

November 7, 2006

Ms. Sue L. Mosley, Market Administrator
United States Department of Agriculture
Agricultural Marketing Service, Dairy Programs
Southeast Marketing Area – Federal Order 7
P.O. Box 491778
Lawrenceville, GA 30049

DEC 6 6 2005

Dear Ms. Mosley:

The Southeast Producers Steering Committee, on behalf of the undersigned dairy producer organizations and other interested parties, hereby request the changes to Part 1007.13(d)(1)-(4) of the Order Regulating The Handling Of Milk In The Southeast Marketing Area enumerated in the accompanying letter from the Steering Committee dated November 7, 2006.

These changes, which we understand to fall under the discretionary authority of the Market Administrator, will serve to restrict the amount of milk currently used for manufacturing purposes that may be pooled on the Southeast Order to quantities which we believe more closely reflect the true seasonal and daily balancing needs of the market. Similar changes are being requested for the Appalachian Federal Order No. 5, so as to align these two marketing orders with the remaining southern order: Florida Order: No. 6.

The current, excessively liberal, touch base and diversion limitations encourage many extra producers and significantly more milk actually used in manufacturing classes to be pooled on Orders 5 and 7 than is necessary for Class I market balancing purposes. This situation results in reduced Class I utilization percentages and ultimately lower Federal Order Uniform Prices than are necessary to sustain milk production in the Southeastern part of the United States. We offer as evidence the tremendous decline in milk production, which has occurred in Federal Orders 5 and 7 since the current touch base and diversion limitations were established in January 2000. During this same time period, milk production in the Florida Order has fared far better as a result of the higher Federal Order Uniform Prices that accompany its more restrictive touch base and diversion limitations. We submit this as prima facie evidence that more restrictive limitations are appropriate for predominately fluid milk markets such as Federal Orders 5, 6, and 7. The accompanying request will result in a more appropriate alignment between these markets.

Title 7 of the United States Agricultural Code states that one of the functions of milk marketing orders is to "assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs". Adjusting touch base and diversion limitations to levels that have been shown to support

milk production levels in a predominately fluid market (i.e. FO6) will help to fulfill this marketing order function of maintaining a production capacity that is currently declining in rapid fashion. We therefore respectfully request your cooperation in adjusting the current touch base and diversion limitations to more appropriate levels that will increase Federal Order Uniform Prices to a level that is supportive of milk production in the Southeast.

Respectfully submitted by The Southeast Producers Steering Committee

Norman Jordan,	President North Carolina Dairy Producers Association, Chairman Southeast Producers Steering Committee
Ben Shelton,	President, Upper South Milk Producers Association
Dewitt Hardee,	NC Dept of Agriculture Consumer Program Specialist
Tom Thompson,	President, Georgia Milk Producers, Inc.
Beth Crocker,	General Counsel and Director of Legal Affairs SC Dept of Agriculture
Chester Lowder,	NC Farm Bureau, Director of Livestock programs
Roger Thomas,	Executive Director Kentucky Dairy Development Counsel

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United States Department of Agriculture
Agricultural Marketing Service, Dairy Programs
Market Administrator Sue L. Mosley
P.O. Box 491778
Lawrenceville, GA 30049

Dear Ms. Mosley:

The dairy organizations listed in the cover letter request a change in the allowable diversion limitations as provided in 1007.13 (d)(1) – (4) of the order Regulating The Handling Of Milk In The Southeast Marketing Area. We request these requirement adjustments under the authority granted the Market Administrator 1007.13(7) and believe that current market conditions warrant such adjustments.

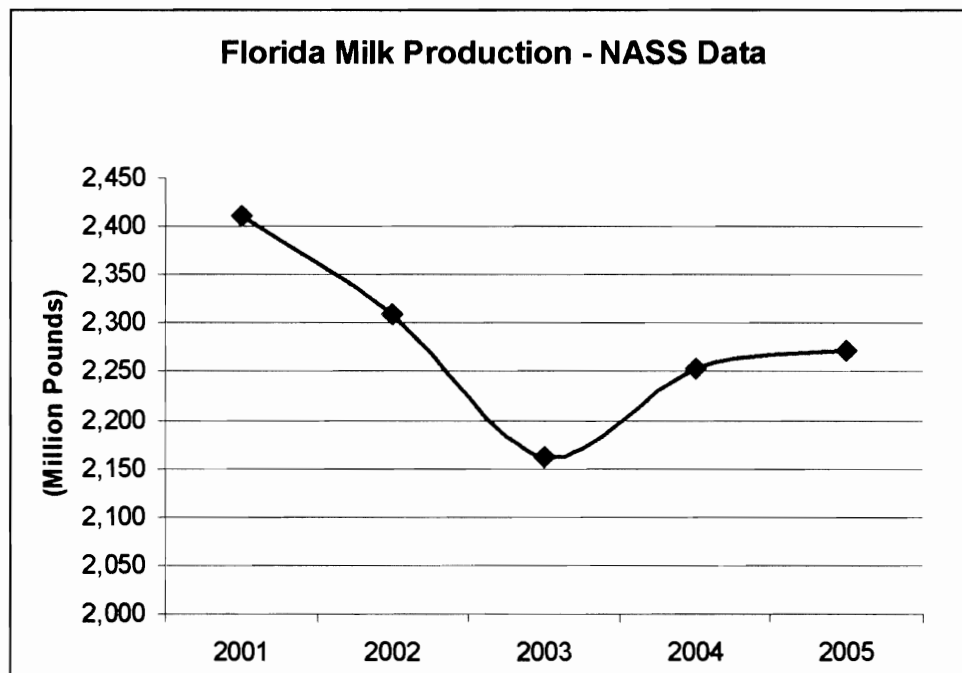
We are concerned about preserving a healthy, local milk supply in the Southeast. Recent market trends and analysis clearly show the Southeast is one of the most rapidly growing regions in the country in terms of population while milk production is declining the most rapidly and drastically. We are seeing a continual loss of dairy farms, dairy cows and milk production. We believe these changes are caused in part by current federal order rules and, further, that current order provisions are inconsistent with the intent and purpose of federal orders which, according to Title 7 of the U.S. Agriculture Code, stipulates “assur(ing) a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs”.

