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*Agency of Agriculture Food & Markets*

Accepted Minutes from Milk Commission Meeting

December 12, 2018

Present: Jerry Booth, Linda Berlin, Richard Lawrence, Harold Howrigan, Bobby Starr, Reg Chaput, Paul Doton, Jane Clifford, Anson Tebbetts and Diane Bothfeld

Welcome by Secretary Tebbetts

Laura Ginsburg announcement of the dairy summit – April 1 and 2, 2019 at Jay Peak Resort.  
Dairy Update:

### **Bob Wellington on Prices. Handout #1**

Forecast from November 20 – drastic reduction in cheese prices December and January – predictions may be lower especially first half of year. MPP program impact may be even greater. Prediction about \$1 to 1.30 better than 2018. Still may not be enough.

Cow numbers of national herd declining. Last time herd was shrinking was 2013 to 2014 and 2014 had strong prices. Will it repeat? Attrition increasing – all cows going to beef not to continue milking. May have declining milk production. November numbers not out yet – look to see what national milk production will show. Supply may tighten. May help price but not a good thing for dairy farmers.

Trade – China concerns as well as Mexico and Canada. Still moving product to Mexico. Agri-Mark moving whey permeate product to China but having to pay a portion of the tariff. \$400,000 so far on paying a portion of the tariff. A mess due to uncertainty. China producing less milk than expected – short on product. If no tariff, expect increased purchases. New Zealand had strong production and has products that they can move into the market. Agri-mark feels can regain the market if not out of the market for too long a period. Butter selling well. Cheese inventories storage too high. Impacting prices.

Bright news on the Horizon – new MPP is very good program. Dairy Risk Management. Handout #2. Could provide average dairy farmers around \$24,000 for 2019. Will be a delay to get sign up prepared. Expect will show that program pays for itself. Credit for the money paid in for 2015 program up to 75% applied to the new premium in 2019. Or 50% cash refund if not participating. Recommend participating. One negative – milk coverage is based on higher of 2011- 2013 with a cumulative adjustment. New number of 2018 and adjustments for the life of the Farm Bill – no growth allowed to be covered in the program. Lock in for the life of the Farm Bill get a 25% discount on the premium. Expect passage in the House by end of week and no indication that Trump will veto.

Groups are still pushing on supply management – not derailed with passage of the Farm Bill. The Farm Bill is helpful but does not address the market place issues. Largest farms may not feel as interested in new MPP program. NMPF board voted down a short-term diversion program. Tom Berry (Senator Leahy's Staff) – commitment of large sums of money to MPP. If manage supply and demand so no payout from MPP would be a positive in government \$\$\$.

**Tom Berry** (Senator Leahy's Staff) –other Farm Bill provisions - conservation programs EQIP reauthorized with regional equity should be adequate funding. Conflict for CREP and RAPs have been resolved. RCPP also reauthorized with strong funding. Positive.

**Emily Rampone and Erica Campbell** (Senator Sanders Staff) – thanked farmers that attended their meetings in the past two months. Pleased with Farm Bill at this point. Industrial hemp production and Maple Labeling resolved.

**Ryan McLaren** (Congressman Welch's Staff) – allows for participation in Livestock Gross margin as well as Dairy Risk Program. Also, retroactive if were in LGM in 2018 and not allowed to sign up for MPP. Could get retroactive payments. Hemp will be big.

### **Lenders – Patrick Freeman, Dave Lane and Sarah Isham.**

Three major lenders work closely together to assist farmers. Guarantees, multi-part loans etc. Lending to farmers long term - for good times and bad times. Three lenders have majority of dairy credit. Portfolios are seeing stress and distress this year. Balance sheet side – more debt and assets that have lost value – cattle and machinery. Concerns on land prices – not predicting but wondering if there will be buyer for land if comes on the market. Cows = \$900 would be generous. BEST cows \$1,200 – conventional and organic. Lack of market hard to purchase a new farm. Leverage has changed – net income and cash flow as well as assets side. Income low – repayment ability based on net income. \$1.00/cwt. will be better but for many will not meet cash flow needs. Focus on preserving equity for farmers. Tough conversations with farmers. Calculations are showing inability to make payments – hard conversation about selling out. Knowing the numbers on farms to work with farmers on financial book keeping and financial knowledge – pennies that add up to dollars. Low milk prices drastically impact exit strategies – double impact cash flow and assets. Potential to change the landscape of dairy farming throughout the Northeast. Will have an impact on equity and land prices. Nationally Chapter 12 bankruptcies are up. Expect more in VT. Bankruptcies impact vendors and relationships. Deferred tax liability upon the sale of property – after the sale many farmers do not have money to pay the tax bill. Very few new loans – majority of activity is refinancing from USDA FSA. Also, a labor crisis in VT. On the farm as well as within USDA Farm Services Agency – needs loan officers. Delinquency is below 2% at USDA – expect it to rise.

### **Allied Farm Businesses (Palmer Hunt and Marty Waterman)**

Palmer Hunt and Marty Waterman. Palmer Hunt – dairy supply business. Worst situation he has ever seen - very bad and very sad. Works with farms with 25 to 900 cows in Lamoille and Franklin Counties. Decline in prices since 2014 – many in very bad financial shape. High accounts receivable – counter parts in other parts of the Northeast seeing the same thing. Need a stable milk price that could provide some measure of hope. VT has excellent dairy products! Help needed now. Accounts receivable – vet, grain and supplies huge amount of money on the books. \$1.00/cwt will not be enough.

