

United States Department of Agriculture
Before The Secretary of Agriculture



In re: [Doc. No. AO-15-0071; AMS-DA-14-0095]
Milk in California

Hearing beginning September 22, 2015

Testimony Presented By:
Calvin Covington

Clemmons, NC

On behalf of:

- Cobblestone Milk Producers Cooperative, Chatham, Virginia
- Southeast Milk, Inc., Belleview, Florida

My name is Calvin Covington. My address is _____, Clemmons, NC : I worked full-time in the dairy industry for about 35 years before retiring in 2010 as the CEO of Southeast Milk, Inc. My formal education includes a Bachelor of Science degree from N.C. State University and a Master of Science Degree from Ohio State University. Both degrees are in agriculture. Over the years, I have prepared proposals for and presented testimony, including expert testimony, at several federal order hearings. Currently, on a part-time basis I provide assistance to dairy cooperatives and proprietary plants in the areas of milk pricing, federal order regulations, dairy policy, plus speak and write on those subjects.

My testimony is presented on behalf of two southeast based dairy cooperatives. Cobblestone Milk Producers Cooperative based in Chatham, Virginia and Southeast Milk, Inc. based in Belleview, Florida.

Cobblestone markets approximately 550 million lbs. of milk, annually, primarily to fluid milk processing plants in the Appalachian and Southeast federal milk marketing orders. Cobblestone's nineteen members are located in Georgia, North Carolina and Virginia. Southeast Milk markets approximately 2.5 billion lbs. of milk, annually, primarily to fluid milk processing plants in the Florida and Southeast federal milk marketing orders, including two processing plants and one balancing plant owned by the cooperative. Southeast Milk's 158 members are located in Florida, Georgia, and South Carolina. Combined, both cooperatives market about one-third of the fluid milk in the ten southeast states.

Let me state from the outset, Cobblestone and Southeast Milk operate in a milk market, almost opposite from the California milk market. Class I utilization last year in the Florida order was 85%, Southeast order 74%, and the Appalachian order 68%. On the other hand California Class I utilization is about 13%. From 1995 to 2014, the southeast saw its milk production decline from 13.5 to 9.5 billion lbs. During this same time frame California milk production went from 25 to 42 billion lbs.

Even though the two cooperatives I represent operate in a market significantly different from California, this hearing has the potential to economically impact these two cooperatives and their dairy farmer members. Plus, the processors and consumers the cooperatives serve. This is the reason Cobblestone and Southeast Milk submit this testimony.

Considering the impact of one federal order on another order is not without prior acknowledgement. The often cited, *Federal Milk Order Study Committee, December 1962 report to the Secretary of Agriculture*, commonly referred to as the “Nourse Report” speaks to this need as follows:

“... a recognition that, the outlook of the Secretary of Agriculture and his aides should not be parochial but industry wide and national in its scope. The Secretary is empowered and entrusted to develop a *system* of fluid milk marketing orders, integrated as to their relations with each other and with all the uses into which milk goes, not merely orderly as to their internal housekeeping.”

Source: Report to the Secretary of Agriculture by the Federal Order Study Committee, December 1962, page 10.

The basis of our Cooperative’s concern are the results presented in the *Preliminary Regulatory Impact Analysis of Proposals to Establish a California Federal Milk Marketing Order*, released by the Department in August of this year, and presented earlier in this hearing. Our concerns focus on producer milk prices and milk production.

Depending upon the specific proposal, the impact on the blend prices at test, for the three orders in the southeast varies. The following three tables show the average, minimum, and maximum impact on blend prices at tests for the three southeast orders for the period 2017 to 2024. Data in all three tables is taken from the *Impact Analysis* report.

