

May 22, 2007

Remarks by Tom Thompson, President
Georgia Milk Producers, Inc.
USDA Federal Orders 5-6-7 Emergency Hearing
Tampa, Florida

Thank you for the opportunity to appear before you to discuss a subject vital to all of Georgia's dairy farm families. I am Tom Thompson, President of Georgia Milk Producers, as well as a dairyman from Eatonton, Georgia. Georgia Milk Producers represents all Georgia dairymen and speaks on their behalf in matters such as we are here to address today. It is in this role that I also represent all Georgia dairymen on the S E Steering Committee, joining other members of this Committee speaking at this hearing.

We applaud USDA for holding this emergency hearing to address matters of grave concern to those of us trying to produce milk in the Southeast. We support the proposals made by DCMA at this hearing as a first step in addressing the Federal Order rules and regulations that appear to be at the heart of the economic plight of the SE milk producer.

The Southeast is a unique region. On one hand, it contains one of the fastest increasing populations in the US. On the other hand, its milk production is decreasing at one of the highest rates in the country, and is now deficit year round. Georgia alone imports more than 1,000 tanker loads per month. We need to attempt to understand this seeming paradox.

The Southeast has the highest cost of production in the US. Contributing to this cost is high heat and humidity, causing wide swings in cool/hot weather milk production. Since production cost is high, the Southeast is not able to produce milk intended for manufacturing purposes, instead trying to operate in a niche market supplying milk primarily for the needs of local bottling plants.

Another factor contributing to our high production cost is a lack of proximity to abundant grain and forage production. We have neither the vast rich soils of the corn belt nor the federally subsidized irrigation of the West. In the Piedmont region of Georgia where our dairy is located, there is no aquifer to supply water so desperately needed to grow the forage crops that are currently being decimated by the second year of drought.

Let's look a little closer at the region's declining milk production. Since Federal Order boundaries do not exactly follow state lines, we will use USDA's production figures for Georgia, Alabama, Mississippi, and Tennessee for annual milk production trends from 2000 through 2006. These states have experienced a 3.6% annual decline in milk production between 2000 and 2006: beginning in 2000 with 3 billion, 727 million lbs and falling to 2 billion, 997 million lbs in 2006. These numbers have been translated into trend lines by the Market Administrator's office in Atlanta and would indicate that virtually no dairies will exist in the Southeast in 10 years.

One of the proposals that is part of the DCMA package we support here today addresses the out-of-date differentials that are supposed to reflect the cost of moving milk from areas of plentiful supply to deficit areas. The differentials in place today were done in an era of gas in the \$1/gallon range, when stainless steel over the road tankers and the tractors that pull them were far cheaper, and truck drivers pay was less than ½ of what is paid today. Adjusting differentials to reflect changes in transportation costs is long overdue. We strongly support this much-needed change.

Can the Southeast dairymen be economically viable in supplying the needs of the SE's primarily fluid milk plants, whose outputs are typically 90% Class I? I would suggest that the answer is: "it all depends". In my economics courses at Emory University's School of Business we learned that the price of a commodity in a deficit area was the f.o.b. price of this commodity in a plentiful area plus the true cost of freight to the deficit area. There was no concept that the producer in the deficit area should have his price reduced by the cost to deliver additional amounts from a distant area, whether this cost occurred through "pooling", "transportation credits", "reblending", or some other means.

In order to put this in perspective let's review a little history. In the late 1960's, Georgia's Milk Commission was ruled unconstitutional, and Georgia subsequently got its own Georgia Federal Order. Unlike today where the co ops controlling the majority of milk in the Southeast have their majority membership living outside the Southeast, Co-ops in Georgia were local, represented Georgia dairymen, and the Georgia Federal Order served the industry well. Class I utilization was normally in the high 80's and low to mid-90's. Subsequent years added a state here and a state there to the Order that soon became the Southeast Order. Each geographical increase in the Order resulted in small declines in Class I utilization. However, USDA's January 2000 inclusion of southern Missouri and an additional portion of Arkansas resulted in no small decline: this time the Southeast saw a drop of 15-20 points in utilization. Instead of utilization that typically ranged from the 80's to 90's, we now saw utilization hovering in the 50's to 60's with its corresponding transfer of milk revenues from those dairymen serving the needs of bottling plants in their close proximity every day, to those far distant who were "qualified" by "touch base" and "diversion" rules. Since January 2000 my partners and I estimate this change in utilization has cost our 800 cow dairy hundreds of thousands of dollars. We cannot continue to operate our dairy under these adverse economic conditions. Therefore, we and other Georgia milk producers applaud and support DCMA's proposal to place a cap on "diversions" as a first needed step to raise utilizations. Since this is an "emergency hearing", USDA has not had the time to do a study to determine how much "stand-by" capacity is required to supply the Southeast's deficit needs. We suggest that USDA should conduct this analysis and initiate subsequent changes that their study might deem warranted in order to more closely approximate the "real economics" I was taught years ago.

It is my belief the purpose of this hearing is an attempt to address the economic issues that are forcing Southeast dairymen out of business, with the SE becoming increasingly dependent on milk transported many times more than 1,000 miles from where it is

produced to where it is needed. This has vast implications of increasing demands on foreign oil, air pollution, congested highways, vulnerability to bio-terrorism, in addition to the insidious economic bleeding of the Southeast milk producer.

According to DCMA's estimates, "The combined impact of additional Class I pooled revenue and lower diversion limits would increase Federal Order minimum blend prices. Based on 2006 annual data the estimated increase in blend prices at the various Order Base zones are: Approximately .75 hundredweight in F.O.7 (Atlanta/Dacula)" (Reference "Proposed Federal Orders 5, 6, & 7 Amendments—Talking Points" by DCMA.) Other locations and orders vary from these numbers.

I would like to reference "Projected Increases in Milk Production Resulting from Proposed Price Changes" compiled by Dr. Tommie Shepherd, University of GA, and Dr. Geoff Benson, North Carolina State University

(Read and attached as part of testimony).

Given the limited impact on current milk production trends that this analysis indicates would be expected from DCMA's proposal, this underscores our position that although we fully support DCMA's proposal to address the SE's economic plight, it is but a first step to correct the economic inequities that have plagued the SE's ability to continue local milk production. It is my belief that USDA first needs to implement DCMA's proposal and then use the data and qualified economists at its disposal, becoming pro-active similar to the Federal Reserve Board, as opposed to reactive. After implementation of the DCMA proposal, USDA should also monitor the results. If the goal is to achieve a reversal of the present trends in the Southeast, USDA needs to give serious thought to a partial decoupling of Class I pricing from manufacturing milk prices set primarily by Western over production, production that controls our fluid milk price but which is physically unrelated to our market. The need for this review is underscored by the current lack of confidence in the veracity of the pricing data provided. Price volatility may be acceptable and understandable in manufacturing prices; volatility in fluid pricing typically robs both the consumer and the dairyman. Georgia and other Southeast dairymen are tired of being robbed.

Given the dismal track history of "reform" inflicted on the SE since 2000, nothing less than a review and readdress by USDA is needed to achieve "true economics". Only then will there be a chance to stop the "cannibalization" of the Southeast.