

**Testimony of Southeast Milk, Inc.
Milk marketing Order Hearing
Docket No. AO-14-A74, et al.: DA-06-01
Alexandria, Virginia
January 24, 2006**

My name is Thomas Pittman and I am employed as Director of Milk Accounting and Economic Analysis for Southeast Milk, Inc. The business address is 1950 SE Highway 484, Belleview, Florida 34420.

Southeast Milk, Inc., (SMI) is a dairy cooperative that markets milk for almost 300 dairy producers in Florida, Georgia, Alabama, and Tennessee. The cooperative markets over 2.9 billion pounds of milk annually in the Florida and Southeast Orders Combined and is the 12th largest cooperative in the United States. The predominate market for SMI milk is Class I, regulated, bottling plants.

The Class I utilization in Federal Order 6, the Florida Federal Order, averages over 82% throughout the year. The remaining Class II, III, and IV utilization in the order is comprised of some ice cream manufacturing by Class I pool plants, inventory classification, small manufacturing plants milk usage, dumped milk, shrinkage, etc.

The Class I price that accounts for the majority of the producers' pay price in Florida is based on the advanced Class III and IV Federal Order prices. Annually, the Class I mover accounts for about 65% of the dairy farmer pay price in Federal Order 6. If a change is made to the Class III and IV product price formulas without regard to the impact on the Class I market, the pay price to dairy farmers in Florida is directly impacted. Exhibit 13 – page 3 presented by USDA, represents the calculated impact to the Class I mover and Class I prices under all proposed scenarios for Federal Order 6.

Under the best-case scenario, SMI producer income will be reduced by \$6.3 million annually and under the worst-case scenario producers will lose almost \$14 million in revenue in one year alone. SMI producers located in Federal Order 6 and 7 cannot sustain this loss.

Under each scenario, economic analysis provided by the Department demonstrates little change in the price of fluid milk at the retail level. The change that is predicted by the model shows a fluid milk price decrease to the consumer. The dairy farmers concentrated in the Class I market are absorbing the price decrease experienced by the consumers, which is at the expense of the southeast dairy industry.

Although the Florida and Southeast Federal Orders do maintain a reasonable level of over-order premiums, the revenue lost by the change in the Class I mover and subsequently the Class I Price and Uniform Blend Prices will be very difficult to make up through additional premium. The revenue will be a direct loss to the dairy farmers supplying the Class I market. The dairy industry in the Southeast and Florida is struggling to maintain a local supply of milk to meet consumers' fluid milk needs. Since 1990 to 2004, milk production decreased from 16.2 billion pounds to 11.7 billion pounds, a 28% decrease, while in that same period US milk production grew over 15% to 170.8 billion pounds. Alabama, Arkansas, and Louisiana, which reside in the Southeast Order, cannot produce enough milk to supply even 50% of the consumers' Class I or fluid needs.

The southeast dairy producers, especially producers located in Florida, face unique challenges not present in other regions of the U.S. Weather conditions such as hurricanes and long spells of hot humid weather; escalating land values and stringent environmental regulations have lead to the

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decline in dairy farms. Any additional reduction in the Class I price will expedite the decline in production to the point that the southeast dairy industry will have no chance of recovery.

Florida's population from 1990 to 2000 grew almost 24% according to US Census Bureau. With the projected increase in Florida's population in the year 2030 at 80% growth from 2000; it will be very difficult for local milk production to keep up with consumer consumption of fluid milk. Georgia is expecting a growth of 47% from year 2000 to 2030. The southeast and Florida will be one of the fastest growing areas in population in the US. The fundamental challenge, as provided by the AMA, is to insure a sufficient quantity of pure and wholesome milk and be in the public interest. SMI believes that the southeast must focus on maintaining a long-term, local supply to meet the stated objectives. It is vital to the southeast dairy industry to keep dairy farmer income levels in this region at levels that will sustain local milk production and support the needs of the growing population.

(I have attached a table from the US Census Bureau indicating that by the year 2030, population in Florida and Georgia is projected to increase by 80% and 47% respectively, which both are in the top eight states for population growth.)

SMI operates an Ultra-Filtration (UF) plant located in Baconton, GA, from December through July of each year. The balancing plant operates to process surplus milk only when the fluid market does not need the milk or cannot hold the milk during the holidays or extreme weather conditions. SMI's own plant does experience the same issues with energy and labor cost increases that the rest of the manufacturing plant community encounters.

While SMI recognizes and appreciates the need to adjust the make allowances for the plight of the dairy manufacturing plants, the Class I market cannot be sacrificed at the same time. The Department cannot solve one issue in the manufacturing arena without earnestly evaluating the impact on the entire industry. The dairy farmers that supply the fluid needs of the country should not be asked to subsidize the manufacturing market. Therefore SMI opposes proposal No. 1.

However if the Department should decide to adjust the make allowances, we encourage the adjustments only apply to Class III and IV and the make allowance to calculate the advance Class I price remain as is.