Marty Waterman – Cargill Feed and Nutrition – one mill in VT – serves a part of NY, VT all the way to Maine. Cargill has put in place many efficiencies and not hiring new people. Negatives – lost key farms to sell outs. Stronger farmers – do not want to lose equity so selling out. No next generation – choose to go out. Exit plans – how to go out. Accounts receivable are very high – may not be able to make local decision. Cargill higherup outside of Vermont may make decisions. Cargill takes out loans to pay for the bulk grain covering the accounts receivable. Infrastructure of agriculture – custom harvesters and manure spreaders – not getting paid so ending their business. Suppliers having a hard time impacts to local communities – allied businesses. Putting off building projects and repairs.

Snowball effect. Safety time out focus on mental health to ask of farmers. Farm First is available.

Concern about summer conditions – is there roughage available for the winter. Limited in some parts of the state.

Impact on the rural economy of Vermont as well as nationally. Discussion of Supply Management – at what point does private industry have a part in supporting supply management? Will need to work together to get the whole industry out of trouble. What can Vermont do for the Vermont farmers? Northeast Dairy Compact brought up by Senator Starr. More loans or a means to raise the prices so repayment can be made. Need to get something done. Wants to regulate price for milk processed in Vermont. Wants Milk Commission to do something.

Concern from last meeting – Mark Stephenson -why has he not been asked for an economic model of the Dairy Price Stabilization Act. Wisconsin is working with Cornell and UW Madison to do the economic modelling – expect will be completed in March.

### **Review of Activities Supply Management Activities Since October 5, 2018**

Reviewed activities that have occurred since the October 5, 2018 Supply Management Working Group meeting.

1. Senator Sanders held two meetings – October 12 and November 16. Erica to provide an update
2. National Milk Producers Federation held it's annual meeting from October 29 – 31
  - a. Board of Directors voted down a proposal for a milk diversion program to remove 2% of milk volume
  - b. Passed a resolution at the meeting to ask President Donald Trump to recognize the significant economic losses milk producers are suffering because of the administration's implementation of Section 232 and 301 tariffs, which have resulted in retaliatory tariffs against U.S. dairy exports, particularly in Mexico and China.
3. Letter from Secretary Tebbetts to Secretary Purdue requesting a milk diversion program to be funded by tariff relief funds. Secretary Purdue has the authority to implement such a program.
4. Letter from specific congressman to Secretary Purdue to look at a voluntary diversion program – spearheaded by Congressman Welch

### **Reviewed work of the Supply Management Working Group.**

The Supply Management Working group determined broad parameters they could support for a supply management program. Those parameters are as follows:

1. Any supply management program must be done at the National level. There are concerns that a regional level would not be enough to moderate volatility in the milk price.
2. Administration of the program would need to include a board with extensive farmer representation.
3. The program could not have barriers to new farmers starting dairy farming operations.
4. A two-tier system is preferred – a set rate on the first-tier volume with a lower price on milk volume produced in the second tier.
5. Federal Government should be involved in the administration of this plan – USDA Farm Services Agency.

Areas of questions and further discussion by the Milk Commission

1. Should a base of milk be established? If so, the following would need to be defined.
  - a. Group does not want base to take on a value.
  - b. When a dairy farm exits the business, what happens to base volume?
2. Would a two-tier program be trade compliant?
3. Would this program be mandatory for all dairy farmers?

Two concerns were expressed by the Supply Management Working Group.

1. Concerns would be raised by consumer advocates that a program on supply management would increase the costs of dairy products hurting income sensitive people and programs.
2. A two-tier program would not enhance overall milk price but would mitigate low and high prices – decreasing volatility.

### **Reviewed outline of the report to the Congressional Delegation and the VT Legislature.**

Outline of Report of the Milk Commission to Congressional Delegation and Vermont Legislature

1. Current National Situation on supply and demand
2. Overview of Vermont's Dairy Industry
3. Work of the Supply Management Group and recommendation from the Milk Commission
4. Other recommendations for the congressional delegation – items that did not get in the Farm Bill
5. Recommendations to the Vermont Legislature
6. Summary and conclusion

Milk Commission recommended that the overview of Vermont Dairy Industry provide a very strong statement of the issue at hand and the other impacts on rural communities.

There was concern that one report would not work for the two different audiences of congressional delegation and Vermont Legislature. Two reports can be written with very similar information but different recommendations. A draft report will be provided in advance to commission members for more detailed discussion at the next meeting.

Potential date in late January for the Milk Commission can meet again to continue work on the recommendations and reports. Senator Starr suggested that the Milk Commission may want to continue meeting through out 2019 to work on other issues.

Public Comment:

Leon Berthiaume – what does Vermont want to be around dairy industry. Following year, dairy industry may fade away and the impact on Rural communities, lenders and vendors. Impact will be felt for many years. Cannot wait for any assistance to come to dairy farmers. Need a pathway forward. Rural economy is the focus. Rural communities and the demise of agriculture and the impact.

Cy Nelson – Excited about Supply Management. Independent producer. Can farm until the equity is gone. Concerns with young kids being interested in farming. Must have a federal mandate for all to take part.

Meeting Adjourned at 12:50 p.m.