

The Compact does not prevent the market from working. It merely acts as a safety net to maintain the farm price of milk when market prices are low. When market prices are high, as they were last fall and winter, the Compact has no effect. Low prices are intended to signal to producers to decrease supply. To offset a dampening of that signal, the Compact Commission has instituted a supply management assessment, which rewards producers who do not increase production.

Taxpayers are unaffected by the Dairy Compact. Unlike a subsidy program, the Compact extracts a small increment from the marketplace. Demand for fluid milk has not perceptibly declined as a result of implementing the Compact. Consumers have been quoted repeatedly saying that they don't mind paying a few cents more if it goes to the farmer.

In the early months of the Compact regulation, drought was plaguing western states and seasonal flooding created havoc in central states. Later an ice storm hit northern New York and Vermont. We were reminded just how dependent we are on the weather and other uncontrollable factors. The country as a whole has much greater resilience if any one commodity is not concentrated in a single region, where a particular weather event could affect the majority of production. Dairy is an extremely dispersed commodity, it is produced in all fifty states. Nonetheless, we in the Northeast are concerned about maintaining a local supply of milk to ensure that it will always be available fresh, healthy and tasty.

New Englanders are concerned about agriculture, not only because they wish to maintain a local source of fresh, high quality milk, but also because open space is precious in a highly congested part of the country. The dairylands of western Massachusetts and Vermont are valuable recreation areas for urban residents of Massachusetts, Rhode Island and Connecticut. As residential and commercial uses increasingly compete with agriculture for the use of prime farmland, farming is driven out time and again. Without a productive use for the land in food and fiber production, sprawl development overruns the open spaces and fewer rural areas remain where pavement has not replaced green things for good.

A regional economy is strengthened any time dollars can stay in the area and be spent again and again. Vermont is susceptible to overseas job loss, as is any other part of America. Farms are valuable businesses for small towns that generate employment and keep dollars local. People who live and work on farms spend money in their towns on hardware, groceries, animal feed, farm equipment and supplies.

The Dairy Compact has served New England well in its four year tenure. Milk production in the region has not expanded to uncontrollable levels. Retail prices have not created a hardship for consumers, nor have they caused demand for milk to slacken. Farms that otherwise would have gone out of business or gone deeper into debt have continued and kept farmers and farmland productive. The successes of the Dairy Compact need to continue in order to maintain a strong dairy industry and a steady supply of fresh milk for consumers.

Thank you for your attention and concern.

Sincerely

Leon C. Graves

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Commissioner