Table 1: Interim Projections: Ranking of Census 2000 and Projected 2030 State Population and Change: 2000 to 2030

Census 2000 State	2000 Census Population	2000 Census Rank	2030 projections State	2030 Projections Population	2030 Projections Rank	Change: 2000 to 2030 State	Change: 2000 to 2030 Number	Change: 2000 to 2030 Percent	Change: 2000 to 2030 Rank in percent change
United States	281,421,906	(x)	United States	363,584,435	(x)	United States	82,162,529	29.2	(x)
California	33,871,648	1	California	46,444,861	1	.Nevada	2,283,845	114.3	1
Texas	20,851,820	2	Texas	33,317,744	2	.Arizona	5,581,765	108.8	2
New York	18,976,457	3	Florida	28,685,769	3	.Florida	12,703,391	79.5	3
Florida	15,982,378	4	New York	19,477,429	4	.Texas	12,465,924	59.8	4
Illinois	12,419,293	5	Illinois	13,432,892	5	.Utah	1,252,198	56.1	5
Pennsylvania	12,281,054	6	Pennsylvania	12,768,184	6	.Idaho	675,671	52.2	6
Ohio	11,353,140	7	North Carolina	12,227,739	7	.North Carolina	4,178,426	51.9	7
Michigan	9,938,444	8	Georgia	12,017,838	8	.Georgia	3,831,385	46.8	8
New Jersey	8,414,350	9	Ohio	11,550,528	9	.Washington	2,730,680	46.3	9
Georgia	8,186,453	10	Arizona	10,712,397	10	.Oregon	1,412,519	41.3	10
North Carolina	8,049,313	11	Michigan	10,694,172	11	.Virginia	2,746,504	38.8	11
Virginia	7,078,515	12	Virginia	9,825,019	12	.Alaska	240,742	38.4	12
Massachusetts	6,349,097	13	New Jersey	8,802,440	13	.California	12,573,213	37.1	13
Indiana	6,080,485	14	Washington	8,624,801	14	.Colorado	1,491,096	34.7	14
Washington	5,894,121	15	Tennessee	7,380,634	15	.New Hampshire	410,685	33.2	15
Tennessee	5,689,283	16	Maryland	7,022,251	16	.Maryland	1,725,765	32.6	16
Missouri	5,595,211	17	Massachusetts	7,012,009	17	.Tennessee	1,691,351	29.7	17
Wisconsin	5,363,675	18	Indiana	6,810,108	18	.Delaware	229,058	29.2	18
Maryland	5,296,486	19	Missouri	6,430,173	19	.South Carolina	1,136,557	28.3	19
Arizona	5,130,632	20	Minnesota	6,306,130	20	.Minnesota	1,386,651	28.2	20
Minnesota	4,919,479	21	Wisconsin	6,150,764	21	.Arkansas	566,808	21.2	21
Louisiana	4,468,976	22	Colorado	5,792,357	22	.Hawaii	254,509	21.0	22
Alabama	4,447,100	23	South Carolina	5,148,569	23	.Vermont	103,040	16.9	23
Colorado	4,301,261	24	Alabama	4,874,243	24	.New Jersey	1,388,090	16.5	24
Kentucky	4,041,769	25	Oregon	4,833,918	25	.Montana	142,703	15.8	25
South Carolina	4,012,012	26	Louisiana	4,802,633	26	.New Mexico	280,662	15.4	26
Oklahoma	3,450,654	27	Kentucky	4,554,998	27	.Missouri	834,962	14.9	27
Oregon	3,421,399	28	Nevada	4,282,102	28	.Wisconsin	787,089	14.7	28
Connecticut	3,405,565	29	Oklahoma	3,913,251	29	.Oklahoma	462,597	13.4	29
Iowa	2,926,324	30	Connecticut	3,688,630	30	.Kentucky	513,229	12.7	30
Mississippi	2,844,658	31	Utah	3,485,367	31	.Indiana	729,623	12.0	31
Kansas	2,688,418	32	Arkansas	3,240,208	32	.Maine	136,174	10.7	32
Arkansas	2,673,400	33	Mississippi	3,092,410	33	.Massachusetts	662,912	10.4	33
Utah	2,233,169	34	Iowa	2,955,172	34	.Rhode Island	104,622	10.0	34
Nevada	1,998,257	35	Kansas	2,940,084	35	.Alabama	427,143	9.6	35
New Mexico	1,819,046	36	New Mexico	2,099,708	36	.Kansas	251,666	9.4	36
West Virginia	1,808,344	37	Idaho	1,969,624	37	.Mississippi	247,752	8.7	37
Nebraska	1,711,263	38	Nebraska	1,820,247	38	.Connecticut	283,065	8.3	38
Idaho	1,293,953	39	West Virginia	1,719,959	39	.Illinois	1,013,599	8.2	39
Maine	1,274,923	40	New Hampshire	1,646,471	40	.Michigan	755,728	7.6	40
New Hampshire	1,235,786	41	Hawaii	1,466,046	41	.Louisiana	333,657	7.5	41
Hawaii	1,211,537	42	Maine	1,411,097	42	.Nebraska	108,984	6.4	42
Rhode Island	1,048,319	43	Rhode Island	1,152,941	43	.South Dakota	45,618	6.0	43
Montana	902,195	44	Montana	1,044,898	44	.Wyoming	29,197	5.9	44
Delaware	783,600	45	Delaware	1,012,658	45	.Pennsylvania	487,130	4.0	45
South Dakota	754,844	46	Alaska	867,674	46	.New York	500,972	2.6	46
North Dakota	642,200	47	South Dakota	800,462	47	.Ohio	197,388	1.7	47
Alaska	626,932	48	Vermont	711,867	48	.Iowa	28,848	1.0	48
Vermont	608,827	49	North Dakota	606,566	49	.West Virginia	-88,385	-4.9	49
District of Columbia	572,059	50	Wyoming	522,979	50	.North Dakota	-35,634	-5.5	50
Wyoming	493,782	51	District of Colum	433,414	51	.District of Columbia	-138,645	-24.2	51

U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.

Internet Release Date: April 21, 2005