

United States Department of Agriculture

Before the Secretary of Agriculture

**In re: Milk in the Appalachian, Florida, and Southeast Marketing Areas
[Docket No. AO-388-A16, AO-356-A38 and AO-366-A45; DA-04-07]**

**Testimony Presented by
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Hearing Beginning October 7, 2004

Introduction

My name is Calvin Covington. I serve as the Chief Executive Officer of Southeast Milk, Inc., P.O. Box 3790, Bellevue, Florida 34421.

Southeast Milk, Inc. (SMI) is a dairy marketing cooperative with approximately 300 dairy farmer members. Approximately 74% of SMI's milk production is in Florida, 24% in Georgia, and the remaining 2% in Alabama and Tennessee. SMI has producer milk pooled in both Federal Orders 6 and 7. During the month of August 2004, SMI delivered 192.4 million lbs. of milk to Federal Order 6 pool plants. SMI member milk accounted for approximately 87.5% of all producer milk pooled on Federal Order 6 in August 2004. On a regular basis, SMI delivers milk to all Federal Order 6 regulated pool distributing plants. For Federal Order 7, SMI delivered 17.8 million lbs. of producer milk in August 2004. SMI delivers milk to one Federal Order 7 regulated pool distributing plant.

SMI supports Proposal No. 1 and No. 2. These proposals will reimburse handlers for the cost of transportation expenses incurred through supplemental milk purchases and displaced milk resulting from recent hurricanes. Further these proposals should include not only the cost of transportation occurred as a result of hurricanes Charley, Frances, Ivan, and Jeanne to pool plants, but nonpool plants as well. This testimony is offered in support of both proposals.

Hurricanes

From August 12, 2004 through September 26, 2004 four major hurricanes hit the state of Florida - Hurricanes Charley, Frances, Ivan, and Jeanne. The Florida Department of Agriculture estimates agriculture losses from Hurricanes Charley and Frances will exceed \$2.1 billion. This is 30% of the state's agriculture industry and does not include Ivan and Jeanne. Almost every SMI Florida dairy producer was directly or indirectly impacted by at least one of these hurricanes. Some dairy farms were impacted by two and unfortunately some by three of the four hurricanes.

Exhibit ¹⁵ Table 1. shows the counties with SMI milk production along with their estimated number of cows. Each hurricane is listed. If FEMA declared the county eligible for individual assistance then the cow numbers are listed again. This table shows the widespread impact of these four hurricanes on Florida's dairy industry such as:

- Thirty-four of the 36 Florida counties with dairy farms were declared by FEMA to be eligible for individual assistance.
- Of the Florida counties with dairy farms, 16 were declared disaster areas once; 11 twice; and 7 counties three times.
- Of the 170 SMI Florida dairy farms, 144 or almost 85% of all SMI dairy farms are located in counties declared disaster areas. These 144 farms produce almost 88% of all SMI Florida milk production.
- Florida and the southeast's largest milk producing county, Okeechobee, was declared a disaster area during three of the four hurricanes.

Structural damage to dairy farms is estimated to be at least \$50 million - barns destroyed, commodity sheds blown away, free stall barns collapsing on cows, roofs blown off, fences torn down, and crop land flooded. Two large dairy farms lost their milking facilities and had to move their cows to other operations.

We estimate at least 700 head of dairy cows, heifers, and calves killed and the number increases every day. Many dairy farms missed one and two milkings and some up to four due to power outages, winds too strong, and generators malfunctioning. Some dairy farms milked two weeks or more by generator at one stretch. We know of at least one dairy farm that only had the luxury of not milking by generator about four days between hurricanes. We estimate the decline in milk production per cow, due to additional cow stress, to be at least \$15 million. For those cows that survive, it will take a new lactation before they come back to normal milk production.

Milk Disruption

Normal milk marketing activities were disrupted by all four hurricanes with the most disruption caused by Hurricane Frances. Frances caused the most disruption due to its enormous size, slow moving, and extra precautions taken and warnings given as a result of Hurricane Charley which had just passed through the state.

Hurricane Frances caused all fluid milk processing plants located in Florida to close from one to three days. Three plants received no milk for three days, three other plants for two days, and one plant received no milk one day. Even on Christmas there are only one or two plants that actually close and then they plan to take additional milk prior to closing.

What made Frances more disruptive than past hurricanes is that past hurricanes affected only one part of the state. If a hurricane hit South Florida the Central Florida plants would continue to operate or vice versa. Hurricane Frances disrupted the entire state. This is the only time the same hurricane caused all Florida milk plants to close.

Exhibit 15 Table 2. shows milk receipts by Federal Order 6 pool handlers invoiced by SMI from August 29-September 18, 2002, 2003, and 2004. On Wednesday, September 1, 2004 milk receipts were 8.3 million lbs. Receipts declined to 6.7 million lbs. on Thursday, 5 million lbs. on Friday, and less than a million lbs. on Saturday. Then back up to 1.3 million lbs. on Monday and 8.8 million lbs. on Tuesday. By September 10, receipts approached almost 10 million lbs. Note the significant difference from the same time period in 2002 and 2003. Exhibit 15 Graph 1. depicts this graphically as well.

