

# Executive Summary of the Commission to Study Options for Preserving the Dairy Industry in the State

Due to the concern over the decreasing number of dairy farms and the possible changes in federal price programs, the Legislature in the Spring of 1995 approved a commission to study dairy issues.

## I. Importance of dairy to the Maine economy

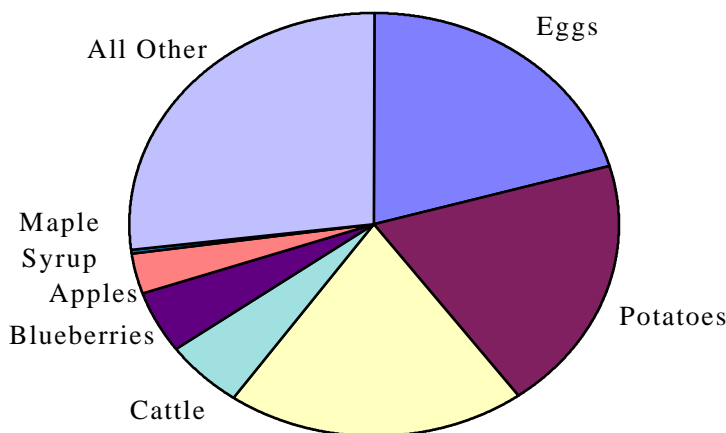
### A. Cash receipts

Cash receipts for all agricultural commodities in Maine were \$458 million in 1992, placing agriculture 8th among a listing of manufactured goods and agriculture, with 3.95% of the combined dollar value of these 2 categories, just behind textiles. Cash receipts from farm marketing of milk in Maine in 1993 were \$92,384,000, accounting for 19.6% of all agricultural commodity receipts and ranking it virtually tied with potatoes and behind eggs as the commodity with the second greatest cash receipts. Unfortunately, cash receipts from milk have increased only 1.25% since 1987 against a change of

**Exhibit I**

**Comparison of Cash Receipts by Commodity, 1993**

Commodity	1,000 Dollars	% of Total
Eggs	\$ 96,420	20.4%
Potatoes	\$ 93,096	19.7%
Milk	\$ 92,384	19.6%
Cattle	\$ 24,829	5.3%
Blueberries	\$ 23,134	4.9%
Apples	\$ 13,334	2.8%
Maple Syrup	\$ 1,616	0.3%
All Other	\$ 127,420	27.0%
<b>TOTAL</b>	<b>\$ 472,233</b>	<b>100.0%</b>



14.16% for all agricultural commodities. Maine's is the second largest dairy industry in New England.

**Exhibit II**

<b>Value of Products for Maine Manufactured and Agricultural Goods 1992</b>		
<b>Ranked by Value of Product</b>	<b>Product Value</b>	<b>% of Total</b>
Paper	3,546,651,556	30.60%
Transportation	1,462,102,616	12.62%
Lumber and Wood Products	1,025,875,989	8.85%
Leather	946,270,822	8.17%
Food	869,685,884	7.50%
Electronic Equipment (eg. computers)	647,356,145	5.59%
Textiles	458,809,412	3.96%
<b>Agricultural Products</b>	<b>458,239,000</b>	<b>3.95%</b>
Machinery, including computers	403,226,260	3.48%
Printing	358,462,393	3.09%
Rubber and Plastics	356,536,758	3.08%
Fabricated Metals	280,822,942	2.42%
Chemicals	242,301,286	2.09%
Apparel	143,332,917	1.24%
Stone, Clay, Glass	112,559,498	0.97%
Furniture	95,476,035	0.82%
Miscellaneous	49,875,879	0.43%
Precision Instruments	49,269,276	0.43%
Petroleum and Coal Products	47,216,277	0.41%
Primary Metals	34,509,169	0.30%
<b>Totals</b>	<b>11,588,580,114</b>	<b>100.00%</b>

Sources: Census of Maine Manufacturers; New England Agricultural Statistics Service

Using the state's agricultural output multiplier of 1.657, the total contribution of Maine's dairy industry to the state's economy is \$157.4 million per year. This value probably understates the true impact since the dairy industry may be more capital intensive than some other agricultural enterprises.

