

Testimony of Rigoberto Lopez
Professor and Head
Dept. of Agricultural and Resource Economics
University of Connecticut

Re: P.A. 08-164

February 18, 2009

Thank you for the opportunity to present testimony on the Connecticut dairy Industry.

I am Rigoberto Lopez, Professor and Department Head of Agricultural and Resource Economics at UCONN.

I am also the principal investigator of a project assessing the economic impact of the Connecticut dairy industry completed in December 2008, conducted under a contract from the Dept. of Economic and Community Development and in collaboration with DECD and the Department of Agriculture.

My testimony today is intended to explain two things: the scope of the dairy industry in Connecticut and its importance in the Connecticut economy.

For the purpose of this testimony, the dairy industry consists of all firms directly engaged in either dairy farming and/or processing.

The dairy industry is an important contributor to the Connecticut economy.

Currently, dairy farming in Connecticut involves
210 farms
located in 75 towns
with sales of \$76 million in 2007 that
generated additional sales, jobs and personal income
discussed later in this presentation.

Dairy farming in the state supports a network of suppliers.

Among them are

Feed suppliers such as the Central Connecticut Coop Farmers Association in Manchester

Farm equipment suppliers and services such as Grunders' Farm Machinery in Torrington

Veterinary services such as the nationally-recognized Connecticut Veterinary Medical Diagnostic Lab at UCONN

and Financial services from organizations like First Pioneer Credit in Enfield.

And of course dairy farming also supports an economically significant sub-sector of the dairy industry,
dairy processing

that is, the manufacture of dairy products such as cheese, yogurt, ice cream and other dairy desserts which I will address in a moment.

But first, note that a unique and important dimension of dairy farming per se is that it provides valuable non-marketable green benefits and environmental amenities to Connecticut residents.

For example,

Land in dairy farms accounts for approximately 72,000 acres -

20% of Connecticut's farm-land
or 42% of total cropland.

This is land preserved as open space

Thus, this sector is a major land steward in the state.

Moreover, local milk production

contributes to food security through local food production while cutting the carbon footprint.

However, as Figures 1 and 2 show, land in farms, the number of dairy farms and milk production in the state keep dropping.

Note that

the NE Dairy Compact, which helped to maintain milk prices paid to dairy farmers, was in effect from July 1997 through September 2001, as shown by the shaded area. It appears that the Compact resulted in a period of relative stability in dairy farming in the late 1990s.

Turning now to the state of Dairy Processing:

Dairy processing is a key economic activity in Connecticut's economy accounting for approximately \$500 million in 2007 with firms dispersed throughout the state.

Fluid milk manufacturing had sales of \$126 million in 2007

by companies like Guida's in New Britain and the Farmer's Cow in the Northeastern corner of the state

but cheese and yogurt manufacturing leads the processed dairy sector

with sales of \$229 million in 2007

and include some prominent regional and national companies

such as YoFarm in Naugatuck, the fifth largest yogurt manufacturer in the country, and Calabro Cheese in New Haven.

Ice cream and frozen desserts, with sales of \$141 million in 2007, are made by companies like

Royal Ice Cream in Manchester and Carvel Ice Cream in New Britain.

These companies are increasingly relying on milk imported from other states.

In addition, the processing sector has a network of suppliers, including:

plant equipment manufacturers such as Servrite International in New Preston and services needed to support manufacturing including

refrigeration, electricity, real estate, transportation, packing materials, legal advice, information technology, among others.

Thus, when the farming or dairy processing sector decline, the impact is felt throughout the network of suppliers and the economy by industries directly and indirectly related to the dairy industry.

As figure 3 shows, the production of cheese, butter and ice cream products got a boost when the Northeast Dairy Compact was in effect and the volume of processed has been modestly been declining ever since.

Finally, in order to understand the industry, one way to summarize what happens along the vertical market channel is to examine the price paid by the consumer vs. the price received by farmers. In figure 4, we show that farmers always received under \$2/gallon in the August 2007-December 2008 period while intermediaries received the difference between the consumer and the farm price, and that has always remained about \$2.5/gallon in this period. Since then, farm prices have declined but it appears that the intermediary margin has remained stable.

I will turn now to the analysis of statewide Economic Impacts.

In our analysis of the state of the dairy industry, we employed three input-output models commonly used in economic impact studies:

RIMS II, IMPLAN and REMI.