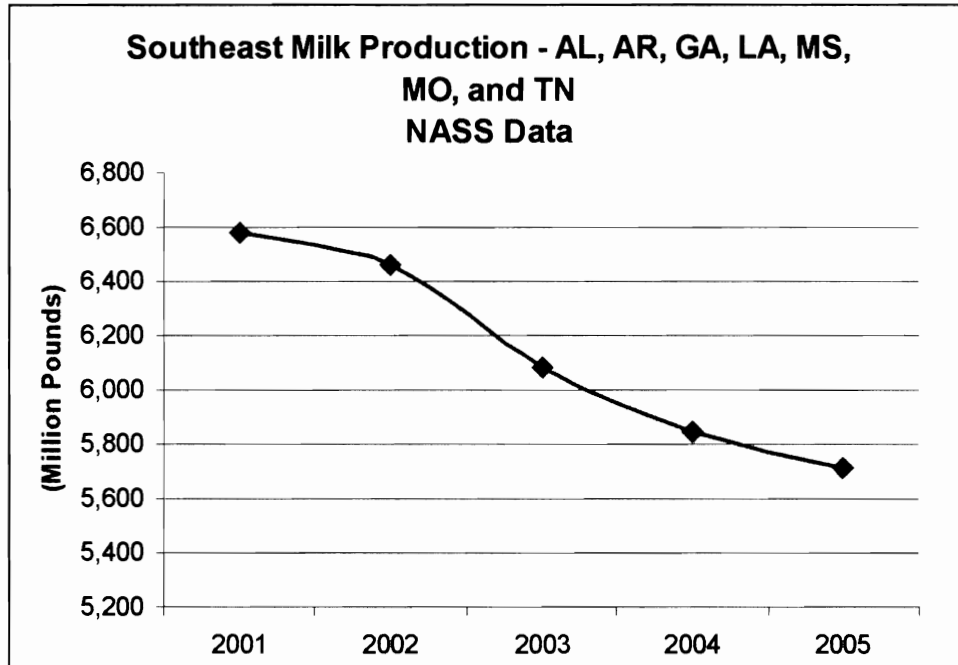
A recent analysis of data for Federal Orders 5, 6 and 7 identifies marketing behavior and price trends that are inconsistent with the current economic situation. Possible explanations include the pooling of milk not needed to meet the Class I needs of the market, the way in which marketing costs are distributed among producers, and “re-blending” by cooperatives of the proceeds of milk sales in the Southeastern market. In all cases, the prices Southeastern producers receive for their milk are reduced.

We believe all dairy farmers in the Southeast are negatively impacted, because many out-of-region producers that do not regularly supply the demands of the Class I market are “associated” under current federal order pooling provisions. It is commonly known that many producers deliver 4 or 10 day’s production to the Southeast Order market and then deliver 26 or 20 day’s production to plants located outside the order. Even though these producers do not regularly supply the needs of the pool plants, they are paid the same prices for their entire month’s production as those producers who supply the market

every day of the month. The revenue for the milk sales, including unregulated market premiums, is collected and then distributed among all producers who are “associated with the market” under the order rules. The Uniform Price on Federal Order 7, as derived by calculation in §1007.60 and 61, is significantly reduced due to the increased volume of the lower valued Class III and IV pounds included in the calculations. These additional pounds of Class III and IV milk are the result of the out-of-region producers' other 26 or 20 day's production. This milk does not contribute to meeting the intent of federal orders, which is to supply the fluid milk needs of the market.

When we compare and contrast milk production in the Southeast Marketing Area to that of the Florida Marketing Area we see a significant difference in production trends and a gap that continues to widen.





