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The Vermont Legislative Research Shop

Supporting Vermont Agriculture

According to various accounts, the state of Vermont's agriculture sector is facing a near crisis with regards to its future economic viability (Remsen 2007). Agriculture is an important part of the state's economy and historical identity, but the past few years have been marked by poor weather, high production costs, and low market prices. Historically, Vermont dairy farmers have relied on federal dairy subsidies to help get reasonable prices for their product, but with the end of the Northeast Dairy Compact in 2001, these subsidies have been harder to acquire and less helpful. While subsidies (both federal and state) are certainly helpful on the short term, it is clear that something else needs to be done to make farming in Vermont more economically viable.

This report will outline the ways that the federal government is currently supporting dairy farmers through price relief, ways that other states have been attempting to support their agricultural sectors, and additional opportunities to promote agriculture in Vermont. Federal support for dairy farming in the Northeast has gone down in the past few years, but there is still a Milk Income Loss Contract program in place. Other states have been creating a variety of programs to help their farmers upgrade their farms and equipment, and have also been working on the creation of state brands to help boost sales. There are a variety of options for Vermont marketing and branding including emphasizing freshness, family farms and organic farming. Agritourism is another way that the state could increase its revenue from farming while promoting the Vermont agricultural products. This report will focus on dairy farming more so than other types of agriculture due to prevalence of dairy farming in Vermont.

Federal Subsidy Programs

The Federal government has been offering subsidies to dairy farmers since before 1960. They have varied from region to region and state to state. This section will focus mainly on the subsidy program that recently ended as well as the current program in place for farmers.

Northeast Dairy Compact

The Northeast Dairy Compact (NDC) was created by Congress in 1996 and discontinued by Congress in September of 2001. According to University of California Davis researchers Sumner and Balagtas (2003), the NDC raised dairy prices in the Northeast by approximately \$.45/cwt (cwt is hundredweight, the measurement used for fluid milk products) and lowered dairy prices in the rest of the country by \$.02/cwt.

The NDC set a minimum price that farmers would be paid per hundredweight. The price of \$16.94/cwt (the price guaranteed to farmers by the NDC) was determined by a 2/3 vote of the New England delegations to the compact as an acceptable price. Any price below \$16.94/cwt was determined to be too low, and therefore the processor was ordered to make up the difference and pay the compact, which would then distribute the revenue accordingly (Sumner and Balagtas, 2003).

The NDC was eventually discontinued due to protests from legislators from non-North-Eastern states, especially the upper-mid west. The main arguments against the compact were: the NDC unfairly favored northeastern farmers by raising the price of milk for them, the NDC unfairly affected milk consumers by raising the price, the NDC helped large farmers more than small ones, and was generally against principles of free markets. It should also be noted that during the time the NDC was active, 40% of New England Farms failed (Sumner and Balagtas 2003). According to Sumner and Blagtas, the NDC may not have actually helped anyone--their analysis of the NDC found that “non-Compact producer losses exceeded Compact producer gains.” New England farms failed and non-New England farmers suffered.

Milk Income Loss Contract Program

Currently, there is a Milk Income Loss Contract Program (MILC) in place, which gives farmers compensation if milk falls below a certain price. The payment rate per cwt is determined by multiplying 45% times the difference between \$16.94 (same price as NDC) and the Boston Class I price for that month. (Source: Wisconsin Farm Bureau Federation) “For example, The Boston Class I price announced for July 2003 was \$13.02. Therefore 45% of (\$16.94 - \$13.02) is \$1.764. MILC payment rate for July 2003 was \$1.764 per eligible cwt sold.” (Source: University of Florida, IFAS Extension website) This program does not favor any specific region like the NDC. It was created by the 2002 Farm Security and Rural Investment Act and has no set funding level, which means that every year Congress has to renew funding levels from the program. According to the AP it is “especially popular in states with small herds such as VT.” The same article details Senator Patrick Leahy’s fight to get funding in 2005, which was successful, but demonstrates the tenuousness of the funding.

Federal Disaster Relief Monies

Vermont was promised Federal disaster relief funding for the impact that the 2006 weather had on farming in the state, but this money is not currently forthcoming. It is pending in committee in the U.S. Congress.

How Other States Support Dairy

Wisconsin

Wisconsin has created a brand to market their dairy. A product may be labeled “Something Special from Wisconsin” (SSfW) if more than 50% of the product is made using Wisconsin products. SSfW provides a quick and reliable way to identify genuine Wisconsin products and

services at grocery stores, retail outlets, farmers' markets and restaurants throughout the state (Wisconsin Department of Agriculture 2007).