**B. Jobs**

**1. The dairy industry**

Current estimates are that Maine has 575 dairy farms with an average of three full time workers per farm (includes both paid and unpaid workers). Total direct dairy farm employment is thus 1,725.

**2. The dairy multiplier**

The indirect employment attributable to the dairy industry consists of those working not only in associated fields (feed milling, veterinary, milk hauling, dairy processing, etc.), but some in the general economy as well.

The dairy farm multiplier for indirect employment is 2.07. With this multiplier, total employment based on Maine's dairy farm industry is estimated at 3,571, with the indirect jobs attributable to the dairy industry being 1,846 (total employment less direct employment, 3,571 - 1,725).

In evaluating the decline of dairy farms in Maine, it is very important to consider this multiplier effect. If, for example, a decline in dairy farm numbers resulted in the closure of one of Maine's milk processing plants, the total related employment impact would go way beyond the loss of dairy farm jobs.

Not only would the loss of dairy farms affect the related industries themselves, but the multiplier of those industries must also be considered. If a large number of dairy farms ceased operation and resulted in the closure of one of Maine's dairy processors, then the direct and indirect job loss would equal the number of employees at the plant times 2.2 (the dairy processor employment multiplier). In 1993 there were 416 employees working in Maine's four fluid milk processing plants and 68 additional employees working in ice cream and frozen yogurt products. Using the average of 104 employees per Maine milk processing plant, if one plant closed, the total job loss would be 229 (the 104 employees times the 2.2 multiplier).

#### C. The importance of the small farm

Maintaining the number of dairy farms, not just the number of cows, is more important to Maine than most states:

1. Dairy farms are an important, and increasingly in some cases, the only contributor to many small town economies and, accordingly, to maintaining a economically viable rural environment.
2. In a state whose economy is so tourist dependent, dairy farms provide essential components of the tourist image of the State.
3. In so heavily forested a state, farms provide one of the few opportunities for open space.
4. The same total number of cows spread out over many farms will result in more jobs than when they are concentrated on a few larger farms.

## II. Findings

The following are the major findings of the Commission:

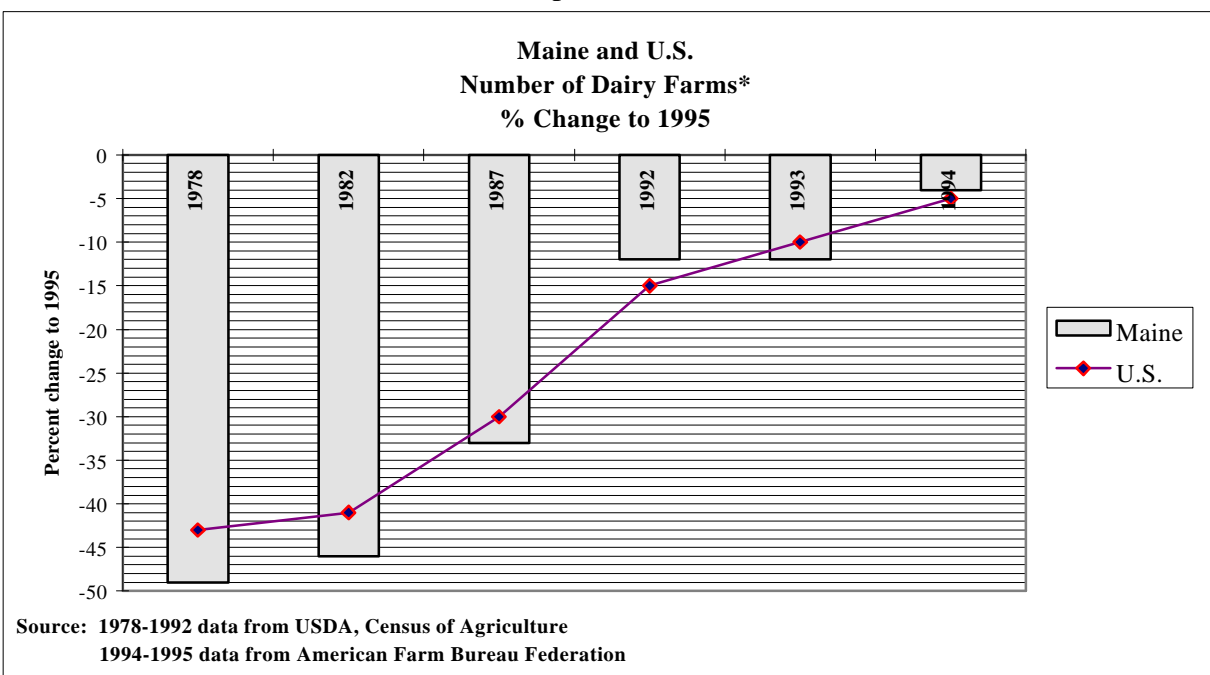
- A. With its Maine Milk Commission, Milk Pool, former Dairy Stabilization Tax, and current agricultural appropriations, Maine has perhaps done more than any other states to maintain the price for fluid milk and pricing records indicate that this has been successful. In 1994, the Maine processor price was 106% of the Northeast and Maine's blend price was 108% of the Northeast.

