United States Department of Agriculture
Before The Secretary of Agriculture

In re: [Docket No. 23 – J – 0067; AMS-DA-23-0031]
Milk in the Northeast and Other Marketing Areas

Hearing beginning August 23, 2023

Testimony Presented By:

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My name is Calvin Covington. This testimony is presented in support of **Proposal 19: Update the Class I price differential surface throughout the United States as proposed by National Milk Producers Federation (NMPF).** This testimony is presented on behalf of Southeast Milk, Inc. (SMI). SMI is a long-time member of NMPF.

My off-farm career in the dairy industry covers 50 years, working with dairy farmers and their organizations. This work includes preparing proposals for and presenting testimony at many federal milk marketing order (FMMO) hearings over the past five decades. I retired from SMI as their CEO in 2010, but remain involved in the dairy industry, particularly, in the areas of milk pricing and federal order regulations. Since leaving full-time employment with SMI, my association with the cooperative continues, including serving as their Interim CEO most recently in 2022, and representing the cooperative on FMMO and dairy policy issues. This includes serving as a member of the NMPF federal order task force which developed this and the other proposals presented at this hearing.

SMI is a Capper-Volstead cooperative and a pool handler in the Florida and Southeast FMMOs. SMI is responsible for supplying all the raw milk needs for four pool distributing plants located in the Florida FMMO and one pool distributing plant in the Southeast FMMO.

As of June 30, 2023, SMI's membership consists of 114 dairy farmer members who own and operate 119 Grade A dairy farms. SMI estimates 93 of these members meet the Regulatory Flexibility Act's definition of a small business.

SMI extends its appreciation to the Secretary of Agriculture and the Dairy Division staff for holding this hearing.

Previous witnesses provided testimony on the process used in developing the proposed updated Class I differentials. My testimony, in support of updating Class I differentials, focuses on the Florida FMMO and will cover fluid demand, milk supply, and proposed Class I differentials.

Demand

Florida is one of the few remaining Class I markets in the FMMO system. From 2000 through 2022, average annual Florida FMMO Class I utilization has exceeded 82%. Most of the producer milk classified as Class II, III and IV is cream resulting from standardization of fluid products, bulk inventory and shrink. For 2023, through August, Class I utilization is 83.11%.

Since 2021, Class I disposition in the Florida FMMO has increased. 2021 Class I disposition was 1,996,086,644 lbs. In 2022 it was 2,042,133,745 lbs., a 2.3% increase. Through the first eight months of 2023, Class I disposition is 1.6% higher than the same period in 2022.

The Florida FMMO covers the entirety of Florida, excluding the four most western counties located in the panhandle. Florida is the third most populus state in the U.S. with over 22 million people. Since 2000, average annual population growth rate is 1.8%. All current indicators point to continued population growth in the state. The University of Florida projects the state to add another two (2) million residents by 2030. The number of potential milk consumers in the Florida FMMO has grown and continues to grow.

In a fluid milk market, milk deliveries to pool distributing plants varies from month to month and day to day. Table one shows average daily Class I disposition in 2022, by month, in the Florida FMMO.

Table one. 2022 Florida FMMO average daily Class I disposition

Month	Average Daily Class I Disposition (lbs.)
January	5,873,995
February	5,936,511
March	5,783,357
April	5,830,016
May	5,263,845
June	5,091,968
July	4,938,593
August	5,472,068
September	5,352,812
October	5,886,777
November	5,824,037
December	5,908,670
Daily Average for the Year	5,594,887

Source: Florida FMMO statistics.

Note the wide variation in Class I disposition from month to month, and how quickly disposition can change. In just a 90-day period from April to July, Class I demand dropped from averaging 5.830 million pounds per day to 4.939 million pounds per day. This is a decline of the equivalent of 18 loads of milk per day in just 90 days. And, just 90 days later, July to October, Class I disposition goes back up by 19 loads per day.

There is a wide variation in daily deliveries as well. Using 2022 SMI data, the volume of milk delivered to pool distributing plants on each Monday throughout 2022, averaged 28 percent more than milk volume delivered on a Sunday. Similarly, the volume of milk delivered on a Friday averaged 8 percent less than Thursday deliveries.

