EXHIBIT
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My name is William E. Holliday and I am testifying on behalf of myself as a Federal Order 5 DFA dairy producer and the North Carolina Department of Agriculture were I serve as a Board of Agriculture member. As a dairy producer I support the proposal submitted by DCMA to change the Class I differentials in orders 5, 6 and 7 and modify some of the pooling rules.

I wish to call attention to the trends in production and population in the main states located in Order 5.

- USDA data show a persistent decline in milk production in the region. The Figure 1 shows production trends in five states that lie mostly within the boundary of FO 5; KY, NC, SC, TN, and VA. 1989 is used as the starting point because this was the year when we first saw a significant increase in the volatility of farm milk prices. I should point out those significant amounts of milk from Tennessee and Virginia moves into other markets.
- The population of these states is increasing. Population has grown from 24.9million in 1990 to 31.1 million in 2006, and increase of 25%. Milk production has decreased 35% over this same period.
- Order 5 is a deficit market. Per capita milk production is low and is decreasing, from 332 lb. in 1990 to 172 lb. in

2006. This is not enough to meet the fluid product needs of the market, which is around 180 lb. per person. It requires almost 600 pounds of milk per person to meet the total dairy product needs of consumers.

Figure 2 shows the sharp decline in per capita milk production in each of these states from 1990 to 2006.

Local milk is worth more now than it was in 2000 when Order 5 was created, and increases in the minimum Class I price are justified. Transportation costs have increased approximately 20 percent form January 2000 to the present, based on the Bureau of Labor Statistics Producer Price Index for general freight in truckload lots. There is no index specifically for milk hauling but I would expect these costs have increased by a similar amount.

While the proposed changes should put some more money in producers' pockets, the proposed changes are not enough. Based on DCMA's prediction of the financial impacts in Order 5 of 26 cents, I can tell you as a producer, that more is needed to slow or reverse the trends in production we are seeing. Based upon my dairy operation of 175 dairy cows, my milk box price has averaged $ 14.75 since January 2001. My cost of production for that same period of time to produce 100 lbs of milk was $15.25. If the proposed changes were in place during that same period of production, my dairy operation would still have been $.24 cwt in the red.

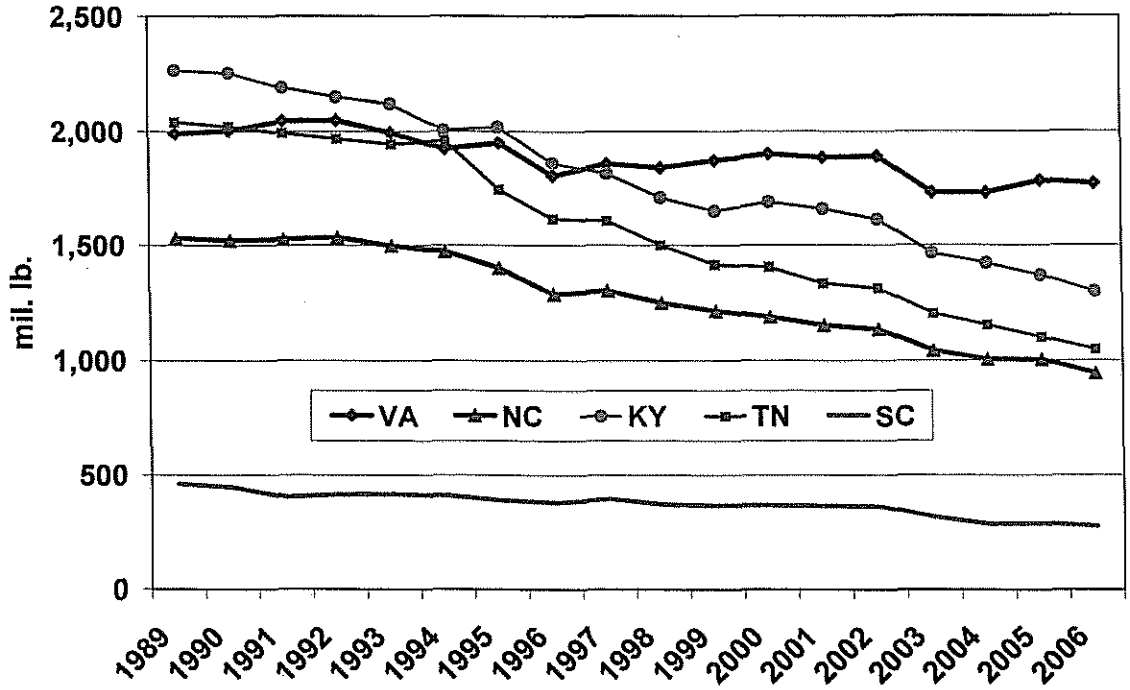
From the initial data from a survey of dairy farmers earlier this year, which was administered by USDA-NASS for the 10 Commissioners of Agriculture in the southern region, I am not alone in my financial struggles. 1,782 producers from all ten states returned the survey instrument at an amazing response rate of 64%. Dr. Geoff Benson at NCSU is analyzing the data and he provided me with the following preliminary results. Producers were asked about their views and plans for the future. Their responses clearly show that they expect farm numbers and cow numbers to continue to decline over the next five years. Some farms do intend or expect to continue and some of these plan to expand. However, these expansion plans only partly compensate for the loss of cows from the farms planning or expecting to stop milk production. When asked about the major problems they face, the overwhelming response was related to milk prices, price volatility, cost of production, and cash flow problems. It is clear from this survey that we need to improve the financial returns from dairy farming and do so right away. The DCMA proposal provides some help but it is not enough. Additional efforts must be made to support local milk production.

