

Testimony of Norman A. Jordan, Jr.
President of North Carolina Dairy Producers Association

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

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4736 Best Road
Atlanta, GA 30337

February 23, 2004

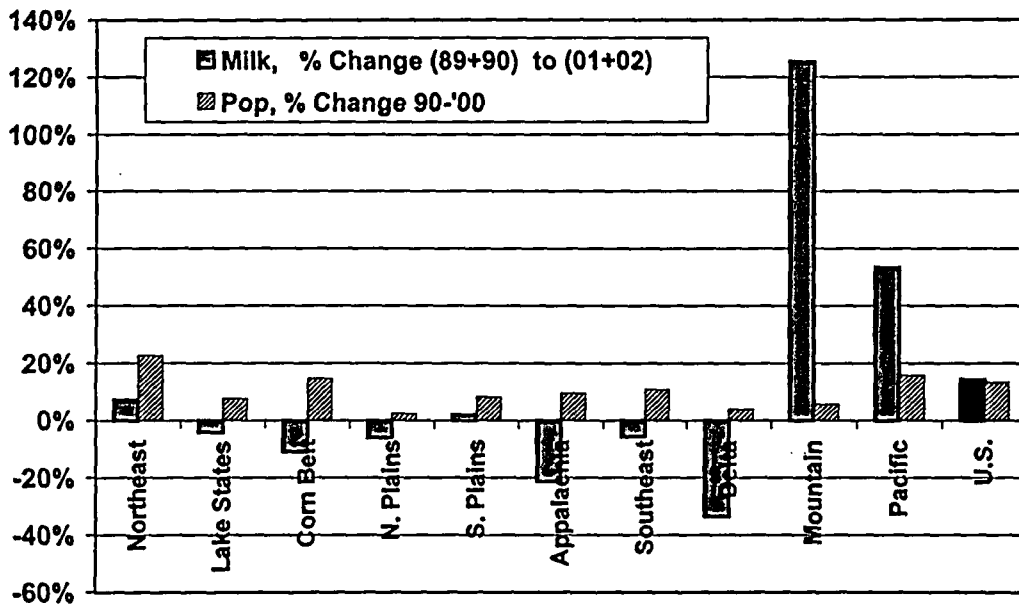
There's something wrong in the current milk marketing environment for the Southeastern United States. This area has an increasing population yet milk production is declining. Figure 1 shows regional changes in population and milk production. Under these conditions, one would expect returns to surviving producers to improve. However, mailbox prices to producers have not improved relative to other regions ^{where} ~~were~~ milk supplies are more abundant. Figure 2 shows mailbox prices for selected Federal Order markets.

Speaking on behalf of North Carolina producers, we have seen a continual decline in the number of farms and milk produced while our population has grown. Chart 3 shows the trend in North Carolina and the two other major producing states in the Appalachian Order. We, the surviving North Carolina producers, do not feel that the market is rewarding us appropriately. Under the Carolina Federal Order, which preceded the current Appalachian Order, our Class I utilization was 79%. Since January 2000, under FO 5 our utilization has been 68% on average. As far as I am aware under the Carolina Order there were no concerns that the milk supply was inadequate. Federal Order Reform has been detrimental to North Carolina producers and I am concerned that the merger proposals will do nothing to improve the ability of local producers to stay in business and continue to supply the fluid milk needs of local consumers.

I do not have access to the detailed information necessary to evaluate the current proposals. Therefore I can only request that any changes in the Order boundaries and Order regulations seek to address the growing deficiency in local milk supplies by enhancing the returns to local producers who supply the market year in and year out.

