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South East Dairy Farmers Association

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March 15, 2006

Hearing Clerk, STOP 9200-Room 1031
United States Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250 - 9200

Re: Post Hearing Brief
Federal Order Transportation Credit Hearing
Appalachian and Southeast Orders
Docket Number AO-388-A17 and AO-366-A46; DA-05-06

The Southeast Dairy Farmers Association (SEDFFA) submits these remarks in support of proposals 1, 2 and 3 as included in the hearing notice. These comments are submitted on behalf of the following organizations: Alabama Farmers Federation, Montgomery, AL; Arkansas Dairy Cooperative Association, Damascus, AR; Cooperative Milk Producers Association, Blackstone, VA; Dairymen's Marketing Cooperative, Inc., Mountain Grove, MO; Georgia Milk Producers, Inc., Watkinsville, GA; Lone Star Milk Producers, Inc., Windthorst, TX; Louisiana Farm Bureau Federation, Baton Rouge, LA; Maryland and Virginia Milk Producers Cooperative Association, Inc., Reston, VA; Missouri Dairy Association, Chesterfield, MO; North Carolina Dairy Producers Association, Raleigh, NC; Virginia State Dairymen's Association, Harrisonburg, VA; Virginia Farm Bureau Federation, Richmond, VA; West Virginia Department of Agriculture, Charleston, WV.

The SEDFFA represents producers who are both cooperative members and independent producers. Those producers are located both within and outside the marketing areas of Orders 5 and 7 and these producers constitute both regular and supplemental suppliers for the two Orders. Some producers in SEDFFA organizations are located near plants and some are located more distant from plants. These producers are located in states including those making up the Lower Atlantic region and the Gulf Coast region as reported by the Energy Information Administration.

Producers in organizations belonging to SEDFFA believe the Federal Orders exist at least in part to provide equity in how they are treated in the market. Changes in the market, however, require changes to the regulatory structure for the Federal Orders. In this case, the cost of moving milk into markets in Orders 5 and 7 has risen much faster than regulatory factors that exist to help defray that cost. This has led to inequities in the market borne out by the fact that transportation costs for supplemental milk and costs of moving milk within the marketing areas are dramatically reducing producers' milk pay prices.

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Dairy producers remain supportive of setting the Federal Order reimbursement rate for hauling cost somewhat below the actual hauling cost to help prevent distortions in the market. However, the reimbursement rate has fallen from 94% to 95% in 1997 to only 54.6% in the Appalachian Order and 39% in the Southeast Order in 2004. These transportation cost increases are hitting producers in the southeast hardest because at the same time the amount of the cost covered by reimbursement was falling, the volume of milk that must be moved long distances in order to keep the market supplied grew significantly. While all sectors of the industry have experienced those costs, offsetting them has fallen disproportionately to producers.

The dairy industry uses a fairly consistent miles per gallon estimate in a range of 5.0 – 6.0 miles to the gallon of diesel fuel for calculating the cost of transporting milk. Diesel fuel costs are not the only reason transportation costs have increased but they are the most visible transportation cost factor. The extreme variation in the cost of diesel fuel over the past few months is what has made this issue critical for those who bear the bulk of that cost – dairy producers. It is because of this extreme variation that SEDFA Members support a variable or moving per-hundredweight-per-mile rate based on changes in the cost of diesel fuel.

Class I revenues are shared proportionally by all segments of the producer population through the producer revenue pool, without regard to the inequities in costs experienced by producers borne out of difference in costs of supplying milk for Class I use. Whether the milk is from Order 5 or 7 or from outside those marketing areas, the cost of moving that milk should be borne by the marketplace. The Class I marketplace and Class I consumers should shoulder the cost of getting milk to the processing plant.

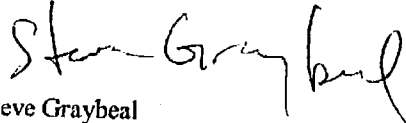
SEDFA Members note the increase in the Transportation Credit Assessment of 3-cents per hundredweight of Class I milk which went into effect in the two Orders in November of 2005, and thank the Secretary for partially addressing this need. Still, SEDFA Members agree with proponents' point that even with these additional revenues both the Order 5 and Order 7 Transportation Credit Balancing Funds will be insufficient to cover costs in calendar year 2006.

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Federal Order assessments, such as those in the proposal, provide the certainty of payment of costs associated with supplying milk for Class I and provides equitable distribution of the costs among Class I handlers, uniform distribution of these costs onto producers, and assurance to the consuming public that the costs regulated under the Orders are fairly administered and applied to actual work done in getting consumers a supply of Class I milk.

It is for these reasons that South East Dairy Farmers Association, and its Member Organizations listed above, submit these comments in support of Proposals 1, 2 and 3 in the above-referenced proceedings.

Sincerely,



Steve Graybeal
President