There is a cost in managing these swings in milk demand. It requires additional milk tankers (horizontal storage); marketing milk to non-pool plants at below class prices, often when production exceeds demand; purchasing supplemental milk at above class prices when demand exceeds production and transporting the milk considerable distances; offering credits to encourage pool distributing plants to receive a consistent milk supply; and working with other cooperatives to balance supply and demand. To adequately serve a fluid milk market, a cooperative must have access to a raw milk supply equal to the maximum milk volume needed by pool distributing plants on a given day.

The nature of consumer buying patterns; schools not operating year-round or seven days per week; marketing milk in a peninsula, with a seasonal residential population and being prone to hurricanes are reasons for the variation in milk deliveries to pool distributing plants.

Cooperatives continue to improve efficiency of balancing milk supply and demand, and working to control balancing expenses. However due to the reasons just stated, there will always be variations in the volume of milk required to serve a fluid milk market. It costs money to adequately serve a fluid milk market and ensure there is fluid milk on the shelf for consumers and in school cafeterias. Class I differentials do more than encourage movement of raw milk to fluid markets, they also assist in covering the expenses needed to serve a fluid milk market.

Previous witnesses have provided information documenting the increased costs to turn raw milk into butter, cheese, and milk powders. Costs to transport raw milk from farm to milk plant have increased as well, which further supports the need to increase Class I differentials. I do not want to duplicate what others have provided in regards to increased milk hauling costs, but I will add information specifically related to the SMI and the Florida market.

Table two shows SMI producer hauling rates for the 2003, 2013, and May 2023. These hauling charges are for a producer shipping 49,500 lbs. of milk per pick-up (one load) and located 175 miles from the producer's assigned milk plant. In 2003, the producer charge was $0.82 per cwt. or $2.31 per loaded mile. In May of this year, the producer charge was $2.11 per cwt. or $5.98 per loaded mile. Current producer milk hauling charges are almost double the charges in 2013 as shown in Table two. Keep in mind the Class I differentials along the Interstate 4 corridor and the Miami area are the same today as they were in 2013, $5.40 per cwt. and $6.00 per cwt., respectively.

Table two. SMI producer milk hauling charges 2003, 2013, and May 2023

	2003	2013	May 2023
Milk pounds picked up (one load)	49,500 lbs.	49,500 lbs.	49,500 lbs.
Miles from farm to assigned milk plant	175	175	175
Total cost per load	$403.58	$530.70	$1,045.75
Cost per cwt.	$0.82	$1.07	$2.11
Cost per loaded mile	$2.31	$3.03	$5.98

Until recently, the cooperative has owned and operated its own milk hauling fleet. The following are annual changes, in recent years, for four milk hauling related expenses incurred by SMI. This further shows the increase in milk hauling expenses.

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

2020	$1.9239
2021	$2.7785
2022	$4.4117
2023 YTD-May	$3.6494

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

FY 2018	$22.60
FY 2022	$28.70
FY 2023 YTD -May	$30.23

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

2020 model Peterbilt quoted July 31, 2019	$118,102
2021 model Peterbilt quoted October 6, 2020	$119,678
2022 model Peterbilt quoted October 14, 2021	$144,390
2024 model Peterbilt quoted June 16, 2023	$172,368

- Quoted prices to SMI for 6,200-gallon milk tankers:

2021model	$69,400
2022 model	$74,656
2023 model	$80,256
2024 model	$90,000

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.

The December 1962 "Report to the Secretary of Agriculture by the Federal Milk Order Study Committee," more commonly know as the Nourse report, laid out the objectives of FMMOs per the Agriculture Marketing Agreement Act of 1937 (Act). One of the objectives is: "To assure consumers that they will have access to adequate and dependable supplies of high-quality milk from sources best suited both technologically and economically to supply these demands. To paraphrase, ensure consumers have an adequate supply of fluid milk for consumption. A growing Florida population, along with the challenges and increased costs to serve the Florida FMMO, supports the need to update Class I differentials to meet this FMMO objective.

Supply

Farm milk production within the boundaries of the Florida FMMO is declining. Only 76.0 percent of the order's producer milk was produced in Florida in 2022, compared to 87.1 percent just three years earlier. Table three. Let me interject, Florida FMMO producer milk volume numbers tracks National Agricultural Statistics Service (NASS) milk production numbers for the state of Florida. Of the 24 states in the NASS' monthly milk production report, Florida had the largest year-over-year milk production decrease in 2022, down 10.9 percent. In 2022, Florida reported its lowest milk volume since 1984. For the first half of 2023, Florida production is 6.0 percent lower than the same period in 2022. Again, of the 24 monthly reporting states, Florida has the largest decline.

