

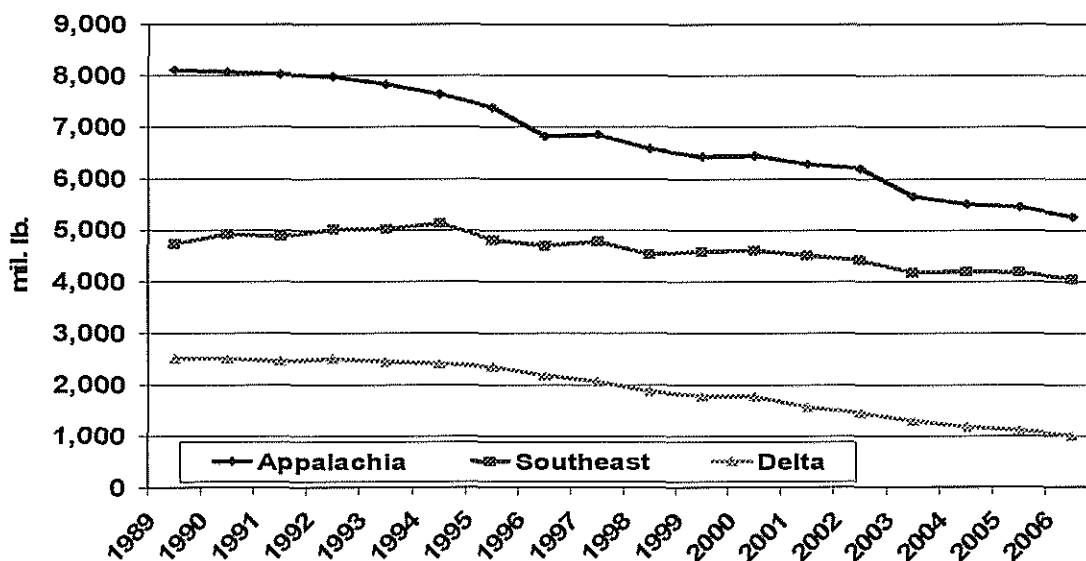
**Testimony of Roger Jefferson  
May 22, 2007, Tampa, Florida**

My name is Roger Jefferson and I am the owner and operator of Mountain View Farms of Virginia, LLC in Chatham, Virginia, and we produce over five million pounds monthly. I am the President of Cobblestone Milk Cooperative, Inc., a cooperative that was formed in January of this year. Cobblestone's membership is comprised mostly of large volume, quality-conscious shippers that implement the newest in farm technologies. My milk and the Cobblestone milk is marketed in the Southeast and Florida markets and pooled on Federal Orders 7 and 6. I am testifying today on behalf of Cobblestone Milk Producers, Inc. and Mountain View Farms of Virginia.

I support the proposal submitted by DCMA to change the Class I differentials in orders 5, 6 and 7 and modify some of the pooling rules but I would like to see some modifications to the proposal.

The Supply and demand situation in the southeast region covered by the three Federal orders is at a critical point. Milk production has declined throughout the region to the point that our market can no longer serve the demands of its consumers in the region. Based on data from the National Agricultural Statistics Service (NASS), milk production in the southeast states has declined by an average of 122 million pounds, or 3.6 % annually since 2000. Similarly, milk production in the Appalachian states has declined by an average of 143 million pounds or 3.0 % annually since 2000.

**Fig. 1 Southern U.S. Milk Production, 1989-2006**



Source: NASS, USDA. "Milk Production, Disposition and Income." Appalachia = KY, NC, TN, VA, WVA. Southeast = AL, GA, FL, SC. Delta = AR, LA, MS.  
Graph prepared by G. A. Benson, NC State University

**EXHIBIT**

22

Going back to 1998 through 2005, the production trend is shown more clearly. Southeast production has decline 6.5% while national production has increased 1.2% since 2000. This is a spread of almost 8%.