SMI's average daily receipts during this time period are about 6.3 million lbs. of milk. In other words during the time of the year when significant volumes of milk are being imported into Florida, the Florida market turned from a deficit milk market to a surplus milk market overnight. A portion of this "temporary" surplus milk was shipped out of the Florida market. SMI's ultrafiltration plant, used during the normal surplus season was re-opened and utilized some of the surplus. Exhibit 15 Table 3. shows the volumes of milk and additional transportation expenses incurred from handling this surplus milk. Almost 6.5 million lbs. was shipped out as surplus. Please note that, under normal conditions, almost all of this milk would have been marketed in the Florida market at the Class I price. The loss by not marketing this milk as Class I in the Florida market is at least \$400,000. Exhibit 15 Table 4.

Most unfortunately, approximately 3 million lbs. of milk was dumped at the farm or from trailers due to age during Hurricane Frances. The estimated value of this loss is about \$540,000. Exhibit 15 Table 5. Milk was dumped due to several reasons: milk trucks not able to get to farms due to high winds; down power lines and trees blocking roads and farm lanes; law enforcement officials limiting traffic to only emergency vehicles; Florida based milk haulers not wanting to leave their homes and families; outside milk haulers not wanting to come into a hurricane zone or due to traffic and some roads were only opened northbound; and all of SMI's milk tankers filled. SMI had no empty trailers to store additional milk.

Filling the Pipeline

Referring back to Exhibit 15 Table 2. one can see the significant increase in milk demand following Hurricane Frances. This increased demand came from the plants being closed from 1-3 days, many retail outlets out of power thus losing all perishables (a major Florida grocery retailer told me over 200 of their stores lost power and were operating on generators. The generators only ran the lights not refrigeration.) and thousands of homes losing all perishable food products. This created a significant challenge in filling the pipeline with dairy products once power was restored. With the hurricane hitting on Labor Day weekend, it created an even greater challenge in locating supplemental milk due to many schools throughout the U.S. opening after Labor Day, thus, creating increased milk demand in other parts of the country.

Making the matter worse is decreasing milk production as a result of the hurricanes. In the hardest hit area, Okeechobee County, September milk production is 10% or 3 million lbs. less than September a year ago. This decrease is after showing several months of increased production. We anticipate further declines in milk production as more cows are culled due to hurricane related injuries and stress. Cows are being dried off early, two farms report drying off 300-350 cows early. Dairy farmers are unable to add cows, as normally happens in the Florida market this time of the year. This due to barns and feed damaged, and drain on cash flow.

As seen in Exhibit 15 Table 6. SMI milk imports were significantly higher the week following Hurricane Frances. For the week ending September 11, 2004 imports totaled 131 loads. This increased to 302 loads the following week. The comparable weeks in 2003 were 159 and 192 loads, respectively.

Exhibit 15 Table 7. shows the additional milk imported as a result of the increased demand after Hurricane Frances. The additional milk volume is 6.3 million lbs. with a transportation cost of \$326,164.00.

In addition to raw milk moving into the Florida market, plants outside of Florida packaged additional milk for the Florida market. We do not know the total volume, but one of SMI's customers reported shipping 41 trailer loads of packaged milk to the Florida market.

SMI was not able to meet all of the milk needs from its customers the week following Hurricane Frances. SMI reduced its customers' deliveries about 10% from their normal order following Hurricane Frances. SMI could not fill additional milk requested by handlers. Exhibit 15 Document 1. is a letter dated September 14, 2004 sent to milk plants served by SMI advising them of the milk situation.

Customer Relations

Following Hurricane Frances some stores had signs on their milk shelves stating the reason for no or little milk was due to a shortage in milk from their supplier. Florida's Attorney General frequently discussed price gouging and even set up a price gouging hot line. The Attorney General urged people to report those who take advantage of another's misfortunes by selling products and services for more than they normally do. Copies of articles related to price gouging are attached as Exhibit 15 Document 2.

Discussion was held to consider increasing the October Class I over-order premium in the Florida market from what would normally occur to help cover additional hurricane related expenses. However, based upon the potential negative reaction from customers, consumers, and government officials that dairy farmers may be trying to take advantage of another's misfortunes, plus, the realization that many were suffering losses from the hurricanes, not only dairy farmers, it was decided not to increase over-order premiums.

Summary

A major purpose of Federal Milk Marketing Orders is to ensure an adequate supply of pure and wholesome fluid milk to consumers at all times. With utilizations of 70%, 85%, and 65%, respectively, Federal Orders 5, 6, and 7 are fluid milk markets. Empty grocery store milk cases showed the importance of having a local milk supply. A local milk supply can fill the milk pipeline much quicker and more efficiently than a distant supply. The implementation of these proposals will help support local production by not placing all of the cost on bringing in distance milk on local dairy producers.

SMI's 300 dairy farm members strongly encourage the Secretary of Agriculture to issue an expedited decision for Federal Orders 5, 6, and 7 which includes Proposals 1 and 2. Emergency marketing conditions exist that warrant omission of a recommended decision under the rules of practice and procedure.