Table three. Florida FMMO producer milk by state (2018-2022)

Year	Florida		Other States		Total Producer Milk
	1,000 lbs.	% of total	1,000 lbs.	% of total	1,000 lbs.
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: Florida FMMO Administrator statistics

Higher milk production expenses, on-going environmental challenges and related expenses, opportunity costs, urbanization and lower on-farm margins are reasons for declining Florida milk production. Compared to most other parts of the country, a higher percent of a Florida dairy farm's operating expense is feed. This is because a high percent of Florida's dairy feed and crop inputs imported into the state.

Due to market administrator confidentiality policies, actual milk volume for each state in the "other states" category, Table three, is not available. However, based on SMI milk marketings and personal knowledge, I can confidently state over 90 percent of the "other states" producer milk comes from South Georgia.

Historically, South Georgia served as a reserve milk supply for the Florida FMMO. Due to declining Florida milk production, and increased milk production in Georgia, South Georgia is now a regular milk supplier to the Florida FMMO. Georgia milk production has increased in recent years.

In discussions with Georgia dairy farms, most expanded due to lower margins per unit. No different than dairy farms anywhere, more units of production are needed to cover fixed expenses. Also, South Georgia is more conducive to dairy farming and dairy expansion compared to other parts of the Southeast.

Due to closure of many pool distributing plants, especially in the Southeast FMMO, the distance to fluid milk plants and the associated milk hauling costs are major concerns to South Georgia dairy farmers. It will weigh heavily on their decisions for future expansions.

It is about 300 miles from the center of the South Georgia milk supply to the closest Florida FMMO pool distributing plant. Using May 2023 SMI farm-to-market producer milk hauling charges, the cost to transport a tanker of farm milk 300 miles is $3.30 per cwt.

The Act states, a primary standard for establishing Class I prices is the relationship between milk supply and demand in the marketing areas. Meeting Class I demand is vital to the FMMO system to ensure it carries out is primary objectives.

Based on the data presented for the Florida FMMO there is:

1. Not an adequate volume of producer milk within the marketing area to meet the Class I demand.
2. An increasing volume of milk, located outside the marketing area, is regularly transported into the Florida FMMO, to meet the Class I demand.

These two challenges support updating Class I differentials in the Florida FMMO to ensure Class I demand is met and orderly marketing conditions are maintained.

Proposed Class I differentials

Florida FMMO order pool distributing plants are in three different geographical areas. The areas and their current and proposed Class I differentials are shown in Table four.

Table four. Geographical area of Florida FMMO pool distributing plants (current and proposed Class I differentials).

Area	Current Class I Differential ($/cwt.)	Proposed Class I Differential ($/cwt.)	Proposed – Current Class I Differentials $/cwt.
Interstate 4 Corridor (Daytona Beach-Tampa)	$5.40	$7.30	$1.90
Sarasota	$5.80	$7.50	$1.70
Miami (Palm Beach-Miami)	$6.00	$7.90	$1.90

The Interstate 4 Corridor and Miami areas include all but one of the order's pool distributing plants. The proposed increase in these two areas is $1.90 per hundredweight. The proposed differential for the Miami area which includes the area from Palm Beach to Miami/Dade is $7.90 per hundredweight. The proposed Interstate 4 Corridor differential is $7.30 per hundredweight which includes the area from Daytona Beach to Tampa.

The results of the University of Wisconsin model suggested more variation in Class I differentials in both the Interstate 4 Corridor and Miami areas. However, the historic pricing structure in each of these geographic areas should be preserved. Pool distributing plants, located within each respective area, compete for sales throughout the entire territory. Having more than one Class I differential in each respective area has the potential to create raw milk price inequities, disrupt flow of raw milk, and create disorderly marketing. To maintain orderly marketing and historical norms, we propose keeping the same Class I differential throughout each of the two respective area, i.e., $7.30 per hundredweight in Miami and $7.90 per hundredweight in the Interstate 4 Corridor.