These models use as input the direct sales from dairy farming

and from processed milk, cheese, yogurt and ice cream manufacturing in the state

and, taking into account the additional effect on suppliers and interrelated industries, we arrive at the total impact on statewide sales, personal income and jobs.

The economic importance of the dairy industry is far greater than that of dairy farming alone.

1. Starting with \$76 million in direct sales from dairy farming
2. and adding \$496 million in direct sales from processed dairy product, the dairy industry obtained direct sales of \$573 million in 2007.
3. Adding additional sales generated through suppliers and related industries, the statewide sales are estimated between \$832 million and \$1.1 billion dollars from the three models considered.
4. On top of this, it is estimated that the industry generates approximately 4000 jobs statewide and \$175 in additional personal income.
5. Additional non-market benefits from open space from land in dairy are valued at \$55 million per year, for which farmers are not compensated but nonetheless these benefits are captured by Connecticut residents as non-pecuniary benefits.

In conclusion,

The Connecticut farming sector is both economically important and a major steward of open space in the state, providing important open space and other green benefits beyond the obvious market benefits from sales.

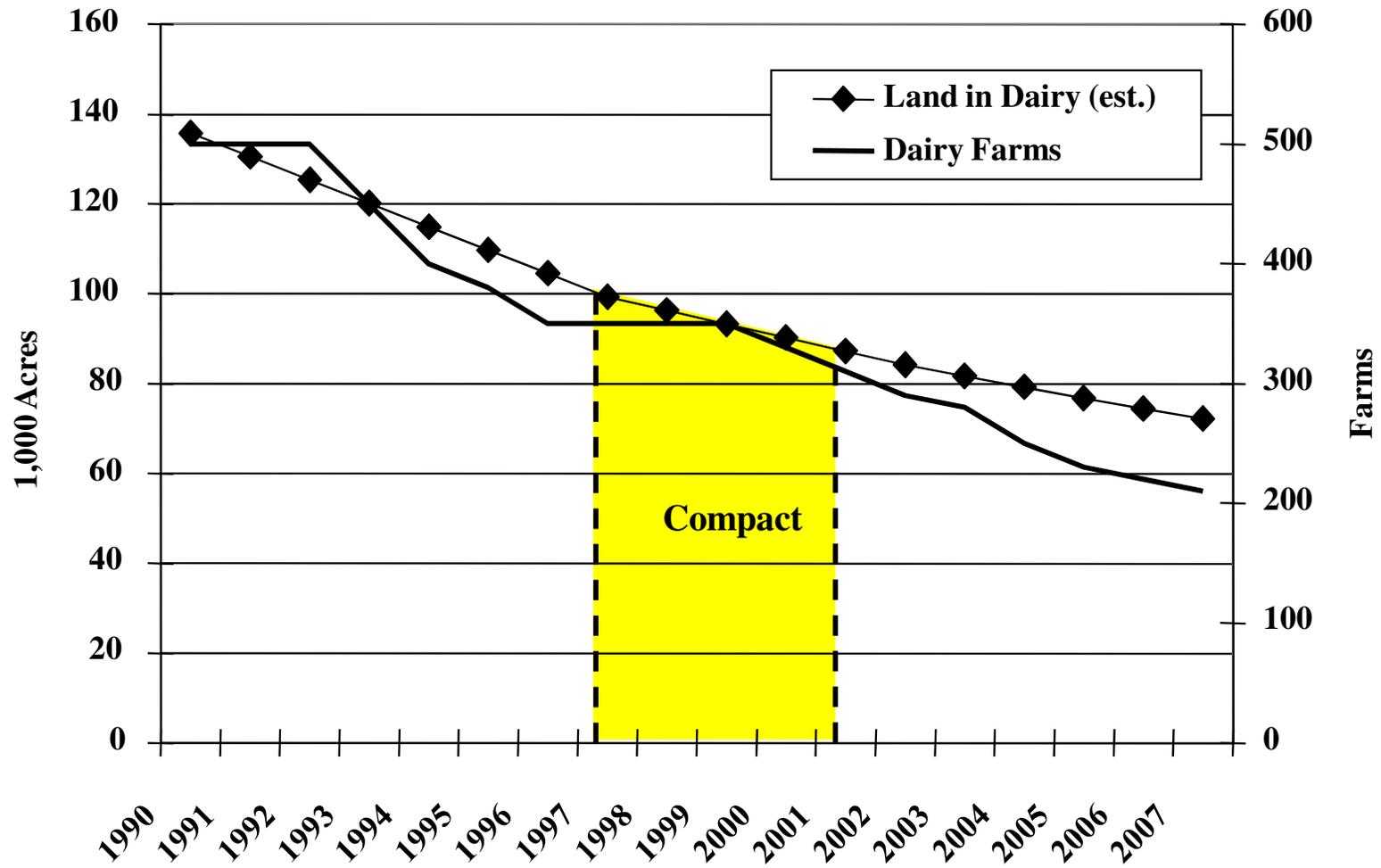
The Connecticut dairy industry is a vital sector of the Connecticut economy contributing nearly \$1 billion in statewide sales and 4000 jobs directly and through suppliers and interrelated sectors in the state.