Additionally Wisconsin has developed two programs to provide grants and low interest loans to farmers as incentives to modernize and upgrade farming equipment and methods. Wisconsin gets its funding for dairy programs from both USDA grants and the state legislature. There are no special taxes levied in Wisconsin to help fund these subsidies.

Value-Added Dairy Program: This program uses \$1.5 million in federal grants and matching contributions from “agencies and organizations within Wisconsin's dairy sector” (Wisconsin Department of Agriculture, 2007) to help state dairy farms upgrade their equipment and practices. It gives its money to mostly to two organizations, the Grow Wisconsin Dairy Team, and the Dairy Business Innovation Center. The Grow Wisconsin Dairy Team is a group of people from different state agencies who work together to identify farms in need of funding to improve their equipment, and to help increase the value of Wisconsin dairy through marketing. (<http://www.growwisconsindairy.org/>) The Dairy Business Innovation Center is a non-profit organization has similar goals and tactics, but is not run primarily by members of various state departments (Department of Agriculture, 2007).

Dairy 2020: This program provides grants in blocks of up to \$3000 to help farmers pay for professional services necessary to assist the applicant in the start-up, modernization, or expansion of a Wisconsin dairy farm (e.g. help forming a business plan, etc.). This program is fairly similar in goals and tactics to the programs run by the Department of Agriculture, Trade & Consumer Protection, except it is run and funded through the Wisconsin Department of Commerce. The funding comes from legislative appropriations to the Commerce Department, and participants are expected to match at least 25% of the funds with help from non-state sources (Wisconsin Department of Commerce).

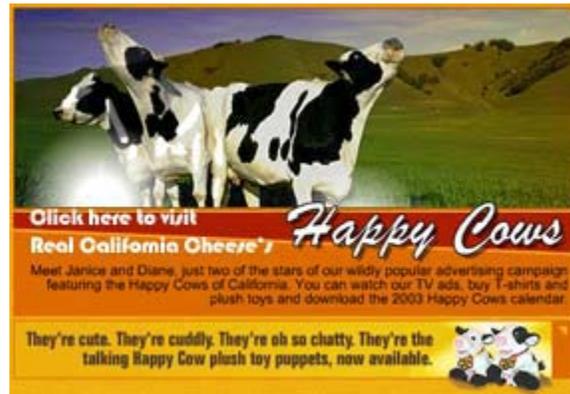
Overall, Wisconsin has a variety of programs designed to help farmers upgrade their farms and market their products. The state has divided the responsibilities and funding of these programs among different departments so as to improve effectiveness and the amount of funding.

California

California has enacted a vast program to improve the branding of its dairy products.

Real California Cheese: The Real California Cheese brand was created in 1984, and attempts to create brand loyalty to California cheese by emphasizing the quality and the treatment of the animals. The most recognizable facet of this program is the national advertising campaign that uses the slogan: “Happy Cows Make Great Cheese”. This campaign has commercials,

billboards, t-shirts, stuffed animals, and a mascot in the form of “Sadie the Happy Cow.” There have been other advertising campaigns in the past, such as the “It’s the Cheese” campaign of the 1990’s (Real California Cheese, 2007) While there are certainly other factors leading to dairy sector growth, the California dairy industry has continued to grow since the advent of the Real California Cheese campaign, which implies some benefits from the campaign. (California Department of Food and Agriculture)



Got Milk?: The “Got Milk?” advertising campaign was created for the State of California in 1993, and has since gone onto national success. This is perhaps the most famous and effective industry ad campaign in history, but has lost its close association to California. The “Got Milk?” campaign does demonstrate that state advertising campaigns can be remarkably effective.

