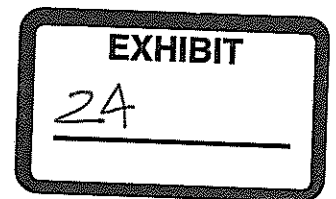


# Testimony of Bill Newell

On behalf of  
Kentucky Dairy Development Council

May 21, 2007  
Tampa, Florida

In the Matter of Milk in the Appalachian, Florida and Southeast Marketing Areas  
Docket Numbers - AO-388-A22; AO-356-A43; AO-366-A51; DA-07-03



I am Bill Newell a dairy farmer from Maysville, Kentucky. My son and I milk a small herd of registered Holsteins on our 560-acre family farm. There has been milk shipped from this farm every day since 1928 when my grandfather started milking cows. I have been doing the majority of the milking since 1970. I am a DFA councilperson and was on the Mid Am division board prior to the merger. I am a member of the board of directors of the Kentucky Dairy Development Council (KDDC) and a past director of the Kentucky Holstein Cattle Club. I have provided leadership to young people with 4-H and FFA dairy projects. There was, at last count, 145 dairy farms in my district. Many of them are small, similar to mine, with the cows being milked and cared for by their owners and very little hired labor. Nearly 100% of the milk produced in my district is processed at the Kroger bottling plant in Winchester, Kentucky

I am here today representing the views of the Kentucky Dairy Development Council. The KDDC was formed in 2005 through the efforts of dairy farmer leaders, allied industry friends and many other individuals who shared a vision of improving the Kentucky dairy industry. Our mission is "To Educate, Promote and Represent Dairy Producers and Foster an Environment for Growth of the Kentucky Dairy Industry". The initial funding for the organization was provided through a grant from the Kentucky Agricultural Development Board (ADB). The ADB invests 50% of Kentucky's Master Settlement Agreement proceeds into agriculture and rural enhancement. In addition to the ADB funds, KDDC has secured financial assistance from allied industry members

through sponsorships. The KDDC Board is composed of 12 producer directors representing districts throughout the Commonwealth. Also, 8 individuals serve as allied industry board members representing various dairy related businesses. The KDDC Board determines policy issues working with the Kentucky Department of Agriculture, the education community, regulatory agencies and other agriculture organizations such as Kentucky Farm Bureau. The efforts undertaken the past months include conducting Federal Milk Marketing Order informational sessions to better educate our producers concerning FO issues. We also held numerous barn meetings throughout the state focusing on FO updates, improving milk quality and increasing production. KDDC has also worked with other state dairy producer organizations in the Southeast. Through the Southeast Producers Steering Committee, KDDC worked jointly with the other producer organizations to submit a proposal requesting changes in pooling provisions for Federal Order 5 and Federal Order 7. We suggested lower diversion limits and increasing "touch base requirements" with the goal of higher Class I utilization in both Orders. That specific proposal was denied but we believe the efforts of KDDC and the Steering Committee helped to bring us to this tipping point for the dairy industry in the Southeast, this emergency hearing. I have attended and testified at Hearings in the past and appreciate the opportunity to be here today.

KDDC supports the proposals being made at this hearing. We have reviewed them and arranged for a third party to review them on our behalf. We also understand that

Kentucky is a border state for the Southeast region and our producers, especially those in Federal Order 5, will not see the same benefit financially as producers farther South in the three Orders. However, we do believe it is a small step in the right direction and we anxiously anticipate more aggressive steps to turn production around in the Southeast.

The dairy industry in Kentucky is composed of just over 1,100 licensed dairy farms that produced over 1.3 billion pounds of milk in 2006. Kentucky dairies are challenged by climate conditions and other factors but many are attempting to address those challenges by improving their facilities with a focus on cow comfort. Positive changes to pooling provisions, reducing the cost of balancing the market and enhancing Class I price will encourage facilities upgrades resulting in improved production in Kentucky and the Southeast. Our industry sits near good markets and transportation arteries and is in a good logistical position to supply milk to the growing populations of Orders 5, 6 and 7. KDDC is interested in this hearing because the proposals affect the margins that can be generated by Kentucky dairy farmers and they will better able us to serve the growing Southeast markets.

These proposals affect both the revenue from milk sales and provide some offset to marketing costs. Our organization views these proposals as a step in the right direction but we would like to see them made stronger.

We understand that the transportation credit system has been improved. Markets must be supplied and balanced. Seasonal variation in milk production doesn't match the way the consumers always buy milk at the stores. There is not enough milk produced in the Southeast to meet the high demand days of consumption and we must bring milk into our market to satisfy demand. Farmers generally find that overall price levels are the highest and market service costs the lowest if they manage that process cooperatively. They look to the Order for a market structure to help recover a portion of those costs. The Order transportation credit system more importantly help us keep up with volatile gas prices. Energy costs affect all the levels of my business. I regularly see fuel increases in my milk-hauling bill and at the gas pump when I drive my car. However, it is difficult for the dairy industry to pass along all the short term increases in fuel prices as quickly as they change. This is why the transportation credit system is so important. We support the payment being made on the entire load and for more months out of the year. The costs of delivering a load of milk to a customer is the same no matter if the load is composed of Class I volume or otherwise. Now that the transportation credit system changes with changes in fuel costs we can better recover our costs as fuel prices rise. Also consumers are protected because the credit system adjusts down if fuel prices drop.

The changes in the Class I differentials are very important. The differentials are supposed to help draw a milk supply and help move it to processing plants. They have not been adjusted in many years. We understand that this is a difficult topic. It gets different reactions in different regions of the country, in different areas in the Southeast and even on different sides of the room in the KDDC meetings. But difficult or not, this is our system and it has to keep pace with costs and efficiencies or the users of the system will lose faith in it.

Kentucky is on the outer edge of the Southeast marketing area. This means that increases in differentials in Kentucky, even if warranted, will be tempered by the differential levels in surrounding markets where there is no Hearing being held and no differentials can be changed. We will certainly benefit from the entirety of the proposals being presented here today but we will not see the level of positive price impact that other producers in the Southeast may experience. For this reason we are hopeful that the nationwide review of the differential surface moves its way thru USDA swiftly. Kentucky dairy farmers are stressed by the supply demand imbalance east of the Mississippi River and think a review of the price surface nationally may help.

The package of proposals being discussed here does bring some assistance to the producers in Orders 5 and 6 and 7. The blend estimates of approximately \$.28 per hundredweight in Order 5, \$.75 per hundredweight in Order 7 and \$1.20 per

hundredweight in Order 6 will be a positive step. We will keep a watchful eye on the impact of the change in the diversion limits and if they need additional modification, we will urge the Market Administrators to make those adjustments since those provisions can be adjusted on a local Order basis.

We will look forward to a more comprehensive review of differentials from the Department. We urge USDA to do its work here quickly as all of the same factors that caused the differentials to need review and proposed change that resulted are present in the remainder of the Eastern United States.

Thank you for the opportunity to be here today.