

**United States Department of Agriculture
Before The Secretary of Agriculture**

**In re: [Docket No. 23-J-0019; AMS- DA – 23- 0003]
Milk in the Appalachian, Southeast, and Florida Areas**

Hearing beginning February 28, 2023

Testimony Presented By:

**Calvin Covington
Representing
Southeast Milk, Inc.
PO Box 3790
Bellevue, Florida 34421**

My name is Calvin Covington. This testimony is presented on behalf of Southeast Milk, Inc., (SMI) PO Box 3790, Bellevue, Florida 34421. My time working in the dairy industry, which is approaching 50 years, includes preparing proposals for and presenting testimony at many federal milk order hearings. I retired from SMI as their CEO in 2010, but have remained involved in the dairy industry in several areas including milk pricing and federal order regulations. Since leaving full-time employment with SMI, my association with the cooperative has continued, including serving as their Interim CEO, most recently in 2022.

Southeast Milk, Inc. is a Capper-Volstead cooperative. SMI is responsible for supplying all of the raw milk needs for five (5) pool distributing plants located in the Florida and Southeast orders. In January 2023, SMI pooled the following volume of milk on the three Southeastern federal orders:

Table One. Southeast Milk, Inc. January 2023 Producer Milk by Federal Milk Order

<u>Federal Order</u>	<u>Milk Pounds</u>	<u>Number of Producers</u>
Appalachian	4,594,990	13
Florida	70,438,724	80
Southeast	19,442,553	58

SMI is a member of Dairy Cooperative Marketing Association, Inc. (DCMA). SMI supports all five DCMA proposals (Proposals 1-5) as contained in the hearing notice. SMI's testimony will focus on Proposal 4, the establishment of distributing plant delivery credits or intra-market transportation credits in the Florida milk marketing order. SMI's support for intra-market transportation credits is based on the following five reasons:



1. **Declining Florida milk production.** The Florida marketing area comprises all of the state of Florida except the four (4) most western counties. There is little or no milk in these four (4) counties. As shown in Table Two, Florida order producer milk produced in the state of Florida has steadily declined. Only 76.0% of the order's milk was produced in Florida in 2022, compared to 87.1% just three years ago in 2019. Let me interject the Florida order producer milk numbers track National Agricultural Statistics Service (NASS) milk production numbers for the state of Florida. Of the 24 states in NASS's monthly milk production report, Florida had the largest year-over-year milk production decline in 2022, down 10.9%. In 2022, the state of Florida reported its lowest milk volume since 1984.

Table Two. Florida Federal Milk Order Producer Milk by State (2016-2022)

<u>Year</u>	<u>Florida</u>		<u>Other States</u>		<u>Total Producer Milk</u>
	<u>1,000 lbs.</u>	<u>% of total</u>	<u>1,000 lbs.</u>	<u>% of total</u>	
2016	2,358,561	86.9	356,148	13.1	2,714,709
2017	2,308,614	88.7	293,652	11.3	2,602,266
2018	2,207,708	86.1	357,700	13.9	2,565,408
2019	2,185,899	87.1	323,880	12.9	2,509,779
2020	2,117,524	84.4	391,321	15.6	2,508,845
2021	2,005,749	82.1	438,181	17.9	2,443,939
2022	1,885,831	76.0	597,060	24.0	2,482,891

Source: Agricultural Marketing Service and Florida Milk Market Administrator statistics

Higher milk production expenses including higher freight costs (a high percent of Florida's dairy feed, supplies and fertilizer are imported into the state from some distance), on-going environmental challenges and related expenses, opportunity costs, urbanization and lower margins are reasons for declining Florida milk production. The implementation of Proposal 4, on an expedited basis, is a step toward slowing the decline of Florida milk production.

2. **More milk from outside of Florida.** Less milk produced in the state of Florida, means more milk from outside the state of Florida is needed to supply fluid milk needs in the Florida order. As depicted in Table Two, 24.0% of the Florida order producer milk in 2022, was produced outside the state of Florida. This percent has increased in recent years.

