

AFBF FEDERAL MILK MARKETING ORDER WORKING GROUP
BACKGROUND ON FMMO DIVERSION LIMITS
PREPARED FOR AFBF BY C.W. “Bill” Herndon Jr.,
Mississippi State University
JULY 2019

Issue:

Each of the 11 Federal Milk Marketing Orders (FMMOs) contain provisions allowing the movement of milk supplies from one order to another order. Under these provisions, this “diverted” milk is pooled and priced in the order in which it is shipped and processed. In general, these diversion provisions exist to attract adequate supplies of milk to meet processing plant needs, or in milk deficit federal order areas, to satisfy consumer demand for fluid milk products. This paper reviews milk diversion provisions in each FMMO and attempts to describe how these federal order rules influence the movement of milk between orders or milk plants.

Background:

Diversion Limits

Diversion limits are the maximum amount of pooled milk that a pool plant can divert to a non-pool plant (Townsend, et al.). Every one of the 11 FMMOs has diversion limits, which are explained within each federal milk marketing order’s regulations (described in the section defining “Producer Milk”). Each order is a little different, so an individual federal order’s language provides diversion limit definitions and details specific to the order. Table 1 displays the diversion limits by order and indicates these limits range from as high as 90% to as low as 10%.

Out of the total amount of milk that is gathered (or pooled) by plants regulated under a specific order (pool plants) only a certain percentage of that milk can be diverted to a plant that is not regulated by that order (non-pool plant). A pool plant is regulated under a federal milk marketing order, while a non-pool plant can be regulated under an order but can receive diverted milk from other orders that classify the plant as non-pool. For instance, a plant that is regulated in the Appalachian Order but also receives diversions from the Northeast Order would be considered an Appalachian Order pool plant, but also a Northeast Order non-pool plant (Townsend, et Al.).

The percentage of milk that can be diverted appears to correspond with how much milk is produced or available within a milk marketing order’s geographic area (Townsend, et Al.). For example, the Upper Midwest and California orders have the highest diversion limits, with 90% of their pooled milk being able to be diverted. These orders also have a large number of big dairy farms that produce larger volumes of milk. Due to their high production levels they often have excess milk that needs to be processed but pool plants have physical capacity limits on the amount that they can handle. These high diversion limits allow the excess milk that plants within the order cannot process to be

shipped to another plant outside the order’s boundary, and thus not regulated by the order.

When this milk is diverted, producers are still able to receive the same price as if their milk had been processed at a plant regulated by their order as long as the percentage of milk diverted stays within the diversion limits.

Conversely, the Appalachian, Southeast, and Florida orders do not have excess milk, and these orders are usually described as milk deficit regions. Their milk deficit status has translated into much lower diversion limits than the other eight orders. Table 1 shows that the Appalachian and Southeast orders have diversion limits of 25% and 35%, respectively, depending on the month, and the Florida order has even lower diversion limits of 10%, 15%, and 20% depending on the month (Townsend, et al.).

Federal Milk Market Order Diversion Limits and Annual Average Class Utilization Rates for 2018

FO No.	FO Name	Diversion Limits	Class I Utilization Rates for 2018
1	Northeast	80-90%	32.1%
5	Appalachian	25-35%	69.5%
6	Florida	10-20%	83.6%
7	Southeast	25-35%	71.2%
30	Upper Midwest	90%	9.0%
32	Central	75-80%	28.8%
33	Mideast	50-60%	32.5%
51	California	90%	22.5% *
124	Pacific Northwest	80%	21.6%
126	Southwest	50%	30.7%
131	Arizona	50%	24.6%

(*) California order Class I utilization for November & December 2018 only

Lower diversion limits also support maintaining or bolstering higher Class I utilization rates by preventing excess milk from being processed as a lower class, as seen in Table 1. With lower diversion limits preventing a high percentage of surplus milk from being processed as Class II, III or IV, the blend price is also supported, compared to other orders. The higher the Class I utilization percentage, the higher the uniform (or blend) price for that order, which further means that the milk producers within the Appalachian, Florida or Southeast orders should receive a higher price for their milk per hundredweight (Townsend, et Al.).

In essence, lower diversion rates restrict milk from outside these higher Class I utilization orders from “riding the pool or order” to receive the higher blend prices usually witnessed in these three federal orders, which would negatively affect dairy farmers already pooling milk in these orders.

Current Farm Bureau Policy:

None

Sources or References

Atlanta Federal Order Market Administration, Federal Milk Marketing Order Pooling Provisions, <https://www.ams.usda.gov/sites/default/files/media/InformationonPoolingProvisionsforFederalOrders5and7.pdf>, 2018.

Atlanta Federal Order Market Administration, Guidelines for Qualifying Diverted Milk as Producer Milk, Federal Order No. 7, Southeast Marketing Area, http://www.fmmlanta.com/Misc_Docs/FO%207%20Guidelines%20for%20Qualifying%20Diverted%20Milk-2011.pdf, 2018.

Townsend, Owen, Kenneth Burdine and Tyler Mark, The Unique Qualities of the Southern Milk Orders, Agricultural Economics Extension Series Number 2017-17, Department of Agricultural Economics, University of Kentucky, Cooperative Extension Service, 2017.