



Another negative of Proposal No. 1 is the lack of safeguards on the amount of milk that can be attached to the marketing areas due to the higher transportation credits. Based on **information** provided by the Southeast Market Administrator's office, the average per hundredweight payment was \$1.08 **cwt.** during October 2005. With the potential near doubling of the transportation credit balancing fund assessment, there could be a near double increase in the transportation credit paid on the same volume of milk that qualified for the credit in October 2005 or more likely there will be a near doubling of milk that is brought into the marketing areas just to qualify for the transportation credit. While the additional milk pooled will unnecessarily lower the price for producers in the marketing area, initially the transportation credit makes the out of area **milk** cheaper than the in area milk. The lower price which will force some producers out of business, which will increase the need for additional milk supplies **from** outside of the **marketing** areas.

Proposal No. 1 should be rejected and the subject of covering the milk needs of the Appalachian and Southeast marketing areas should be dealt with in a hearing on Class I differentials, diversions, and touch base provisions that would benefit all dairy producers serving the market **areas**, not just a select few. By including all costs of all producers serving the **market** areas in a hearing on Class I differentials, diversions, and touch base provisions it will provide opportunity to accountability to the market and **return** integrity to the Federal Order system in the eyes of the local dairy producers.

Proposal No. 2 is similar to No. 1 in the fact that apparently the differentials are not adequate to generate the cost of providing milk to Plants within the marketing areas.

Proposal No. 2 should be rejected and dealt with by holding a hearing on the appropriate **differential** levels in the marketing areas. Another large problem with Proposal No. 2 is that if an **insufficient** balance exists to pay all of the credits then the producer-settlement fund will be raided to cover the difference. This is the same funding **mechanism** that was attempted when transportation credits were first discussed in 1996. That funding mechanism was rejected then and it should be rejected now.

Both proposals really should, and could, be handled by more effective negotiation by those supplying the market. A much more effective and **efficient** way of doing business **than** having the Agricultural Market Service (AMS) of the United States Department of Agriculture (USDA) dictate the compensation to suppliers of certain market areas.

Proposal No. 3 has some merit, if you are going to use the AMS to dictate compensation of serving the marketing areas. The ability to change the mileage rate factor in the face of volatile energy markets is much superior to having a static factor that might be too low sometimes and too high other times. As with the first two proposals, this is a **function** best left to the open market and should not be a function of the Market Administrator. Given the fact that transportation credits will probably continue to be a part of the Appalachian and Southeast marketing **areas**, some adjustment factor should be included in the order language. The amount should be determined by transportation specialists,

either governmental or private, and not those in the dairy industry that have a vested interest in the mileage rate factor.

Proposal's No. 4 and No. 5 both have merit in the fact that they try to put safeguards in place to protect the dairy producer in the marketing areas in question by limiting the amount of money that leaves the marketing areas and should be implemented in some fashion. For local dairy producers in the marketing areas, the movement of revenue out of the **marketing** areas cuts into profitability. This leads to a reduction in supplies and dairy producers exiting the business, which in **turn** requires more milk **from** out of the area **and** the need for more money to leave the area. Any attempt to limit the needless pooling of milk on the marketing areas, as Proposal No. 4 tries, due to **an** incentive created by the transportation credits needs to be implemented. Proposal No. 5's attempt to keep local milk from moving out of the area to make room for out of area milk that is only brought to **the** marketing area due to the incentive provided by transportation credits should also be implemented.