Due to market administrator restrictions on publishing milk production volumes by county or state with a limited number of producers and/or volume, actual milk volume for each state in the "other states" category is not available. However, based on SMI marketings and personal knowledge, I can confidently state a very high percentage of the "other states" producer milk comes from the 49 South Georgia counties included in Proposal 4.

Historically, South Georgia served as the reserve milk supply for the Florida market. Due to declining Florida milk production, and increased milk production in Georgia, South Georgia is now a regular milk supplier to the Florida order. Unlike the state of Florida, NASS reports Georgia had the second highest milk production increase in 2022, up 12.7%.

49 South Georgia counties are included in Proposal 4, due to these counties now serving as a regular source of producer milk for the Florida order. Proposal 4 is needed to provide some reimbursement of milk hauling expense due to the distance the milk is from Florida pool distributing plants. It is 225 miles from the Florida-Georgia border on Interstate 75 to the closest Florida pool distributing plant.

Georgia milk production has increased in recent years. In discussions with Georgia dairy farms, most expanded due to lower margins per unit. More units of production are needed to cover fixed expenses. South Georgia is more conducive to dairy farming and dairy expansion compared to other parts of the Southeast. However, distance to fluid milk plants and the associated milk hauling cost is a major concern to these dairy farms, and will weigh heavily on future expansion. The acceptance of Proposal 4 will assist these dairy farmers in transporting milk to distributing plants, and help ensure an adequate milk supply for the Florida market.

3. **Increased Class I disposition.** From 2006 to 2021, Florida order Class I disposition declined. In 2022, the reverse happened and Class I disposition increased 2.3% from 2021 to 2.042 billion lbs. See Table Three. The increase is continuing in 2023. January 2023 Class I disposition is 187.544 million lbs., 3.0% higher than January 2022.

Table Three. Florida Order Class I Disposition 2016-2022

<u>Year</u>	<u>Class I Disposition (1,000 lbs.)</u>
2016	2,319,193
2017	2,217,102
2018	2,169,705
2019	2,141,343
2020	2,071,264
2021	1,996,087
2022	2,042,134

Source: Florida Milk Market Administrator statistics

Even though Class I disposition increased 2.3% in 2022, packaged fluid milk sales in the Florida marketing area declined 0.1% in 2022. Disposition up and fluid sales basically flat, indicates Florida pool distributing plants are marketing more packaged fluid milk outside of the Florida marketing area. Based on my interactions with Florida pool distributing plants this is the case, especially in regards to school milk.

The number of pool distributing plants in the three Southeastern orders continues to diminish. The three Southeastern orders started 2022 with 44 pool distributing plants and ended the year with 39. Many of the closed plants, historically, packaged and distributed milk to schools. Today, there are fewer plants in three Southeastern Orders processing, packaging and distributing school milk. Those that continue providing school milk serve a greater geographical area.

Florida has a pool distributing plant specializing in packaging fluid milk for institutions, especially schools. This plant not only supplies a high percent of Florida school milk, but the plant now supplies milk to schools outside of Florida. Due to the demand for school milk, and less plants packaging school milk, this Florida based plant is expanding. This means additional raw milk will be needed to meet the increased demand for school milk from this plant. Looking ahead, I project more milk processed and packaged in Florida, especially school milk, will be distributed outside of the Florida marketing area.

4. More farm milk moving west and north to pool distributing plants. Historically, most farm milk was delivered to pool distributing plants located in a county with the same or a higher Class I differential than the dairy farm. Moving to a location with a higher differential helped cover some of the milk hauling expense needed to transport the milk. (One of the purposes of Class I differentials.) Due to less pool distributing plants and the location of a plant versus the most accessible milk supply, this has changed. Today, SMI markets producer milk, to pool distributing plants located both west and north, of the dairy farm's location.