We also propose, preserving the location differential between the Miami and Interstate 4 Corridor Class I differentials. Since May 2008, it has been $0.60 per hundredweight. Experience tells us this is an equitable and workable price difference. There are less pool distributing plants in the Miami area today, compared to previous years. Florida's largest milk producing area is located between Miami and the Interstate 4 Corridor. Raw milk from this area moves to pool distributing plants in both geographic areas. The $0.60 per hundredweight differential facilitates a more orderly flow of milk.

The proposed increase in the third area, Sarasota, is $1.70 per hundredweight. Its proximity to the Interstate 4 Corridor area, and there not being a pool distributing plant in that region in May 2008 when Class I differentials were last updated, is the reason for the smaller increase.

Alternative milk supplies are considered when establishing Class I differentials. The closest pool distributing plants to the Florida FMMO are in the Atlanta, Georgia metropolitan area. The NMPF proposal calls for a $5.95 per hundredweight Class I differential in the Atlanta area. The approximate distance between Atlanta and the Interstate 4 Corridor plants is 440 miles. As of May 2023, a conservative cost estimate to transport a gallon of packaged milk from to Atlanta to the Interstate 4 Corridor is about $0.22 per gallon. The $1.35 per hundredweight difference in the proposed Class 1 differentials, i.e., $7.30 - $5.95 equates to $0.12 per gallon, which is $0.10 per gallon less than estimated transportation cost. Said another way, the cost to transport packaged fluid milk from the Atlanta area to the Interstate 4 corridor is greater than the Class I differential slope.

Five of the top U.S. milk producing states, e.g., Indiana, Kansas, Michigan, Ohio, and Texas, have the potential to provide alternative raw milk supplies for the Florida market. These were analyzed using March 2022 FMMO blend prices, plus the estimated blend price increase resulting from the NMPF proposed updated Class I differentials. Estimated blend price calculations were performed by USDA's Dairy Division. The results show differences between blend prices, along with the costs to transport milk from those states to Florida, would be insufficient to move milk economically.

For both packaged fluid milk and farm milk, my analysis shows adopting the NMPF proposed Class I differentials in the Florida FMMO does not provide a price advantage from alternative suppliers.

The Act states, "Milk purchased from producers or associations of producers shall be uniform as to all handlers subject to certain adjustments including location." This vital requirement in the Act helps maintain orderly marketing.

In my experience working with fluid milk buyers, a common concern among them is that their competitors have equal raw milk product costs. This is due to raw milk being a high percentage of the cost of packaged fluid milk at a plant's loading dock. Granted, there are over-order premiums charged to most fluid buyers throughout the country including Florida. In the Florida FMMO, over-order premiums do not adequately cover the expense of serving the market. Fluid milk buyers are concerned about the impact higher over-order premiums may have in creating unequal raw milk costs, possibly giving one processor an advantage over another processor. This creates a challenge in establishing over-order premiums at an adequate level to cover the expenses of serving the fluid milk market.

Increasing the fluid milk price, by increasing the Class I differential through FMMOs, provides fluid milk processors greater assurance of equal raw milk costs. Milk buyers have confidence in the enforcement of minimum prices, which helps to maintain orderly milk marketing.

Summary

Current demand and supply conditions in the Florida FMMO warrant an update in Class I differentials. Demand exceeds the producer milk supply within the marketing area. More producer milk is being transported into the marketing area to meet fluid demand, in part a function of the population increasing. Alternative milk supplies would have no price advantage imparted to them by adopting the NMPF proposed Class I differentials.

We are optimistic the NMPF proposed Class I differentials will help improve the profitability of Florida dairy farms, thus slowing the exodus of dairy farmers within the marketing area. The proposed Class I differentials will help ease the transportation cost burden on farm milk coming into Florida from outside of the marketing area and encourage the continued availability of that milk for the Florida Class I market.

Increasing the Class I price through higher differentials, gives fluid milk buyers a greater level of confidence they are competing for raw milk on a level playing field, thus, maintaining orderly milk marketing.

Most importantly, the NMPF proposed Class I differentials for the Florida FMMO will help provide Florida consumers with an adequate supply of fluid milk for consumption. A fluid milk supply for Florida consumers that does not have to be transported into the marketing area from hundreds of miles away.

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 Proposal 19, update Class I differentials throughout the U.S.

Respectfully submitted,
Calvin Covington
On behalf of Southeast Milk, Inc.