Furthermore, based in some information provided me by Dr. Benson at NCSU and Dr. Shepherd at the University of Georgia, the production response to this change in income is likely to be miniscule. Therefore, further efforts should be made and new initiatives taken to enhance milk production within Order 5 and the whole southeast in order to ensure an adequate supply of milk.

In addition to the supply and mailbox price issues I have raised, I would also note that the Class I utilization in Order 5 has remained unchanged since this order was created in January 2000, Figure 3. During this period, Class I sales in the order have been fairly constant, based on data from the Market Administrators office, and local production has declined dramatically as I have already described. However, the proportion of milk going to Class I uses has not changed. This raises the issue of whether to order is fulfilling its intended purpose. In short, we believe that the situation in the Order 5 and, indeed, in the region served by all three orders, is serious and I urge USDA to conduct or sponsor an in-depth study in order that problems can be identified correctly, to identify additional measures that might be taken, and to evaluate the impact of these measures. This study should be conducted right away and results should be made publicly available.

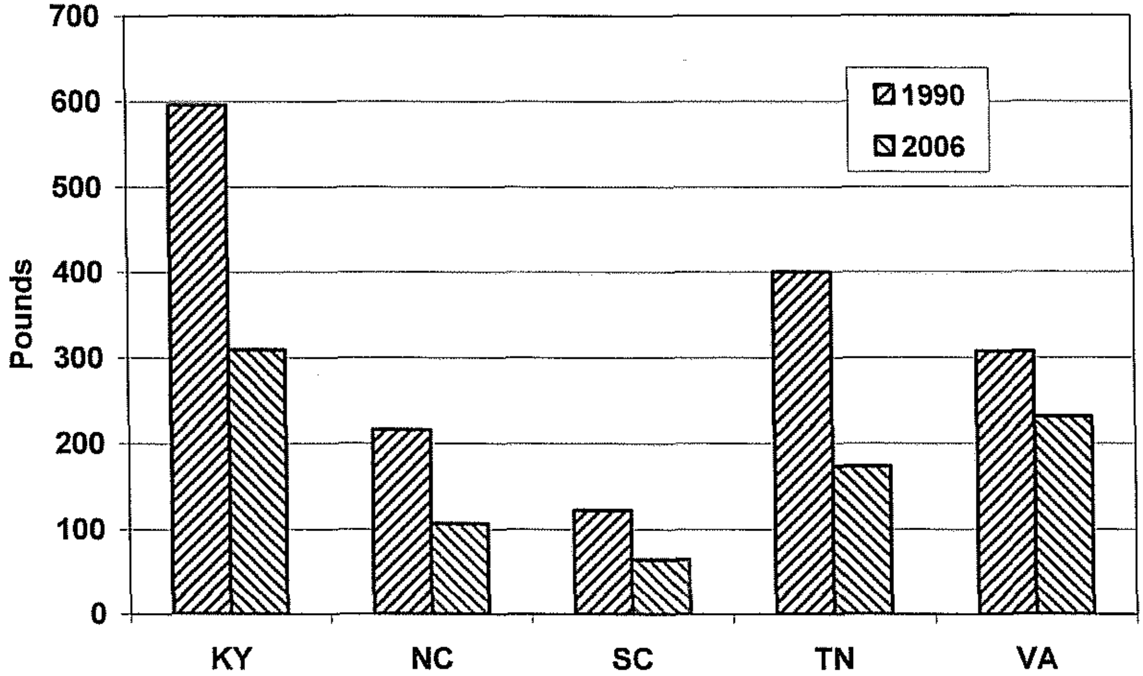
Thank you for allowing me to testify before you today.

