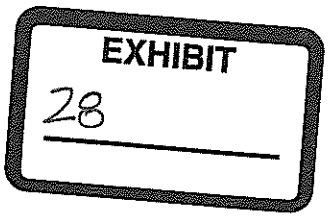

My name is Dale Lawson, and I am a dairy farmer from Pauline, South Carolina. My farm consists of 300 cows and 500 acres of corn and hay to support the dairy. I am a member of Maryland & Virginia Milk Producers Cooperative Association, Inc. I serve as an elected member on the Maryland & Virginia Cooperative Board of Directors. I am a member of the Board's Executive, Finance and Milk Marketing Committees. In addition, I serve as an Alternate Director on the Dairy Cooperative Marketing Association, Inc., (DCMA) Board of Directors, and the Southern Marketing Agency Board of Directors.

My milk generally is pooled on the Appalachian Order, but like my neighbors could be pooled on the Southeast or Florida Orders. My farm is 15 miles from a Class I plant in Spartanburg, however my milk many days moves hundreds of miles, because it goes where it is needed. It would be a benefit to producers, to plants and consumers if the Federal Order price surface reflected more of the real cost of moving milk in the southeast. For that reason, I am here today to testify in support of Proposals number 1, 2, and 3 as offered by DCMA, of which Maryland & Virginia Milk Producers is a member. I testify today on behalf of Maryland & Virginia Milk Producers whose Board of Directors fully supports the hearing proposals offered by DCMA.

In my area, the northwest corner of South Carolina, we have seen dairy farm numbers decline rapidly over the last several years. Ten years ago Spartanburg County was the third largest milk producing county in South Carolina. Today there are only five dairies left, and we are on the verge of losing two of those. This same situation is occurring over all of South Carolina, and according to USDA, milk production in South Carolina declined 3.5 percent in 2006 compared to 2005. Milk production peaked in 1985 in South Carolina, and is now less than half that peak. My cooperative management continually

updates the cooperative's membership on the supply and demand condition for the southeast, and the region as a whole is not faring any better than my state. People are moving into the southeast, and milk production is declining. It is cooperative members, such as me, that balance the supplies in the southeastern Order marketing areas and bring in supplemental milk when local supplies are inadequate. Supplies are inadequate most of the time. The burden of balancing becomes greater for every pound of production lost and every person that moves into the area.

The proposals offered by DCMA at this hearing will hopefully help stem the tide of milk production declines in the southeast, and hopefully even encourage new production. Even if they do not, the price signals which will be sent by increasing producer blend prices through higher Class I prices and reduced pooled diversions will make getting milk from outside of the region into the southeast easier. The proposal to advance the transportation credit system will also give milk marketers an improved tool to use in getting supplemental milk to the southeast.

We have seen on our farm what the cost increases in fuel have done to the cost of hauling our milk. These increases in hauling costs do not just apply at our farm, they impact the cost of moving every load of milk both inside the southeast and moving milk to the southeast from outside the region. The Class I price surface in the southeastern Orders needs to be updated to take into account these large increases in the costs of moving milk.

Other parts of the country continue to see increases in milk production, or at least not the sizable decreases that have been occurring for many years in the southeast. The Federal Orders should be updated to keep them current with the costs of getting milk to the southeast from the reserve supply regions, as is the purpose of the Order program.

We support the level of diversions and touch base days proposed by DCMA for the Appalachian and Southeast Orders. Milk which makes up the regular reserve supply for the Order area deserves to be pooled and share in the Order's blend price, even if it doesn't deliver to Class I plants every day. Since Class I plants don't receive the same volume of milk every day, not every producer can deliver to them every day. The reserve supplies are generally the furthest away from the marketing area, and should be the last ones moved into the marketing area when needed for Class I use. It just makes sense for these reserve supplies to be able to share in the blend price if they are indeed true standby reserve supplies for when the market needs the milk. It only adds to market balancing costs to require those producers to deliver extra days each month, even in the few short periods when their milk is not needed. Based on the data I've seen introduced at this hearing, I can understand why the Orders need the diversion limits and touch base days that DCMA has proposed.