The decline in the dairy farm sector should be of concern, not just because of its economic impact, but also because of the impact on food security, the state's green economy, and the co-dependent dairy processing sector.

As this sector declines, we all lose.

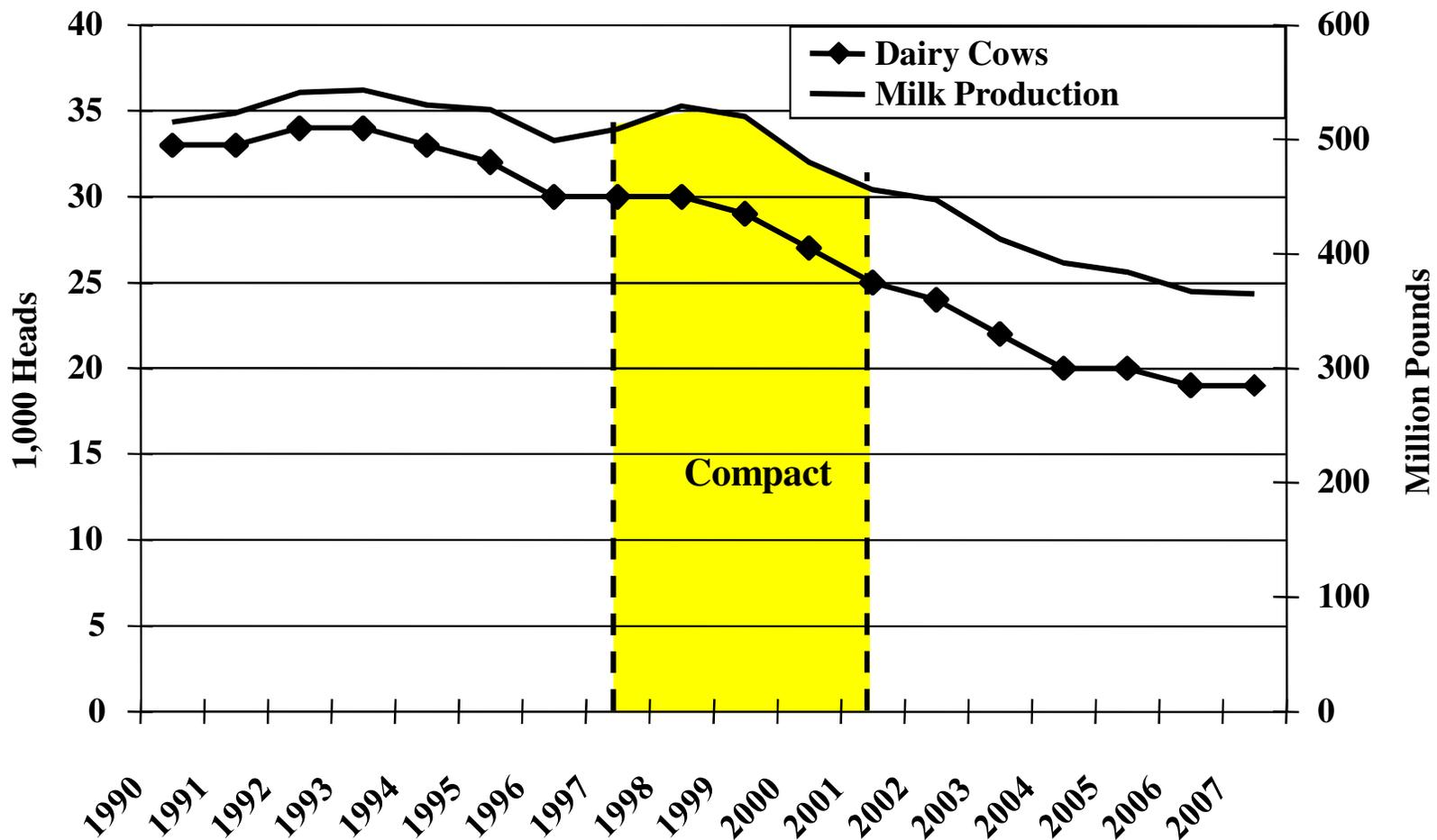
If you would like me to further elaborate on the figures and graphs, I would be happy to do so. Thank you for your attention.