In January 2023:

- All of SMI's Appalachian order milk moved from a higher (\$4.00) to a lower (\$3.60) zone. In the past this milk was marketed, east, to the Charleston, SC area or south to the Jacksonville, FL area. Today, there are no longer fluid milk plants in these areas.
- Approximately 44% of the milk delivered by SMI to a Southeast order pool distributing plant moved from a higher (\$4.00) to a lower (\$3.80) zone. The milk, located south of the plant, is the most accessible milk for the plant.
- Almost 14% of SMI's Florida producer milk, delivered to Florida order pool distributing plants, was transported from a higher (\$5.80) to a lower (\$5.40) zone. This is because of less pool distributing plants located in the Miami market.

The implementation of Proposal 4 will allow the above milk to receive some reimbursement of milk hauling expense incurred, from moving milk from a higher to a lower priced location.

5. **Higher milk hauling expense.** Since the formation of SMI, 25 years ago, the cooperative has owned and operated its own milk hauling fleet. To support the testimony of the primary DCMA witness in regards to increased milk hauling cost, the following are annual changes in four milk hauling related expenses incurred by SMI:

- **Average annual diesel fuel costs (\$/gallon):**

2020	\$1.9239
2021	\$2.7785
2022	\$4.4117

- **Average annual milk hauler wages, does not include benefits (\$/hour):**

FY 2018	\$22.60
FY 2022	\$28.70
FY 2023 YTD	\$31.24

- **Quoted prices to SMI for a Peterbilt truck (day cab), not including taxes:**

2020 model quoted July 31, 2019	\$118,102
2021 model quoted October 6, 2020	\$119,678
2022 model quoted October 14, 2021	\$144,390

SMI has not asked for quotes on trucks since October 14, 2021. The truck person SMI deals with reports current quotes are about 18% higher than the last quote, putting the truck price over \$170,000.

- **Quoted prices to SMI for 6,200-gallon milk tankers, first quarter of each year:**

2021	\$69,400
2022	\$74,656
2023	\$80,256

Let me emphasize, there are more milk hauling expenses than just fuel, wages, and equipment that have increased. Other expenses include: employee benefits, insurance premiums, tractor and tanker maintenance, tires, repairs, taxes, permits and highway tolls.

SMI has and continues to work to improve the efficiency of its milk hauling and control expenses. These efforts include moving to larger milk tankers, direct farm milk loading, closing of trucking terminals, improved fuel efficiency, and driver safety. However, efforts to control cost, only offsets a portion of higher milk hauling expenses.

Let me state, confidently, SMI's actual expense to haul milk from its members' farms to pool distributing plants greatly exceeds the intra-market transportation credit being requested.

6. Meets the primary purposes of federal milk marketing orders. The two primary purposes of federal milk orders are: 1) help ensure consumers have an adequate supply of fresh and wholesome milk for drinking purposes, and 2) promote and maintain orderly marketing conditions.

Intra-market transportation credits provide an incentive to produce and deliver raw milk to Florida pool distributing plants. Thus, helping to ensure fluid milk plants can provide consumers, including school children, with an adequate supply of fresh and wholesome fluid milk. It is important to remember Florida is the nation's third most populated state, and is consistently one of the fastest growing states in the nation. Proposal 4 is urgently needed to help meet the fluid milk demand of Florida consumers, whose numbers increase every day.

Due to raw milk being a high percentage of the cost of packaged milk at a fluid milk plant's dock, it is important to have equitable raw milk costs, to help maintain orderly marketing of milk. The proposed intra-market transportation credits provide another tool toward more orderly marketing. The proposed intra-market transportation credit requires all regulated Class I processors to contribute an equal amount per cwt. to offset a portion of farm to market milk hauling costs. Just as market-wide pooling promotes orderly marketing by preventing a handler with a higher Class I utilization having a producer price advantage. Intra-market transportation credits reduce the potential of a handler having a price advantage due to the location of its milk supply.

Southeast Milk, Inc. expresses its appreciation to the Secretary of Agriculture and the Dairy Division for holding this hearing to consider these important proposals. We encourage the Secretary to recommend the adoption of Proposals 1-5 as presented, and to do so on an expedited basis.

Respectfully submitted,

Calvin Covington
On behalf of Southeast Milk, Inc.