However, it should be noted that since 1990, the Maine federal order price has dropped from \$17.12 to \$15.60 and the Maine blend price has dropped from \$15.20 to \$14.10. In 1990 the Maine federal order price was 14% more than the Northeast. It is now 6% more. The blend price was 11% more than the Northeast in 1990 and is now 8%.

- B. Even with this price support effort, Maine has not escaped the problems that have plagued the traditional Midwestern and Northeastern dairy regions of the country.
1. Maine has lost 49% or 548 of its dairy farms since 1978 and 33% or 270 since 1987 compared to losses of 43% and 30% for the total United States. Maine's year-to-date loses have exceeded the national average in every year, except 1992 and 1994.

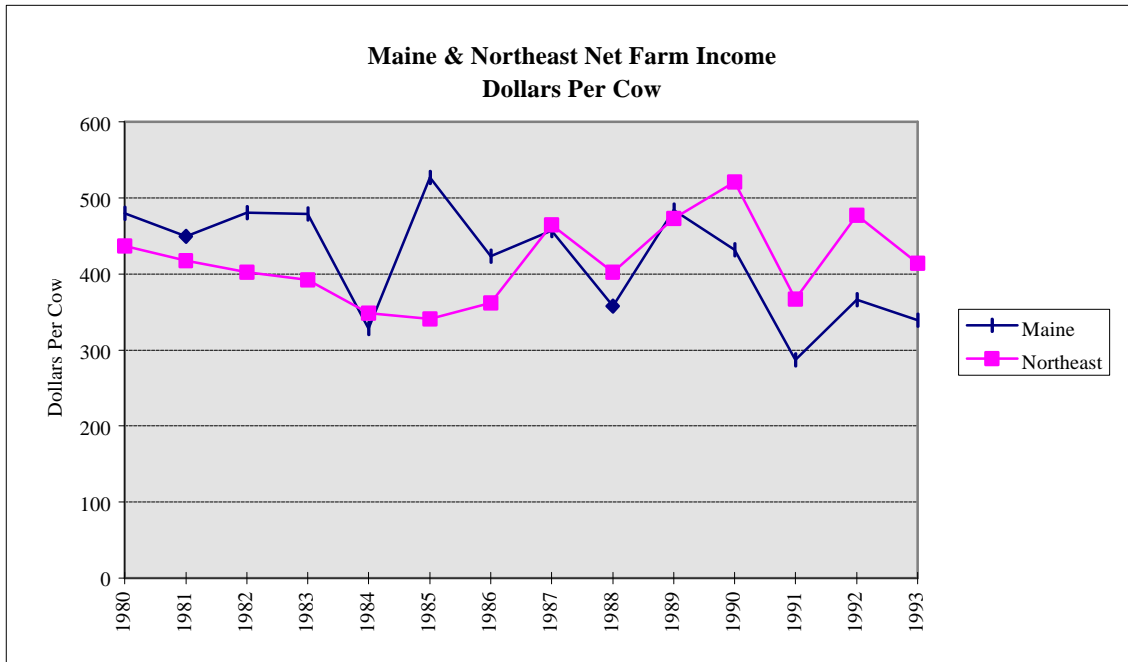
### Exhibit III

2. Maine's net farm income per cow for 1993 was 18% less than the



Northeast and has been at essentially that level since 1989. Prior to 1987, Maine's income actually exceeded the Northeast average.