Fig 1. Appalachian Region Milk Production, 1989-2006



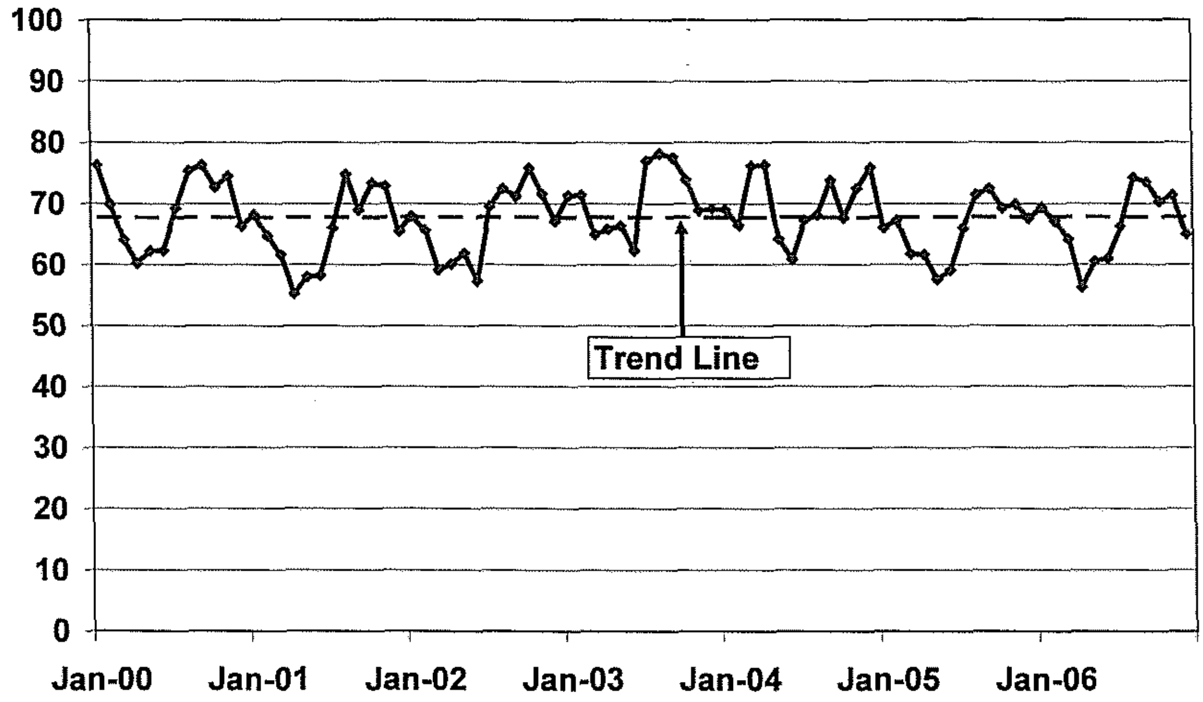
Source: NASS, USDA. "Milk Production, Disposition and Income."
Graph prepared by G. A. Benson, NC State University

Fig. 2. Per Capita Milk Production, Selected States, 1990 & 2006



Sources: NASS, USDA. "Milk Production, Disposition and Income," and US Census Bureau, "Population Estimates," on line at http://www.census.gov/popest/estimates.php
Graph prepared by G. A. Benson, NC State University

Fig 3. ORDER 5 CLASS I USE, %, Monthly, 2000-06



Source: Milk Marketing Administrator, Federal Order 5, Dairy Programs, AMS, USDA. Available on line at http://www.malouisville.com/
Graph prepared by G. A. Benson, NC State University