As we know, farms located in the Southeast have unique challenges that farms located in other areas do not face. We have the highest production costs due to heat stress, which causes a large swing in production, and land prices. Significant periods of low producer pay prices have lead to rapidly declining production that is not being replaced by new farms or expansion on existing farms. Simultaneously, population in the southeast is at record levels and the projections by the Census Bureau are shocking. Florida's population is projected to increase by 79.5% from 2000 to 2030, and move ahead of New York State to become the third most populous state. Georgia population is projected to grow by 46.8% during the same period and become the eighth most populous state.

*Relationships among milk sheds, production centers, and population concentrations have changed rapidly and significantly over the past 15 years. The popular and current solution to reconciling production, processing centers, and consumption within the southeast is to import fluid milk from distant sources to cover the supply shortage. This solution is shortsighted. The result of this action only exaggerates the long-run supply and demand problem in the southeast. Higher revenue generated by milk sold to a primarily class I market, is spread over producers in 15 states to producers with dissimilar production costs. Producers in the southeast markets ultimately end up sharing the costs to import the milk into the southeast, sharing the cost to find homes for the milk the remaining months, and sharing the revenue pool. While this is all acceptable and equal in theory, it has been taken to a new level that is no longer equitable. The local producers have been forced out of the business because they cannot compete with farms that have lower production costs and receive transportation and financial subsidies at the expense of the southeast producers. Local milk does not have the value that I believe it should have. Local milk should be priced at the same value of outside milk that is imported plus delivery cost.*

We urge the Department to take a long-term approach in addressing the supply-demand problem in the southeast. As operators of large farms, we must make long-term financial investments in our operations to address the challenges in the southeast and we expect that the Department would take the same long-term approach.

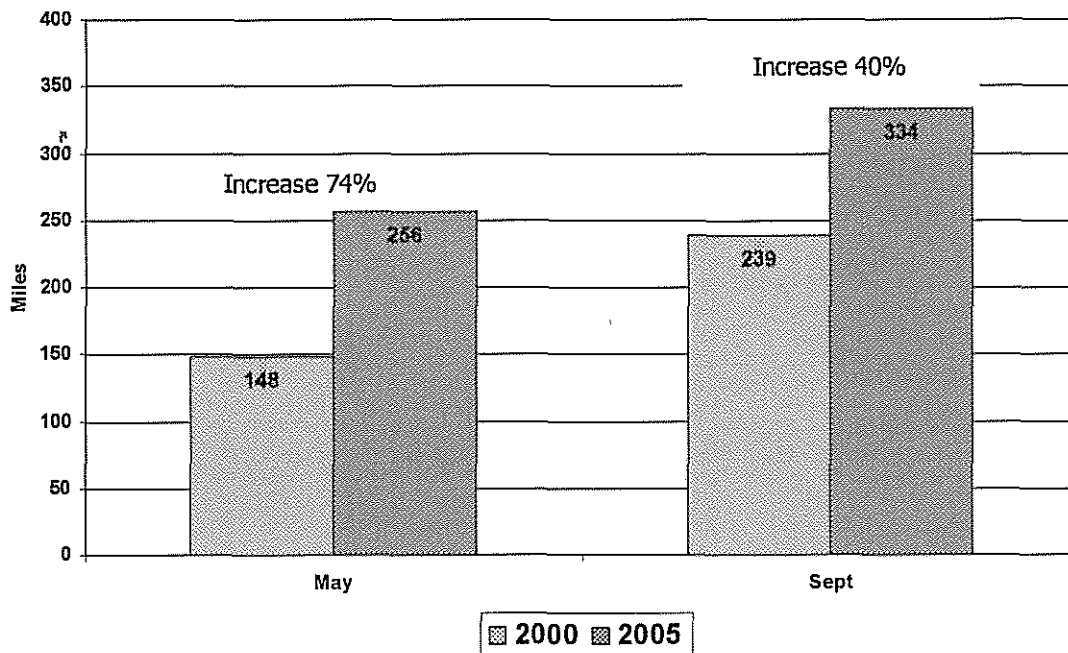
While we support the changes in the Class I pricing surface, we do not believe that the projected increase in producer pay price is enough to affect or reverse the production trends. Federal Order 5 is projected to receive an additional \$0.28 per cwt. in the uniform price. The pay price to the producer

