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**Milk prices rise, but farmers get little benefit**

By MATT WICKENHEISER, Portland Press Herald Writer

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The federal government has hiked a key minimum milk price, in a move that has already begun to cost consumers money. However, Maine's struggling dairy industry is unlikely to see any significant financial benefit.

The base price of top-grade milk jumped 19 percent for September, which translates to an estimated 20 to 30 cents per gallon at the checkout, because supplies have tightened nationwide. The increase was enough to trigger a halt of federal and state subsidies for dairy farmers.

The difference between the price increase and subsidy cut won't make much difference to some of Maine's larger dairies. And some smaller dairies that are dependent on both federal and state subsidies may actually be hurt by the increase in prices.

It is going to help some of the larger farmers who produce too much milk to receive substantial federal subsidies, said Julie-Marie Bickford, executive director of the Maine Dairy Industry Association. "We may see small farms get less; they're losing

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state and federal subsidies as well, which are linked to a price trigger.

"It's sort of a wash."

At the other end of the chain, consumers will feel the pinch at the market.

"What this will do is cause a spike at the retail (end)," said Stan Millay, executive director of the Maine Milk Commission.

Millay said he had already heard from one store, asking if a 35-cent wholesale price increase was correct. He said he wouldn't be surprised at increases of 20 to 30 cents a gallon at the cash registers.

Two apparent beneficiaries are the state and federal governments. For at least a few months, they won't have to pay significant subsidies because the market prices for milk are high enough to trigger their virtual elimination.

"Maybe in some ways the taxpayers win for a short amount of time," said Bickford.

Both the federal program and the state relief program put into place by Gov. John Baldacci this spring are linked to a base price of \$16.94 for 100 pounds of milk.

If the base price for top-grade milk (known as class one) is below \$16.94, some of the difference is made up by the state and federal governments using a percentage-based formula - that's the price trigger. The Northeast Federal Market Order raised the base price to \$16.96 for September, up from \$14.22 in August, Millay said.

The state's relief program was set to run into January, and \$2.4 million was budgeted for the last four months, said Robert W. Spear, Maine's agriculture commissioner. Spear said the state will hardly have to tap into that sum for at least two months, because of the strong market prices. Spear said he thought the state program did the job it was supposed to do.

"The governor's dairy relief program was very effective. It kicked in when the farmers needed help, and it filled the gap until the federal price went back up," said Spear. "It helped save, I feel, a lot of farms."

The federal government raised the class-one milk price based on a formula that pulls in data from a broad range of sources, including the price of cheese, the futures markets, likely dairy demand, information from the Chicago mercantile, and the cost of powdered milk, Millay said.

The convoluted formula, however, boils down to basic supply and demand.



Milk supply is tight, demand is steady or growing, so the base price goes up.

The current tight supply has been caused by a number of factors, said Millay. For example, the discovery of mad cow disease in Canada has prevented some dairy farmers from easily increasing their herd size by buying cows in neighboring provinces, he noted.

So the price is up by almost \$3 per 100 pounds, but that doesn't mean farmers will automatically pocket the extra cash.

That increase is only for class-one milk. Other classes of milk are used for butter, powdered milk and other products. Those prices are lower by as much as half. Dairy farmers are paid based on the blend of where their milk is going - an average of the minimum prices.

"In actuality, farmers aren't going to see a whole lot of difference between what they got last month and what they'll get this month," said Bickford. "The fact that the class one price is up does help farmers in Maine. Farmers won't be getting that amount of money, but it will bring up the blend."

For example, as impressive as the price jump appears on the surface, dairy farmer Harold Larrabee in Knox doesn't figure he'll see much change in his overall revenue. He got the federal subsidy on his first 2.4 million pounds of milk, but no federal money on the subsequent 6.1 million pounds he's produced so far at his Aghalorma farm. He did get state subsidies, though, until September.

So the drop in state subsidy, coupled with the increased average blend prices for his product, means maybe a couple of cents extra in what he makes on 100 pounds of milk, Larrabee said.

"We ain't going to be much better off - we may not be any worse off for a couple of months," said Larrabee. "It isn't like we're getting a big raise and now everything's going to be hunky-dory."

One benefit, he said, is that at least the money he's making comes directly from the marketplace, and not from the confusing set of subsidies he called "a mess."

"It's such a complicated system. In a lot of ways, things that you think would be connected really aren't," said Bickford. "Farmers have been paid low prices for milk in (recent) months, but consumers had stable prices. There is a market disconnect, it's one of the great mysteries of dairy."

Millay said the economists who watch milk sales predicted an increase in price, but not one this high. The same economists are saying prices should be high for a few months, then down in December, Millay said.

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