New Jersey

New Jersey has been helping its dairy producers in a variety of ways for a long time. In 1971, the state created the New Jersey Dairy Industry Advisory Council with the New Jersey Agriculture Research, Development and Promotion Act of 1970. The goals of the council are to “administer a program of milk research, development and promotion designed to increase the consumption of milk and dairy products.” The council gets its funding by assessing a 10 cent per hundredweight of milk fee on producers. (New Jersey Department of Agriculture, 2005) In 2004 the state created its own brand to help promote New Jersey milk. There are a few different grades of the brand based on the quality of the milk in question: “Jersey Fresh Milk,” “Jersey Fresh Flavored Milk,” “Made with Premium Jersey Fresh Milk” and “Made with Jersey Fresh Milk.” These grades create a Jersey Fresh brand, while allowing consumers to distinguish between the various qualities. (New Jersey Department of Agriculture, 2006)



Minnesota

Dairy Profitability and Enhancement Team Grants

In 1996 the Minnesota Department of Agriculture created this program with the hope of improving the profitability of Minnesota dairy farms. The program was created by Minnesota Laws 1997, Chapter 216, Section 7, Subdivision 4 which sets up teams to help the various dairy farming regions. The program is funded largely from money allocated by the state legislature, but in 2005, \$913,108 was raised from the industry. (Minnesota Department of Agriculture, 2005) The teams are required to include “business management instructors, dairy extension specialists and dairy industry partners to deliver the information and technological services.” Basically, the program is more of a technical assistance program than what other states have, but it seems to empower farmers by giving them the financial and educational resources that allow them to improve their farms. In 1999 the state sent out questionnaires to all of the participants in the program. Eighty-three participants (10% of the total) responded. Of those responding

- 49.4% saw increased milk production.
- 43.4% reported herd health improvements.
- 39.8% saw communications among farm/family members and with dairy consultants they work with improve.
- 38.6% had a better attitude about the dairy industry and their individual dairy business.
- 34.9% increased milk quality.
- 32.5% developed business plans.
- 22.9% addressed and corrected environmental issues.
- 20.5% addressed labor management issues.
- 20.5% were able to have more time for family/more personal time. (Minnesota Department of Agriculture)

Connecticut

In 2006 Connecticut passed a comprehensive program to support dairy. The Dairy Farm Reinforcement Program is made up of the following components: grants, low interest loans, loan guarantees, energy conservation, and legislation.

Grants: The Connecticut Department of Agriculture will oversee a \$2 million fund that will provide one-time support payment to eligible dairy farmers to offset market cost inequities that result from the federally regulated milk price. The grant will be based on each farm’s production during the first six months of 2006.

Low Interest Loans: The Connecticut Department of Economic and Community Development will provide \$2 million in low-interest loans for energy conservation, machinery and equipment, and farm diversification.

Loan Guarantees: The Connecticut Development Authority is offering \$2 million in loan guarantees to lenders enabling them to provide \$7 million to \$10 million in financing to dairy farmers in need.

Energy Conservation: Through the Connecticut Energy Efficiency Fund (CEEF), Connecticut Light and Power will offer technical assistance and to qualified farms, financial incentives to assist dairy farmers implement energy efficiency and control their consumption. In addition, the municipal electric utilities, through the Connecticut Municipal Electric Energy Cooperative (CMEEC), will offer evaluations for dairy farmers to identify energy saving opportunities.

Legislation: Governor Rell has directed the state’s Milk Regulation Board to develop and propose legislation to be introduced during the next legislative session that will provide for the long-term viability of Connecticut’s dairy farmers. (Connecticut Department of Economic and Community Development website)

Marketing Vermont’s Dairy and Agriculture Industry

This section is posited to address specific strategies used to aid in agricultural profitability. These strategies include: continuing and expanding local food campaigns, promoting agritourism and ecolabeling. Organic farming fits within the broad category of eco-labeling, however since organic farming has been growing rapidly in Vermont (Rogers 2006) and since it has been shown to provide a viable way for Vermont farmers to stay in business (Abelson 2006), it will receive extra attention here.

Promoting Local Foods

A survey conducted by the Center for Rural Studies in the University of Vermont addressed several important factors surrounding the marketing of Vermont agricultural products. The report focused on support for local foods in Vermont.¹ When asked which of four strategies for promoting local Vermont agricultural products would be the best way to encourage people to buy local food, 51% of respondents answered “better advertising and education” about Vermont products. The other three options included make local food more accessible, label products as being local and keep prices competitive (University of Vermont Center for Rural Studies 2006).

“This would suggest that efforts such as the Vermont Agency of Agriculture, Food, and Markets (VAAFMM)’s Buy Local program, which provides Seal of Quality labels, and distributes bumper stickers and other promotional materials, should be continued and expanded. Research results also indicate that with over 50% of respondents basing food purchasing decisions on health concerns, advertisements and educational efforts should highlight the healthy aspects of eating locally” (University of Vermont Center for Rural Studies 2006).

¹ Sample size of 656 Vermont residents.

