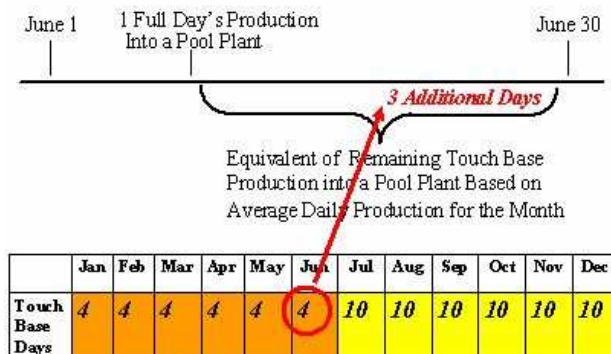


An Explanation of Diversions

Producers don't divert. Co ops divert, using individual producer deliveries as qualifications to divert.

Co-ops are limited to diverting 50% of deliveries for Jan-June and 33% of deliveries July-Dec.

The Pool Qualification Process



Before September 1, 2006, qualification for diverting worked like this: In the month of June a "producer" needs 4 days production into a pool plant before qualifying to divert off the Order. The FMMA started counting the 4 days beginning with this first shipment into a pool plant. "He" then had the rest of the month to divert (up to the limit of 50%), in other words, the co-op can only divert after that first shipment into a pool plant. **The new rule change allows the co-op to divert (up to the 50% limit) either before or after the producer's first day's shipment into a pool plant.** It doesn't change the maximum amount of milk that can be diverted; the 4 days and 50% rules are still in effect. It does, however, open the window of opportunity for diversions. Think about a producer who ships into a pool plant for the first time on June 27 and then for the last three days of the month. Under the new rule change the co-op can divert retroactively, up to the 50% limit. Before the change, the co-op could not. Again, the rule change obviously opens up a window of opportunity for increased diversions by the co-ops.

The more producers a co-op can qualify by "touching base" (delivering some milk from a producer), the more they can divert (up to the limit) but they can't qualify every producer on the first day of a month simply because they are limited by how much milk plants are willing to accept. Before the recent rule change, co-ops or SMA found it difficult to divert up to their limit. With thanks to the recent rule change, it's now much easier. It is illogical to think SMA would request a change they didn't intend to take full advantage of.

For example, before the rule change - if a co op wasn't able to qualify a Texas producer's shipment into a plant until the middle of the month, then the co op couldn't divert off that producer until his first shipment was delivered. Under the new rules, deliveries to a cheese plant early in the month can retroactively be classified as "diversions" if milk was qualified by "touching base" later in the month. Then all this producer's milk would be pooled on our order, reducing the blend price to all who supply those fluid plants on a daily basis. This greatly expands the ability of the co-ops to divert more milk. The co-op could theoretically squeeze numerous Western producers into a plant in the last days of the month in order to pool milk as "diversions", **milk that had been going to a cheese plant previously during the month.** The money that would have been in the pool to pay you a higher price has now "been diverted".

The 2005 study requested by GMP and done by the FMMA's office did not consider the adverse impact on the blend price of these new options now made possible by the change of rules. A little understood side effect of diversions is that all milk under the umbrella of a co-op, or an association of co-ops such as SMA, may be used to qualify diversions. This includes the milk you as a Georgia producer ship. You have given your co-op "qualifying milk" that can be used to "divert" (for example) milk in Texas to a cheese plant. Since co-ops divert, this means that producers from Texas or New Mexico may, through the co-op, be using diversion capacity that you created, but were not able to use. This can easily result in your milk delivery being used to lower your (and other Georgia producers') blend price, lowering the utilization by increasing the amount of Class III or IV in the "pool". Remember the utilization drop following USDA's Jan 1, 2000 geographical expansion of Order 7? As far as we know, Federal Orders have never conducted studies to determine the appropriate level of diversions.

Does the drastic drop in utilization (and blend price) that occurred Jan 1, 2000, become better understood? That action (geographical) by USDA also was done without public input from the affected producers, and money was redistributed (out of Georgia and other true SE states). Are we to experience more of the same?

The rules **MUST** be changed!