Testimony of Tom Thompson 49B
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and

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For Federal Order Hearing
Docket No. AO-388-A15 and AO-366-A44; DA-03-11

Westin Atlanta Airport Hotel
4736 Best Road
Atlanta, GA 30337

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I am Dr. Bill Thomas. I am a dairy economist with over 25 years of experience and I am representing Georgia Milk Producers, Inc. an association of the 340 dairy farmers in Georgia. We represent all the dairy farmers in the state, including cooperative members and non-members.

The final decision establishing the current Southeast Order addressed the issue of a production deficit in the proposed order. USDA found at that time that, using 1997 data, "Georgia had the greatest "deficit" – with route distribution from Order 7 handlers falling about 42 million pounds short of the 122 million pounds of expected consumption". The decision further stated that "the deficit in other states ranged from 4 to 11 millions pounds."[1]

Since that time, the situation in the order has continued to decline. When Order 7 was expanded in 2000, the population of the states included in the order was 38,031,420. It has increased each year and in 2003 was 38,952,855. This was a 2.4 percent increase in just three years.

During this same time period production in the order states fell from 8.9 billion pounds to 8.4 billions pounds or a decline in excess of 15 percent. During the same period U.S. production increased 1.6 percent.

Referring back to USDA's decision, it calculates per capita milk consumption with rates varying from 16 pounds of fluid milk per month to a high of 19 pounds. Assuming an average of 18 pounds per month, per capita consumption has increased 8.2 billion pounds in 2000 to over 8.4 billion pounds in 2003.

Comparing production and consumption in 2000 when the order was initiated, there was a small surplus of 692 million pounds in the states in the order, Table 1. With the decline in production and increase in population that small surplus has changed to a deficit. In 2003 the order states had a estimated deficit of 869 million pounds.

In developing or changing an order USDA-AMS must weigh many issues, factors and interests.[2] USDA is required to be evenhanded in considering the needs of producers, processors and consumers. Based on the decline in production in the region compared to the growth in demand, USDA has not sufficiently considered the needs of the dairy farmers in the states covered by the order.

One recent publication by Jesse and Schuelke projects regional milk production in 2020. They project that between 2000 and 2020 milk production in the Southeast will fall 49.8 percent. As bad as that decline is, their projection for Appalachia is even greater with an 86.4 percent decline. By 2020 they project that there will only be 701 million pounds of

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[1] USDA, Final Decision 2000 Order Reorganization, p 134.

[2] Novakovic and Stephenson, Procedures for developing, Issuing and Amending a Federal Milk Marketing Order, Dairy Markets and Policy Issues, O-2, Cornell University, 1995

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production in those states. This amount of milk could be produced by less than 60 dairies with 500 cows each. That is not many dairy farmers surviving in a four state area: certainly not enough to maintain an infrastructure for the industry.

It has been the common practice for USDA to enlarge a market order area and lower the average utilization in some areas and raise it in others. Georgia dairy farmers have experienced losses in income every time that FO 7 has expanded from its original configuration as a Georgia Order to the proposals before us today.

Table 3 shows the changes in Mailbox prices between 2001 and 2003. Since the method of reporting Mailbox prices changed in 2001, it is not possible to go back to 2000. Over the last two years, the mailbox price declined from an annual average of $16.02 per cwt in 2001 to $13.08 in 2003. This decline in mailbox prices in the Southeast occurred at the same time that milk production in the region continued to decline.

I am Tom Thompson, President of Georgia Milk Producers, Inc. an association of all 340 dairy farmers in Georgia. We represent all the dairy farmers in the state, including cooperative members and non-members. I am also a Georgia dairy farmer.

The proposals before us today may increase the blend price slightly to Georgia dairy farmers but they will not increase the utilization sufficiently to stop the loss of production. We request that USDA correct the mistake that was made in 2000 when the lower utilization western part of the current Southeast order was added to the higher utilization eastern part of the Southeast order. Dividing the current Southeast Order and creating a Mississippi Valley Order as defined in Proposal 5 would be the first step to help rectify the mistake made in 2000.

We do realize the proponents of Proposal 1 have made valid points in the proposal to merge Orders 5 and 7. They do have over lapping market areas. They do have common supply areas and common cooperative marketing associations. Testimony presented by the Market administrator has shown that there is a great deal of overlap in marketing areas on the eastern part of the current Order 7. That overlapping does not exist for plants located in the western part of the order.

We support raising the utilization in the most deficit areas of the Southeastern states by creating a Mississippi Valley Order and combining the traditionally high utilization areas of the remainder of Order 7 and Order 5 into a new Southeast Order. This is a hybrid of Proposal #1 and Proposal #5.

Transportation Credits are an effort to recover from the market the cost of supplying the market during the deficit fall months. Transportation credits are a deficit market adjuster. Proposals before this hearing are to combine transportation credit funds and increase the collection rate. History has shown that the larger the supply area, the greater the cost of balancing that supply. Therefore, as production in the region has declined, the cost of supplying the market has increased. Rather than placing the burden of balancing the market on the dairy farmers in the order who are members of cooperatives, transportation credits do shift some of that burden to the market.