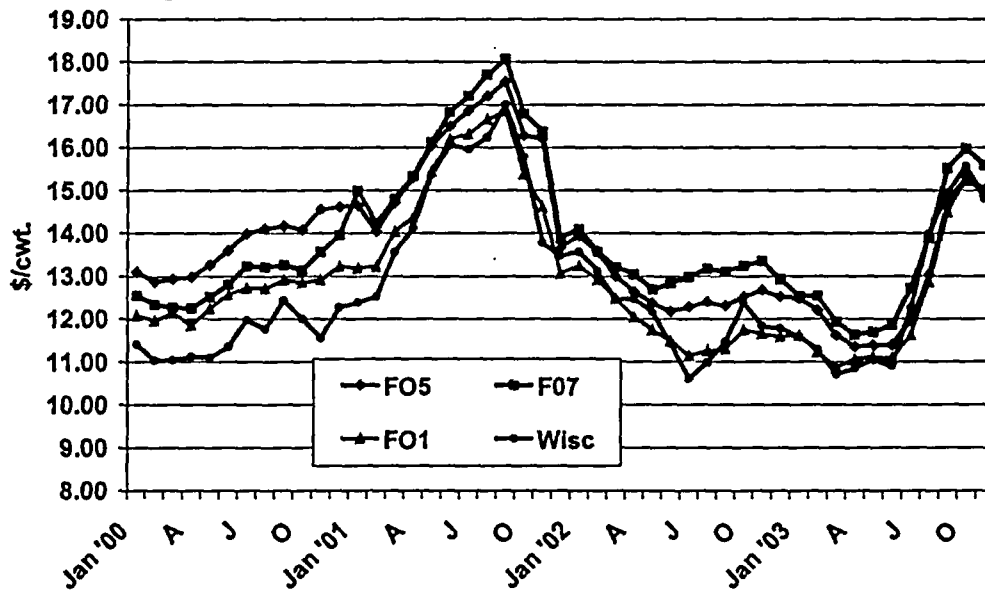
It would appear that we are in a downward spiral. As local production diminishes, the cost of balancing the market rises. These increased costs must then be born by producer coops serving this market who are then, apparently, unable to recoup these costs fully from the processors and ultimately the consumer. I request that USDA-AMS Dairy Division modify the pooling rules such that local producers receive an increased proportion of the Class I sales. I believe that 80% annual average Class I use is a reasonable target that provides the market an adequate reserve. I further request that a means be found to recapture the cost of balancing the market through increased transportation credits and other means, in order to relieve producers in the Southeastern United States of this burden. I feel that these proposed changes are necessary for USDA-AMS to fulfill the intent of Market Order legislation. Further, if this can not be achieved it is clear that the dairy industry of the Southeastern United States will vanish.

Figure 1. Regional Changes in Milk Production and Population



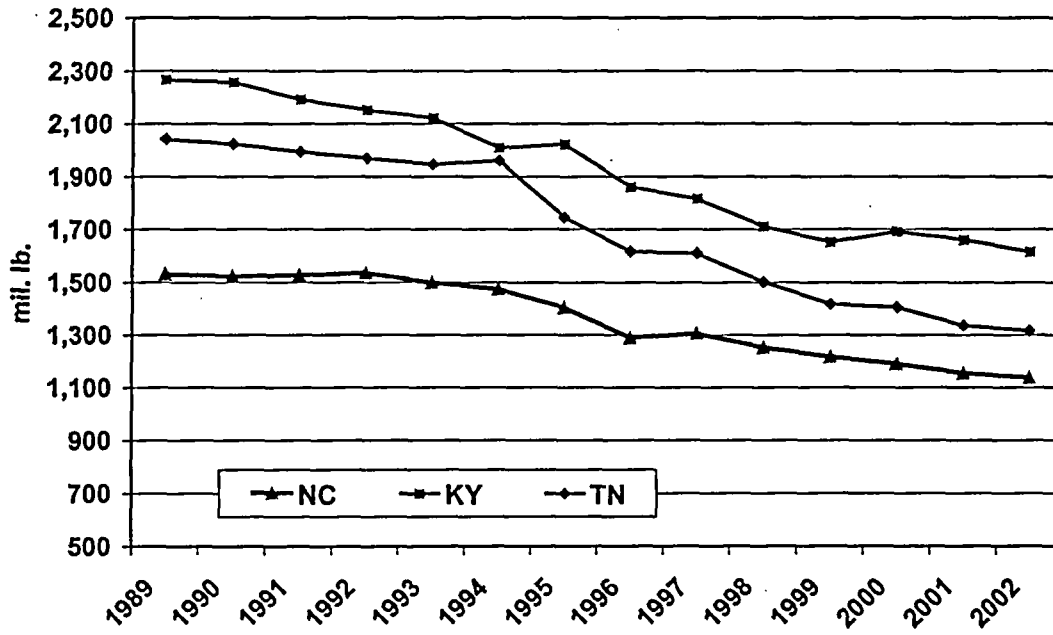
Source: USDA data, calculations by G. A. Benson

Figure 2. Mailbox Prices, Selected Orders, 2000-2003



Source: USDA-AMS-Dairy Division

Figure 3. Appalachian Region Milk Production, 1989-2002



Source: USDA