

STATEMENT ON SOUTHEAST FEDERAL ORDER HEARING  
Proposed Changes to The Transportation Credit Balancing Fund  
Robert Klingenfus

January 10, 2006

Producers in Federal Milk Order 5 & 7 are unable to supply all of total milk needs of our market, The cost of transporting in the additional milk needed to fully supply the market must be paid by someone. These transportation costs can be paid by consumers, the outside suppliers of the milk, lower processor margins (profit), and tighter margins from marketers or lower milk prices to producers. The fact that producers, cow numbers, and pounds of milk produced in the Southeast is rapidly declining, suggest that order 5 & 7 producers cannot continue to bare these transportation cost. It is apparent that the present supply program is failing by asking the producers in a deficit market to pay the cost of transporting milk from surplus markets. The proposal to increase the Transportation Credits and establish a new Transportation Credit Fund will surely accelerate the process of pressuring our fellow Southeast producers out of business.

At issue are three separate proposals:

**Proposal 1** if approved would increase payments from processors to the Transportation Credit Balancing Fund from \$0.095 to \$.20 on Class I producer milk. Producers outside our market have been able to send or pool only five days of production into our market, in order to qualify all of their monthly production at our order price. The proposed increase in the transportation assessment encourages an excess of milk to be qualified in our order which further erodes our class I market and uniform blend price. The qualifying of outside milk at times has become so rampant many producers question if we have the plant capacity to process all milk that is being pooled in our order. If we don't have the plant capacity to process all the milk that comes into our market what is going on? Are we really servicing our market by lowering producer prices with milk we can't even process? Is someone abusing the intent of our federal order system or is management in supplying the market a problem? Whatever the situation, the Southeast producers should not have to share in the cost of transporting our competitors' milk.

**Proposal 2** seeks to establish a Transportation Credit Balancing Fund on intra-market movements of milk within the Appalachian and Southeast marketing areas. This proposal if approved would add an additional \$0.10 per hundredweight on producer Class I milk over and above the \$0.20 transportation assessment in proposal 1. The proposal further states: "If an insufficient balance exists to pay all of the credits computed pursuant to this section, the market administrator shall first reduce the producer-settlement fund by the lesser of the number of dollars necessary to pay the credits..." This proposal will have a direct negative impact on the Federal Orders' 5 & 7 uniform blend prices. We are adamantly opposed to this proposal.

Also of concern is the effect the intra-market assessment may have on any new fluid processor or marketing agency. Under this proposal it appears a potential new processor or marketing agency will be assessed the additional hundredweight transportation assessments even if they have 100% of their milk supply secured with local producers. In

Date 1/10/06 Exhibit # 20  
Case US Dept of Agriculture  
Deponent  
Reporter Daniel Carpenter CRS File # 8916  
Court Reporting Services, Inc.  
888.430.1521 FAX 502.899.7976

STATEMENT ON SOUTHEAST FEDERAL ORDER HEARING  
Proposed Changes to The Transportation Credit Balancing Fund  
Robert Klingenfus

January 10, 2006

this event the added assessment could possibly be used to deter competition from other processors or marketing agencies seeking to enter our market. At the same time does it allow a new processor or marketing agency without a local supply access to the transportation credits to subsidize transporting milk they can locate anywhere in the order? Could the intra market assessment possibly be used to exploit intra market location differentials? None of these situations seems to make the market more efficient for producers or consumers in the long run.

**Proposal 3** seeks to calculate the mileage rate factor using a fuel cost adjustor based on the price per gallon as reported by the energy Information Administration of the U.S Dept. of Energy. This will be based on the Lower Gulf Coast Districts combined. Although we would support the utilization of an outside entity to set diesel fuel prices to minimize manipulation, we **firmly** oppose the implementation of proposal 1 & 2.

We believe processors are currently paying in the neighborhood of \$1.80/cwt in over order premiums for our class I milk. Such high over order premiums seem to suggest some adjustment needs to be made in the method of calculating the blend price. Many producers want an accounting of how the \$1.80 over order premiums is being distributed. Most of us assume, this is returned as quality premiums and volume premiums with the remainder used to transport milk in to balance milk supplies. While we may not be entitled to all of this information, I believe we are entitled to learn the true cost of transporting all this milk if we are expected to share in its transportation cost. In the event these amendments are approved a detailed accounting of any and all milk movements and its associated cost should be available to the market administrator and others.

None of these proposals will bring more money into the market place for producers, handlers or processors. The attempt appears to shift the burden of transportation cost. The logic of possibly reducing the blend price in an already deficit market escapes me. I believe a better approach would be to determine the true cost of transporting milk into and within our market, and then investigate the merits of adjusting the location differentials accordingly. This could allow the increased blend price to cover the cost of transporting milk into our order instead of using transportation credits. Intra order producers would have an incentive to expand production with a higher blend price guarantee. At the same time standards for qualifying milk would likely need to be reviewed for this to work. I do not understand the full ramifications of changing location differentials but it should be investigated as an option to the above proposals.

Robert L. Klingenfus  
Producer 093-027

Eddie Klingenfus  
Producer

Kalmer Dairy Farm  
John E. & John C. Kalmer