Agritourism

(This section is from the VLRS report on Agri-tourism from 2006 available on our website: www.uvm.edu/~vlrs)

Agritourism is a growing industry in the United States. It provides opportunities for farmers to increase their incomes and also provides an educational aspect for the public. Certain agritourism businesses are farm stays, bed and breakfasts, direct marketing, and farms visits (Fogarty c. 1996). Agritourism combines agriculture and products with tourism and creates a greater knowledge of local agriculture, greater appreciation of the land and its importance, and creates support for farm businesses (British Columbia Agri-tourism c. 2004).

One-third of all the farms in Vermont received income from agritourism in 2002 (New England Agricultural Statistics Services 2004). The most common source of agritourism income came from on-site sales of commodities that were produced and sold at the farm. Other forms were outdoor recreation, accommodations, education, and entertainment. Festivals on farms provide an opportunity for agricultural sales and promotion. The Vermont Farms Association provides education to the public about agriculture and seeks to maintain and further develop the working landscape. The farm visitors also help to create new direct marketing opportunities for Vermont farmers (Vermont Farms Association 2005).

Labeling and Branding

As cited earlier state branding, such as the Wisconsin's SSfW, California's "Real California Cheese" and New Jersey's "Jersey Fresh" campaigns provide a viable option for promoting Vermont agricultural products. In addition to state labeling, eco-labeling is another way of labeling products in order to increase product sales. Eco-labeling is a way of signifying products that meet environmental and/or social standards. Eco-labeling can serve to promote and educate consumers about locally, sustainable or family farm grown foods (Leopold Center for Sustainable Agriculture and the Iowa State University Business Analysis Laboratory 2003).

A report of market research conducted and prepared by the Leopold Center for Sustainable Agriculture and the Iowa State University Business Analysis Laboratory produced some important results regarding eco-labeling. This report was based off of an Internet-based survey of consumers and food businesses in the states of Illinois, Indiana, Iowa, Kansas, Massachusetts (Boston area), Minnesota, Missouri, Nebraska, Wisconsin, and Washington (Seattle area). The survey found that "freshness was the most important reason selected for buying local foods for consumer respondents across all three geographic regions, with more than 40 percent of Boston- and Seattle-area respondents, and 39 percent of Midwest respondents selecting this option. "Supporting family farmers received the second highest percentage for the Midwest respondents" (Leopold Center and ISU, 2003)." Thus, emphasizing freshness and/or family farms could also be productive in labeling. The survey also revealed that roughly 25% of respondents were willing to pay 5-15% more for local products. This report shows that eco-labeling presents an opportunity for Vermont agricultural products to be more appealing to consumers. Gaining a certified organic label on agricultural products has also been shown to be very productive for Vermont farmers.

Vermont has two labels that clarify that a product is organic and from Vermont (Northeast Organic Farming Association VT)



Organic Farming

Vermont farmers are already utilizing eco-labeling by going organic. Organic farming has been beneficial for Vermont farmers, dairy farmers in particular. An article in the December 2006 issue of *Agriview* (a publication of the Vermont Agency of Agriculture) pointed out a rise in organic farming and predicted that by the end of 2007 approximately 15% of Vermont will be organic (Rogers 2006). Ten percent of the state's 1,200 dairy farms are presently organic; this number is expected to double by the end of 2007" (Abelson 2006).

An article that appeared in the *Boston Globe* in June of 2006 emphasized the benefits Vermont farmers are eligible for by going organic. This article reported growing demand for organic milk, a demand that is reported to have consistently surpassed the supply of organic dairy products. "Supermarkets can't keep shelves stocked, and Stonyfield Farm, the New Hampshire yogurt maker, has discontinued organic smoothies and certain yogurts because it can't find enough organic milk (Abelson, 2006)." As a result dairy farmers are being offered benefits from companies who are seeking higher organic milk supplies. "To boost supply, dairy companies are offering bonuses, free grain, and veterinary care, among other perks, to farmers who agree to convert their herds." ... "Last week, Organic Valley, a national organic dairy co-op that receives 11 percent of its milk supply from New England, earmarked an additional \$2 million to help more farmers make the transition."... "For organic milk, US sales jumped to \$1.075 billion in 2005, 25 percent over the previous year, according to the Organic Trade Association in Greenfield, Mass" (Abelson, 2006).

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Disclaimer: This report has been prepared by undergraduate students at the University of Vermont under the supervision of Professor Anthony Gierzynski. The material contained in the reports does not reflect the official policy of the University of Vermont.