#### Exhibit IV



Source: USDA Agricultural Statistics Service and Agrifax Benchmarks

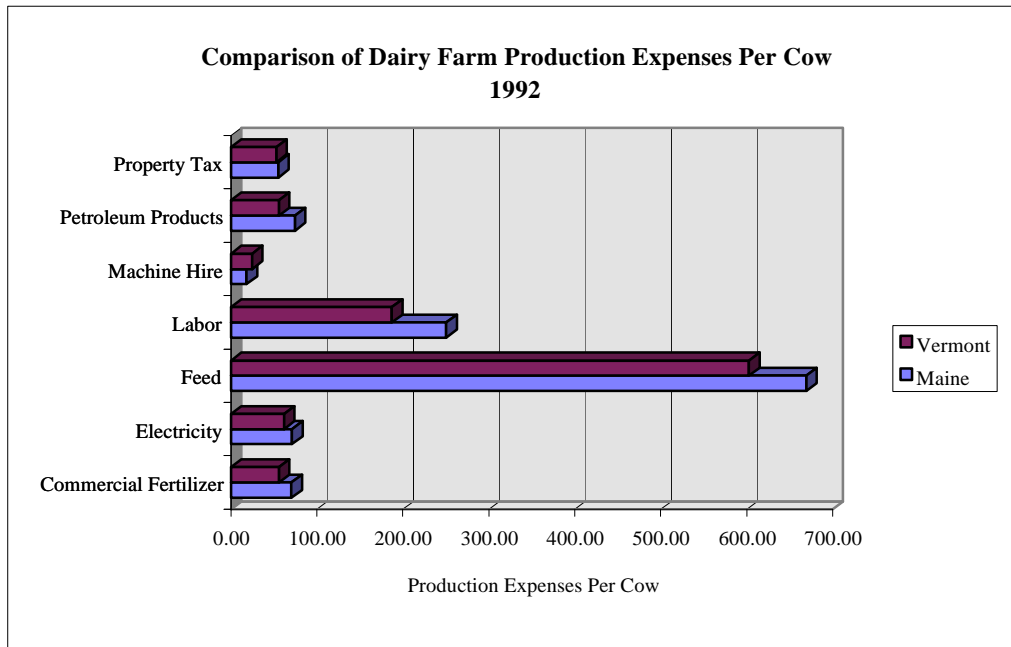
3. Maine's expenses per cow in 1993 were 111% of the Northeast, up from 102% in 1988.
- C. There are certain problems unique to Maine which go a long way toward explaining the fact that the State's dairy industry continues to be troubled even with State's price advantage.
1. Poor forage quality, traditionally attributed to the climate.
  2. The fact that Maine farmers are older than in most dairy states and thus less apt to make capital investments and, perhaps, less recently exposed to the many technical innovations in dairy.
  3. The small size of Maine farms due to the topography of the State.
  4. The fact that for many years use of feed lots was the accepted feeding practice in Maine and thus many farms don't have the land necessary for intensive grazing, which tends to be today's accepted feeding practice.
  5. The geographic isolation of Maine makes feed and fertilizer costs high.