Appalachian - Changes in Blend Prices at Test (2017-2024)

<u>Proposal</u>	<u>Average (\$/cwt.)</u>	<u>Minimum (\$/cwt.)</u>	<u>Maximum (\$/cwt.)</u>
Cooperative	-\$0.13	-\$0.15	-\$0.09
CPHA	-\$0.13	-\$0.15	-\$0.09
Ponderosa	-\$0.13	-\$0.15	-\$0.09
Dairy Institute	-\$0.04	-\$0.27	\$0.23

Source: Table B2, B18, B34, B50 from the *Preliminary Regulatory Impact Analysis of Proposals to Establish a California Federal Milk Marketing Order*

Florida - Changes in Blend Prices at Test (2017-2024)

<u>Proposal</u>	<u>Average (\$/cwt.)</u>	<u>Minimum (\$/cwt.)</u>	<u>Maximum (\$/cwt.)</u>
Cooperative	-\$0.22	-\$0.31	-\$0.10
CPHA	-\$0.22	-\$0.30	-\$0.10
Ponderosa	-\$0.21	-\$0.29	-\$0.10
Dairy Institute	-\$0.01	-\$0.44	\$0.41

Source: Table B2, B18, B34, B50 from the *Preliminary Regulatory Impact Analysis of Proposals to Establish a California Federal Milk Marketing Order*

Southeast - Changes in Blend Prices at Test (2017-2024)

<u>Proposal</u>	<u>Average (\$/cwt.)</u>	<u>Minimum (\$/cwt.)</u>	<u>Maximum (\$/cwt.)</u>
Cooperative	-\$0.26	-\$0.34	-\$0.13
CPHA	-\$0.25	-\$0.34	-\$0.13
Ponderosa	-\$0.25	-\$0.32	-\$0.13
Dairy Institute	-\$0.24	-\$0.75	\$0.33

Source: Table B2, B18, B34, B50 from the *Preliminary Regulatory Impact Analysis of Proposals to Establish a California Federal Milk Marketing Order*

For all four proposals the average blend price at test, over the eight year period is projected lower in the three southeast orders. Using the lowest average change in milk price from the four proposals, the average Southeast Milk producer marketing milk in the Florida order, could expect a drop in annual revenue of about \$35,000. For a Cobblestone producer marketing milk in the Southeast order the annual revenue decline is about \$70,000.

According to the analysis, milk production declines or remains flat, under the Cooperative, Producer-Handler, and Ponderosa proposals. While under the Dairy Institute proposal, milk production is projected to remain flat in the Appalachian order, and to increase slightly in the Florida and Southeast orders. This in marketing areas that, annually, do not produce the milk volume needed to meet consumer fluid demand.

A major objective of federal milk marketing orders is: to assure consumers have access to adequate and dependable supplies of high-quality milk from the sources best suited both technologically and economically to supply these demands. Meeting this objective is a major challenge in the southeast. Lower producer prices and less milk make the challenge more difficult.

The U.S. Census Bureau estimates the population of the ten southeast states at 76.5 million people in 2014 which is about twice the population of California. Using the recently released 2014 per capita fluid milk consumption number of 159 lbs., results in a total southeast fluid milk consumption of 12.2 billion lbs. in 2014. Total southeast milk production during this time frame was about 9.5 billion lbs. This is a deficit of 2.7 billion lbs. If we consider balancing and standardization requirements, the annual deficit easily grows to 4.5 billion lbs.

Each year the Central Milk Market Administrator publishes per capita milk production data by state. The Central Administrator uses a number of 300 lbs. per capita production needed to meet a state's Class I and II, plus reserve milk needs. Not a single one of the ten southeast states hits the 300 lb. mark.

The additional milk needed to meet the southeast fluid milk deficit must be transported into the area either as bulk or packaged milk. Producing less milk than needed to meet the consumer fluid milk demand, increases the expense of transporting milk into the market. This transportation adds additional expense to the cost of milk which is born by producers, processors, and consumers.

Thanks to previous decisions by the Department, and efforts by many groups, milk production in the southeast has been on a slight upward trend since 2010. It is important to all segments of the dairy industry in the southeast – producers, processors, and consumers, this upward trend in production continue to increase in order to provide the fluid milk needed by the market.

In summary, we encourage the Secretary to do the following:

1. In formulating a recommendation take into consideration the potential impact a decision in one federal order has on other orders.
2. If a decision is made that makes it more difficult for the three southeast orders to provide consumers an adequate and dependable supply of high-quality fluid milk, be receptive to considering future proposals that help the orders' meet the objective of supplying consumers with an adequate and dependable supply of fluid milk.