Transportation credits have an unintentional result of making it easier to bring in an alternative supply of milk rather than encouraging the production of a local supply of milk. The market is paying more for the milk that it is receiving but that increased cost is going to truck drivers instead of dairy farmers. The price to local dairy farmers should be increased rather than paying for additional transportation costs.

It is our belief that supplying a deficit market can be helped with a fall incentive plan to increase production when the market is deficit as well as using transportation credits to pay to bring milk in that otherwise is not being produced. We propose that the collection rate be increased as others have proposed but we believe the first priority for the deficit market adjuster fund should be to encourage increased milk production in the fall. If producers do not respond to this incentive, the fund should then be used to offset the cost of hauling in milk to supply the market.

What we propose is a deficit market adjuster which would encourage new production in the region. If that does not occur, then use the funds for transportation credits. There are a number of benefits if additional production can be generated. These include:

- Savings on purchases from outside the Southeast
- Savings on hauling milk from outside the Southeast
- Savings on hauling milk inside the Southeast
- Lower balancing costs by having supplies nearer to processing locations
- More efficient use of seasonal balancing plants
- Spill-over economic impact

It is apparent to us that unless corrective action is taken, there will be no significant milk production in a region that continues to have a rapidly growing population. Without corrective action, everyone loses: local dairy farmers, our nation through increased energy import costs and highway maintenance, our commuters through increased traffic congestion, but most importantly our region's milk consumers who will be straddled with ultimately higher costs of imported milk into the region.

We appreciate the opportunity to appear before you today and present our views.

Table 1. Selected Population and Milk Production Statistics, FO 7 States

	YEAR			
ITEM	2000	2001	2002	2003
Population	38,031,420	38,299,104	38,674,084	38,952,855
Pop change (%)		1.007038496	1.00979083	1.007208212
Production (LB)	8,907,000,000	8,236,000,000	7,607,000,000	7,545,000,000
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Consumption (LB)	8,214,786,720	8,272,606,464	8,353,602,144	8,413,816,680
Surplus/Deficit (LB)	692,213,280	-36,606,464	-746,602,144	-868,816,680

Source: USDA/ERS and Atlanta Market Administrator

Table 2. Projected Regional Milk Production Shares, 2020

	Actual 2000		Projected 2020		% Change, 2000-2020	
Region	Production (Mil Lbs)	U.S. Share	Production (Mil Lbs)	U.S. Share	Production	U.S. Share
New England	4,668	2.8%	4,118	2.0%	(11.8)%	(27.2)%
Northeast	24,842	14.9	25,298	12.5	1.8	(16.0)
Appalachia	5,149	3.1	701	0.3	(86.4)	(88.8)
Southeast	4,959	3.0	2,487	1.2	(49.8)	(58.6)
Mideast	12,197	7.3	11,007	5.4	(9.8)	(25.6)
Upper Midwest	35,087	21.0	24,964	12.3	(28.9)	(41.3)
Central	14,277	8.3	7,954	3.9	(44.3)	(54.1)
Western	9,275	5.6	24,333	12.0	162.4	116.4
Southwest	10,971	6.6	20,818	10.3	89.8	56.5
Pacific Northwest	7,288	4.4	12,129	6.0	66.4	37.2
Az-L.V.	3,493	2.1	7,807	3.9	123.5	84.3
California	32,240	19.3	58,198	28.8	80.5	48.9
US	166,906	100.0	202,388	100.0	21.3	

Source: Jesse & Schuelke, Regional Trends in U.S. Milk Production: Analysis and Projections. Marketing and Policy Briefing Paper #73, University of Wisconsin-Extension, Dec. 2001.

Table 3. Regional Mailbox Milk Prices, Selected Areas, 2001-2003

	2001 Avg.	2002 Avg.	2003 Avg.	% '03 of '01
Northeast Federal Milk Order	14.94	11.88	12.12	81.1%
Appalachian States	15.67	12.60	12.48	79.6%
Southeast States	16.02	13.18	13.08	81.6%
Florida	17.58	15.23	14.66	83.4%
Ohio	14.83	11.90	11.94	80.5%
Michigan	14.61	11.70	11.68	79.9%
Wisconsin	14.68	12.02	12.31	83.9%
Minnesota	14.58	11.83	12.38	84.9%
Illinois	14.58	11.91	12.12	83.1%
Northern Missouri	14.42	12.44	12.13	84.1%
Southern Missouri	14.82	11.97	11.89	80.2%
Corn Belt States	14.35	11.65	11.52	80.3%
Western Texas	14.78	12.01	11.75	79.5%
New Mexico	13.84	11.07	10.81	78.1%
Idaho	13.52	10.91	11.15	82.5%
Utah	13.62	10.74	10.74	78.9%
Northwest States	14.23	11.57	11.00	77.3%
All Federal Order Areas	14.78	11.91	11.97	81.0%
California	13.89	10.99	11.01	79.3%

Source: Dairy Market News