6. The declining size of the dairy industry and State budget restrictions has led to a decline in the number of Extension Service dairy specialists.

D. Industry costs

Two surveys comparing dairy farm costs per cow between Maine and Vermont indicate Maine costs to exceed those of Vermont by 10% in labor, feed, petroleum products, fertilizer and electricity.

**Exhibit V**



Source: USDA, 1992 Census of Agriculture

E. Research and Development support

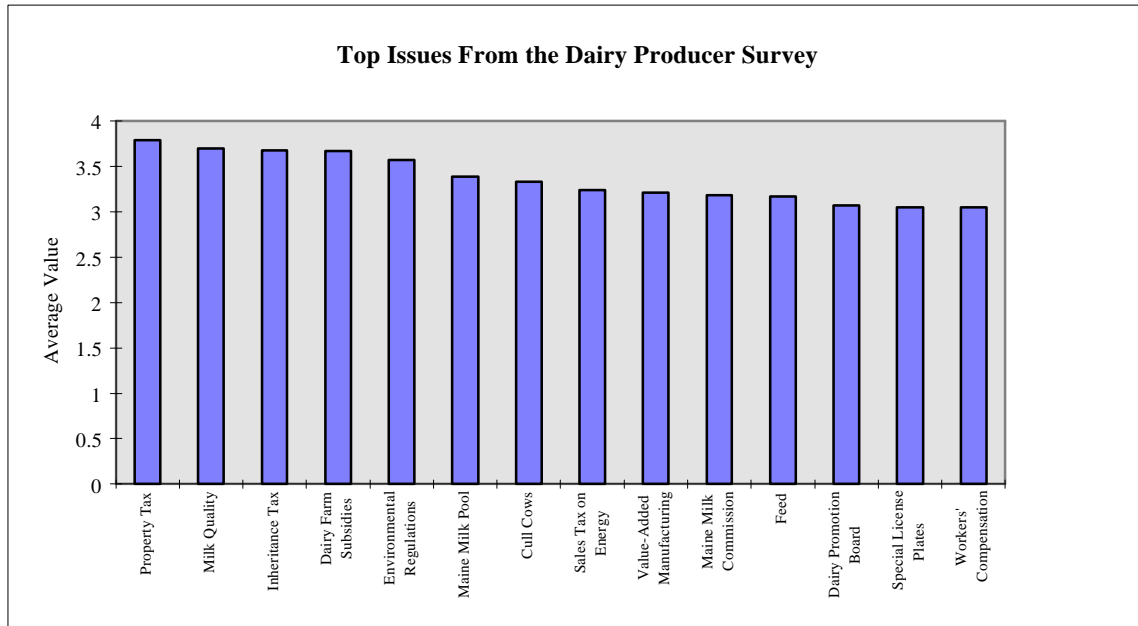
1. Using the 5 major agricultural commodities as a universe, dairy accounts for 29% of all cash receipts but gets only 20% of the State research dollars supplied to the University of Maine Agricultural Extension Service and only 16% of all University Agricultural Experiment Station controlled R & D funds.
2. On a per \$1,000 of sales basis Maine is last in terms of federally financed R & D expenditures compared to other leading dairy states (California, Wisconsin, New York, Pennsylvania and Vermont).

- F. The industry faces uncertainty in price programs at the federal level that could affect the pricing activities of the Maine Milk Commission.

- G. The high 36% response rate by producers to a Commission survey indicates grave concern about the future of the industry.

Below are short statements of the top 14 of the 44 issues that Maine Producers were asked to rate on the Commission survey. (Persons making extensive use of the data should obtain a copy of the actual questionnaire.)