is comprised of two significant pieces 1) uniform price and 2) over-order premiums. DCMA sets the over-order premiums charged to the processing plants and uses a counter-cyclical pricing method that lowers the premium when the uniform price is expected to increase and increases the premium when the uniform price decreases. When the Class I pricing surface is modified, we are not guaranteed to see any increase to the producer pay price. The class I premium may be adjusted, in the manner in which plants are accustomed to experiencing, to compensate for a higher uniform price, leaving the producers with a net of zero price increase in Order 5. While Orders 6 and 7 have higher projections, the net impact may be much less than anticipated or projected by the Department. If the desired result is to increase the net price to the producers to stimulate production, let us ensure that the regulated change that we are making will accomplish this goal. The USDA cannot regulate over-order premiums but the impact on the premiums must be considered when discussing net pay prices to dairy farmers.

Although some interested parties are concerned that increasing the Class I differential in counties bordering other Federal Orders, we do not share this concern. Although this may generate more packaged product sales from outside sources within the Order, this is milk that the local producers do not have to share in importing costs prior to processing. If outside packaged product sales reach critical levels, the processing plant will ultimately be regulated by the Appalachian or Southeast Orders. We suggest that the pricing surface must be increased in the bordering areas of the Southeast and Appalachian marketing areas and stepped up east and south of the bordering states. We believe that the desired result will not be achieved with the Class I differential contained in this proposal.

The relationship between milk shed and production centers has changed rapidly and significantly over past fifteen years in the entire United States. In the southeast alone, we see that the average distance milk travels to a Class I distributing plant has increased by 74% in the Southeast Order during the spring and 40% during the fall.

**Weighted Average Distance to Order 7 Distributing Plant 2000 vs. 2005**  
**(Milk Market Administrator Office, Atlanta, GA)**



While the proposal seeks to decrease the diversion limitation percentages in Order 7, the proposal requests a significant change in the delivery day requirement. These two provisions work in tandem and a change to one, affects the other. Under current conditions, it is difficult to maximize the percentage diversion limitations due to the restrictions on the delivery day limitations. The proposal request more liberal delivery day requirements, making it easier to associate more milk with the order and sharing revenues over even larger areas. As I see it, this change in delivery day requirements will continue to drive down market utilization in the Southeast and Appalachian Orders. More milk that does not perform for the market will be associated with the order and priced into the pool at class III and IV prices, lowering the uniform price to producers.

Effective September 1, 2006, the Milk Market Administrator made an administrative modification to the producer milk definition know as the market association policy in order to lessen the burden of meeting the strict diversion day requirements in the order. This administrative change made it easier to associate more milk on the order and stay within the regulations. Many producers, including myself, were upset with this change. The current proposal to all but eliminate, by reducing to one day per month, the delivery day requirement will be detrimental to the local producers. With the change implemented September 2006, the current delivery day requirements are reasonable and easily met. We do not need to reduce this delivery day requirement further. The local producers that supply the market<sup>2</sup> all year will not benefit from this portion of the proposal and we are opposed to the delivery

day change. We propose that the current delivery day requirements be tightened to 10-days year round and additionally support lowering the percentage diversion limitation during all months.

Any type of regulatory change that make it easier to associate more milk with the order may temporarily allow an ample supply to the Class I markets but in the long run, only serves to further eliminate local production. Milk production has expanded in areas west of the southeast in record percentages over the last 10-years due to changes in the southeast orders that have allowed higher pay prices to those producers at the expense of the local producers.

While we believe that the change in the class I pricing surface is a step in the right direction, we do not believe that this addresses the dynamic relationship among consumer population centers, farm locations, and processing centers. If we continue only to modify existing provisions or rules that are not currently working, we will not solve the problems. We, as producers, can help address these issues and keep pace with consumer demands only if we are financially healthy and allowed to compete on a level playing field. We must have net higher income to producers in the Southeast markets to sustain and grow the dairy industry. Rules that allow the manipulation or exploitation of producers must be prohibited.

We regret that the proposed changes are not adequate to completely address the milk marketing problems in the southeast. We request that further efforts be made and new initiatives be taken to enhance milk production and pay prices within the marketing area in orders to ensure an adequate supply of local, fluid milk in the future.