Figure 1. Land in Dairy vs. Dairy Farms in Connecticut, 1990-2007



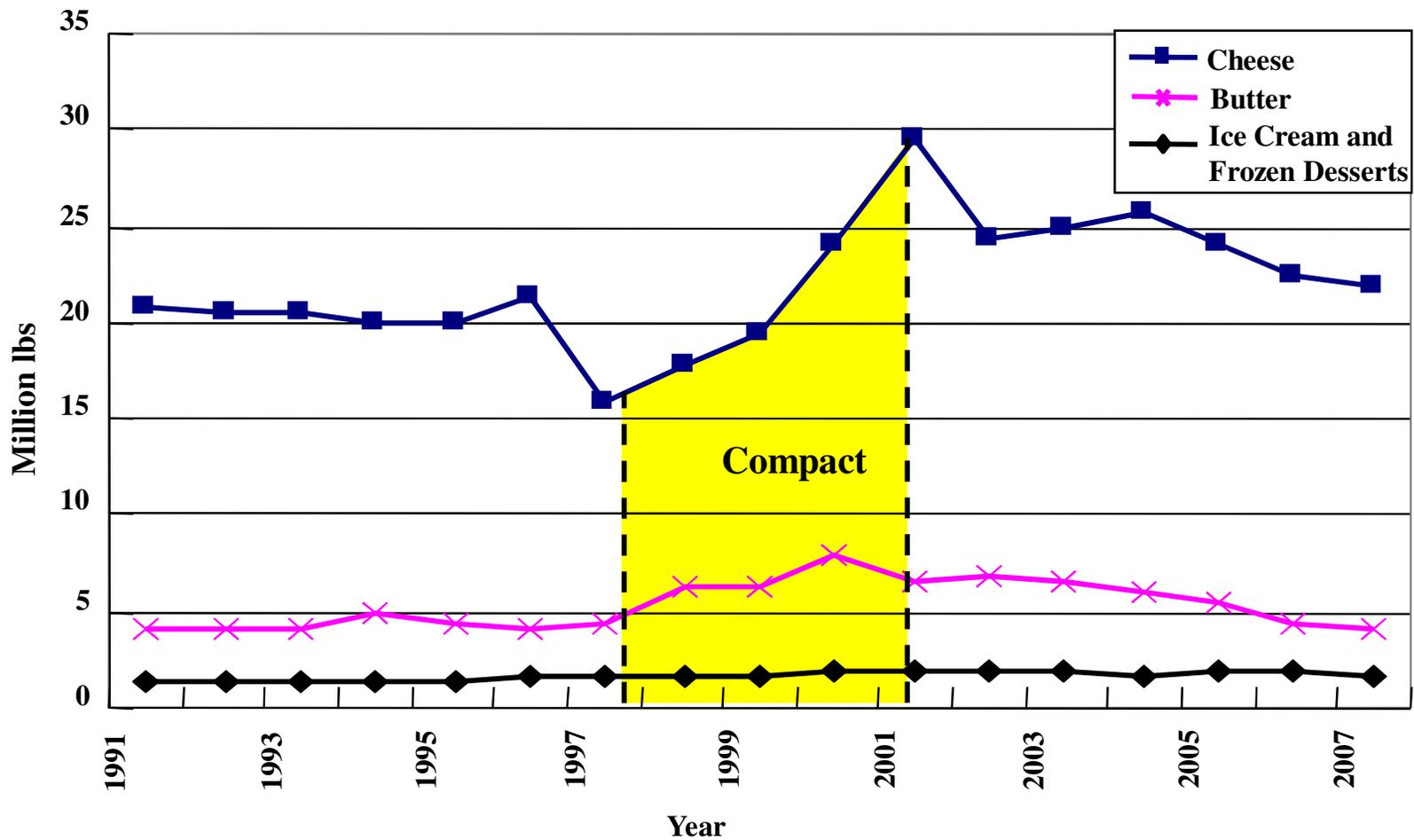
Source: USDA NASS, Connecticut Dairy Statistics, 1990-2007

