



MAINE DAIRY INDUSTRY ASSOCIATION P.O. Box 5013 Augusta, Maine 04332-50

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January 2, 2003

Dear Harold,

It has been a rough year to be a dairy farmer. All across the northeast, we've been dealing with low prices without a regional compact or some other program to soften the impact. The federal Milk Income Loss Control (MILC) Program helps a bit for those who qualify, but not everyone is enrolled. Farmers aren't the only ones who are concerned. Equipment dealers, lenders and insurance agents are all wondering how long Maine dairy farmers are going to be able to last with prices so low.

The Maine Dairy Industry Association has been working on several fronts to try to come up with local remedies to help save the dairy industry in our state. We have come up with two different approaches to protecting farmers from the instability that comes with selling milk below the cost of producing it.

The first thing we've done is ask the Maine Milk Commission (MMC) to review the rule that allows a cost of production adjustment to be included in the minimum producer price which is set by the MMC each month.

Last year the MMC authorized a study to review all the factors that contribute to the cost of making milk in Maine. Twenty-five percent of Maine's dairy farmers responded to a survey that was sent out last January. The information was analyzed and shows that it costs Maine dairy farmers approximately \$16.84/cwt to produce milk in the short run. If you factor in the additional costs of annual depreciation and interest, the cost rises to a long-term price of \$22.79/cwt. The final report recommended that the MMC add on at least \$1.59/cwt to the minimum price to take into account the high cost of production.

The MMC held a hearing on the proposal on December 20, 2002. They heard testimony from MDIA, many dairy farmers, processors and Cooperative Extension. Most of the comments at the hearing supported the findings of the study, while some thought it undervalued some costs. The processors were concerned about how an increase in the minimum price would affect their ability to compete with out of state processors who pay out of state farmers and will not be required to pay the additional cost of production adjustment for the raw milk. The MMC will consider all the information in the study before making a decision, hopefully at their next meeting on January 21, which will impact the February 2003 milk prices.

The second way MDIA is working to help stabilize the Maine dairy industry is by promoting legislation in the first session of the 121st Maine Legislature, scheduled to begin on January 8, 2003. This fall the Board of Directors of MDIA hired an attorney to review the legal feasibility of asking the State Legislature to establish a program that would take the place of the Compact, but just for Maine. After reviewing the history of programs such as the Vendor Fee and the Milk Handling Law, MDIA has drafted legislation to establish a price support program for farmers that would go into effect when the Class 1 price drops below \$17.00/cwt. Farmers would receive a payment of 50% of the difference between the Class 1 price and the \$17.00 floor price from the State. The legislation is being sponsored by Sen. Ken Gagnon of Waterville and is titled, "An Act to Stabilize the Maine Dairy Industry".

Because the State is facing its own financial difficulties, the legislature may look at alternative sources of revenues to meet the state's needs. As part of the effort to solve the state's budget crisis, Rep. Peter Mills has introduced a bill to reinstate the Milk Handling tax that was imposed on milk processors in 1994. The money from this fee will go into the state's general fund, which is used to pay for a broad range of state services. There may be other bills that will be considered, as well.

It will take a strong effort by all Maine dairy farmers to convince the Legislature that the need to help the dairy industry is urgent and important. In 2001, dairy was Maine's #1 agricultural commodity, contributing over \$106

Experts have projected that milk prices are not expected to rise again until at least August 2003.
Dairy was the #1 agricultural commodity in Maine in 2001, providing \$106 million to the state's economy.

...to provide jobs for Maine people and pay local

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2002-03

4 ADMINISTRATIVE AND
6 FINANCIAL SERVICES
8 DEPARTMENT OF
Bureau Of Taxation

8

All other \$10,000

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Provides funding to cover the
initial costs of the Bureau of
Taxation to administer the
Milk Handling Tax.

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Emergency clause. In view of the emergency cited in the preamble, this Act
takes effect when approved.

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SUMMARY

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This bill reinstates the Milk Handling Tax which was in effect in 1995 and 1996
at the rate of 84 cents per quart on all milk handled for retail sale in Maine. The tax is
paid on a monthly basis by the wholesale handler or, if there is none, by the retail
handler. Proceeds of the tax are paid to the State's general fund for general purposes of
state government and are not dedicated to any particular purpose.

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