I heard another producer say that the diversion limits proposed by DCMA, even though they are less than the current provisions, remain too loose, and would continue to allow too much milk to be pooled on the Appalachian and Southeast Orders by diversion, lowering Class I utilizations on the Order. I also would like to participate in Federal Order pools with the highest Class I utilizations possible, but I recognize that diversion provisions need to be realistic and reflective of the need to balance supplies at Class I plants. Since Class I plants vary their receipts of milk day to day and week to week by the substantial amounts which have been demonstrated in earlier testimony, I believe the DCMA proposal strikes a reasonable balance between the need to make sure that the pooling provisions are not too wide open, yet allow for the pooling of needed and justifiable reserve supplies.

Where I live, South Carolina, it is very costly to get milk to Class I plants. South Carolina is simply a long way from where sufficient milk is available, whether inside the southeast or outside the southeast. The consumers of milk in my state need and deserve a reliable supply of milk, and the Order program

should provide the pricing signals or marketing tools to allow those consumers to get the milk they need. Attached is a brief Exhibit, which shows at least part of the decisions which are faced by my cooperative in how to market the milk from my farm. It shows the net revenue after hauling costs at various plants both nearby my farm and farther away, under both the current Order provisions and then estimated blend prices which might exist under the DCMA proposal. If milk is not needed at the plant nearest my farm, which is Pet Spartanburg, currently the next best place to put it our milk is Asheville, North Carolina, a movement that is actually against the price grain. Under the DCMA proposal, the Class I price differences and resulting blend price differences would be more reflective of the cost of hauling, and my milk would be drawn to the more deficit area of Charleston. This is exactly what the Class I price surface should do, and what the DCMA proposal would accomplish.

In summary, Maryland & Virginia Milk Producers supports the proposals DCMA has made at this hearing for the Appalachian, Florida and Southeast Orders. The problems of supplying the southeast with milk are growing worse at an alarming rate. The southeast dairy industry is on the verge of collapse and requiring CPR. The Secretary should act in a quick way to correct the Class I prices under the three Orders, adjust the diversion limits and touch base requirements, and update the Transportation Credit provisions of Orders 5 and 7, by utilizing his authority to take emergency action.

This concludes my statement.

Analysis of Economic Incentives for Milk Delivery, Dairy Farm in Pauline, South Carolina
Various Delivery Points in Orders 5 and 7

Exhibit ____.

Pauline, SC to:	Spartanburg SC	Asheville NC	Dacula GA	Winston Salem NC	Florence SC	Charleston SC
Miles between points	10	75	128	144	160	193
Haul Cost / cwt / mile ($0.0044)	($0.044)	($0.330)	($0.563)	($0.634)	($0.704)	($0.849)
Avg. 2006 FO Blend Price as announced	13.990	13.840	13.900	13.990	14.190	14.190
Net return @ location	$13.946	$13.510	$13.337	$13.356	$13.486	$13.341
PREFERENCE RANK	**1**	**2**	**6**	**4**	**3**	**5**
Avg. 2006 FO Est. Base Zone Blend Price--proposed*	14.270	14.270	14.660	14.270	14.270	14.270
Location Adjustment -- proposed	0.200	0.000	0.000	0.000	0.600	0.900
Avg. 2006 FO Blend Price @ location--proposed*	14.470	14.270	14.660	14.270	14.870	15.170
Haul Cost / cwt / mile ($0.0044)	($0.044)	($0.330)	($0.563)	($0.634)	($0.704)	($0.849)
Net return @ location	$14.426	$13.940	$14.097	$13.636	$14.166	$14.321
REFERENCE RANK	**1**	**5**	**4**	**6**	**3**	**2**

Base zone 2006 average blend price under DCMA proposal as included in FO 5 MA Exhibit 9, page 13, and FO 7 MA Exhibit 18, page 1.