Figure 2. Dairy Cows vs. Milk Production, Connecticut, 1990-2007



Source: USDA NASS, Connecticut Dairy Statistics, 1990-2007

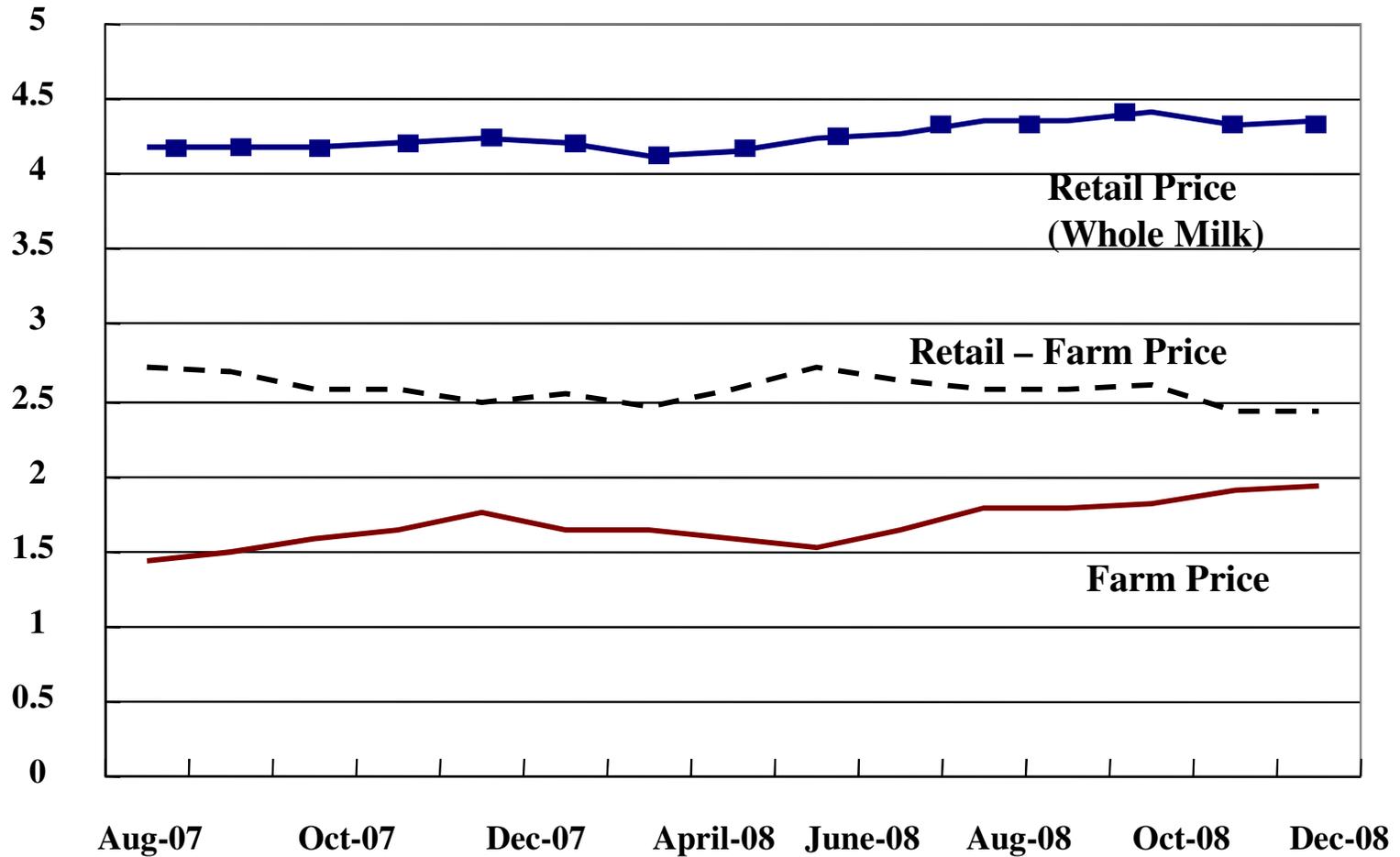
Figure 3. Connecticut Production of Cheese, Butter, and Ice Cream, 1991-2007



Source: Connecticut Department of Agriculture, 2007-2008

Figure 4. Connecticut Retail and Farm Milk Prices, 2007-2008

\$/Gallon



Source: Connecticut Department of Agriculture, 2007-2008