### Exhibit VI



Average value:

- 4=Very Important
- 3=Important
- 2=Not Important
- 1=Statement would hurt dairy industry

### **III. Recommendations**

The following are the major recommendations of the Commission:

#### **A. Property tax (Legislation being submitted)**

Make the following amendments to the Farm and OpenSpace Tax Law:

1. Require that the land owner file income information with the tax assessor every 5 years instead of every year (but report any change of use by the end of the calendar year in which it occurs) and that the assessor be required to recertify the classified land every 5 years instead of every year.
2. Change the penalty for change of use/withdrawal of farmland classified for less than 5 full years from 40% of its assessed market value to the greater of the current constitutional requirement or 20% of its assessed market value.
3. Provide one penalty for farmland classified for 5 full years or more, which would be the taxes that would have been paid on the land for the past 5 years if it had been assessed at just value, less all taxes that were actually paid during those 5 years, plus interest.
4. Permit owners who are withdrawing from the program after 5 full years or more to pay the penalty owed in up to 5 annual installments.

#### **B. Quality of milk (Legislation being submitted)**

1. The Maine Dairy Promotion Board work with the Department of Agriculture, Food and Rural Resources to increase promotion of the Maine Quality Seal and make this increased promotion milk specific.
2. Transfer \$50,000 from the frozen funds generated by the former Maine Dairy Stabilization Tax Program to the Dairy Promotion Board.

#### **C. Pricing**

1. The Legislature continue the dairy farm appropriation.
2. The Legislature establish a sub-floor minimum price for all fluid milk produced in Maine, which will apply to both Maine market and Boston market producers, and which will provide long term assurance that the



price paid to all Maine producers shall be at least \$3.00 above the Basic Formula Price. (Legislation being submitted)

D. Energy costs. (Legislation being submitted)

1. The Department of Agriculture, Food & Rural Resources (Department of Agriculture) work with the electric utilities, the Department of Economic and Community Development (DECD) and the State Planning Office (SPO) on energy issues as they affect dairy farms.
2. Farm producing operations be exempted from the sales tax on electricity.

E. Feeding costs

1. The Agriculture, Conservation and Forestry Committee develop and see to the execution of a plan to work with other Northeast states to divide up and share agricultural research among the Land Grant Colleges in the different states with the goal of encouraging specialization and avoiding duplication. (Legislation being submitted)
2. The “Agriculture Educator” position be moved from the Department of Education to the Department of Agriculture. (Legislation being submitted)
3. A bond issue be used to capitalize a revolving loan fund for dairy programs, modeled after the Potato Marketing Improvement Fund (PMIF); Uses of this fund might be construction of storage facilities for bulk commodities and to provide financial assistance for changing machinery and buildings necessitated by a shift from feed lots to grazing. The Department of Agriculture has indicated a willingness to submit an amendment to LD 1575 “An Act to Authorize a General Fund Bond Issue in the Amount of \$3,000,000 to Agricultural Enterprises in Maine” in order to implement this recommendation.
4. The Department of Agriculture work with DECD and the Agricultural Extension Service, to develop a plan, including a funding proposal, for an educational/business management outreach program to farmers, possibly modeled after and/or utilizing the Service Corps of Retired Executives (SCORE) and Small Business Development Centers (SBDC’s), and possibly utilizing the frozen funds from the former Dairy Stabilization Tax Program. (Legislation being submitted)

F. Dairy promotion

1. The Department of Agriculture and the Maine Dairy Promotion Board more extensively promote the Maine quality seal. (Legislation being submitted).
2. The Maine Milk Commission in reviewing a dairy promotion for its possible effect on the minimum price should balance this against the advantages offered by the promotion. The Commission ought not to deny a promotion unless it affirmatively finds that it is destructive of the minimum price. (Legislation being submitted)
3. The Agriculture, Conservation and Forestry Committee and the full Legislature support the Dairy Promotion Board and the Dairy and Nutrition Council becoming one public instrumentality that would have authority over dairy promotion, including budget responsibility.

G. Trade with Canada

The Department of Agriculture and the Dairy Promotion Board request assistance of the State's Congressional Delegation to see that dairy products are placed under the North American Free Trade Agreement (NAFTA) with Canada. (Legislation being submitted).