Florida production has declined much more slowly compared to other Southeastern states. In addition, Florida production actually increased from 2003-2005 while the other states have decreased annually from 2001 – 2005 with no signs of a recovery. Dairy farmers supplying the Florida market are able to plan for necessary expansion to supply their growing market, knowing that the money generated from the sale of their milk will stay within the market. The majority of the producers supplying the Southeast market do not operate under comparable conditions and this undoubtedly affects their decisions about the future of their farms. We believe that the extraordinarily lenient producer delivery day (“touch base”) requirements and the excessively generous diversion percentage limitation for pool plants and cooperatives have contributed significantly to the collapse of the Southeast dairy industry.

Federal Order 6 has stringent pooling requirements for delivery day requirements and allowable diversion limitations. Although the cooperatives supplying customers in that market must invest extra effort in planning supplies and routing milk, it has preserved the market and allowed those dairy farmers to remain financially healthy, even in the most extreme of circumstances.

During 2005, Florida was hit with four hurricanes that significantly affected dairy farmers and the health, longevity and number of its dairy animals. Although some outside assistance was provided, we believe the industry was able to rebound quickly from these catastrophes in part because of the rules in Federal Order 6, and local production is better able to meet the needs of the customer base. The farmers can

continue to plan and expand, as dictated by supply and demand, because their money is kept in their marketplace.

We do not believe that the same viability currently exists in the Southeast Marketing Area. In order to promote growth and preserve the supply remaining in the Southeast, we are requesting that the pooling provisions for diversions and delivery day requirements be made comparable in Order 7 as Order 6. The Florida Order has demonstrated that these tighter requirements can be met with some careful planning and attention to the marketplace and we believe that the other cooperatives in the Southeast Market have the resources and the ability to diligently plan as well.

Effective Month	Current	Proposed	Current %	Proposed %
	Delivery Day Requirement d(1) and d(2)	Delivery Day Requirement d(1) and d(2)	Diversions Limitation d(3) and d(4)	Diversions Limitation d(3) and d(4)
January	4	10	50	15
February	4	10	50	15
March	4	10	50	20
April	4	10	50	20
May	4	10	50	20
June	4	10	50	20
July	10	10	33	10
August	10	10	33	10
September	10	10	33	10
October	10	10	33	10
November	10	10	33	10
December	10	10	33	15

We believe in keeping the money with the milk and do not believe in the current, liberal delivery and diversion requirements. Although federal orders cannot control how the monies generated in the Southeast order are ultimately distributed, the Federal Order can influence this by limiting the impact of pool riding on the minimum uniform blend price. We estimate that by limiting unneeded milk from the pool, the Uniform Price will be increased \$0.25 - \$0.50 per cwt. per month. This change can generate an additional \$31 million annually that is kept in the Southeast market for survival and expansion.

We request a change in the delivery day requirements and the diversion limitations for the Southeast Federal Order so that they are comparable to the Florida Federal Order. A companion request is being made to the Appalachian Federal Order in order to harmonize the rules in the wider market area. The levels provided in the Florida Federal Order have proven to safeguard the local market revenues and ensure a future for its dairymen. We believe that producers in Federal Order 7 deserve comparable safeguards regarding their milk prices and their ability to plan for their future production.

Our proposed language to facilitate these requests is a complete replacement for the present wording in this section:

1007.13 Producer milk.

(1) In any month of January through June, not less than 10 days' production of the producer whose milk is diverted is physically received at a pool plant during the month;

(2) In any month of July through December, not less than 10 days' production of the producer whose milk is diverted is physically received at a pool plant during the month;

(3) The total quantity of milk so diverted during the month by a cooperative association shall not exceed 10 percent during the months of July through November, and 15 percent during the months of December through February, and 20 percent during March through June of the producer milk that the cooperative association caused to be delivered to, and physically received at, pool plants during the month;

(4) The operator of a pool plant that is not a cooperative association may divert any milk that is not under the control of a cooperative association that diverts milk during the month pursuant to paragraph (d) of this section. The total quantity of milk so diverted during the month shall not exceed 10 percent during the months of July through November, 15 percent during the months of December through February, and 20 percent during March through June of the producer milk physically received at such plant (or such unit of plants in the case of plants that pool as a unit pursuant to 1007.7(e)) during the month, excluding the quantity of producer milk received from a handler described in 1005.9(c);

We appreciate your concern for our farmers and your action on their behalf. Should you have any questions, you are welcome to contact us.

Respectfully submitted by The Southeast Producers Steering Committee on behalf of the producer-members of the listed organizations.

Norman Jordan, President, North Carolina Dairy Producers Assn

Ben Shelton, President, Upper South Milk Producers Assn

Tom Thompson, President, Georgia Milk Producers, Inc.

Roger Thomas, Executive Director, Kentucky Development Council

Beth Crocker, General Counsel and Director of Legal Affairs SC Department of Agriculture

Dewitt Hardee, Programs Specialist, North Carolina Department of Agriculture

Chester Lowder, Director of Livestock Programs, North Carolina Farm Bureau