Mr. Chairman, I am Tom Thompson, President of Georgia Milk Producers, representing all Georgia dairy producers. Georgia dairymen, and indeed dairymen located in the Southeast, are in danger of extinction. According to trend lines from the Federal Milk Market Administrator's office in Atlanta, without a change in the rules the present trend lines would indicate that virtually no dairies will exist in the Southeast in 10 years. And it is not drought, heat, and high humidity that are the culprits, although all of those certainly make dairying in the Southeast a challenge. In an area where population growth is one of the fastest in the US, and our deficit grows greater each year (Georgia is now importing 1,000 tanker loads per month), we find that "the system" is taking a lot of the sales dollars paid by local plants that should be going to dairymen who are supplying those plants on a daily basis. Through "pooling" and "touch base" provisions, these dollars are then redistributed to producers who in many cases may be "riding the pool".

A look back at the history of milk marketing in Georgia will be informative. In the late 1960's Georgia's Milk Commission was ruled unconstitutional, and Georgia subsequently got its own Georgia Federal Order. Co-ops were local and represented Georgia dairymen and the Georgia Federal Order served the industry well. It included a "Base-Excess Plan" that rewarded dairymen who supplied milk when the market needed it and penalized those who produced excess when it was not needed. Class I utilization was normally in the high 80's and low 90's. Subsequent years added a state here and a state there to the Order that originally was the Georgia Order. Plants merged. Co-ops merged. Each geographical increase in the former Georgia Federal Order (now called the "Southeast Federal Order") resulted in small declines in Class I utilization, primarily because the states added had a higher ratio of milk to their population than Georgia.

Disaster struck first in 1995 when Congress failed to reauthorize the "Base-Excess Plan" that had been in existence for almost 30 years. Now there was no incentive to produce when the market needed the milk, and the door was opened for producers to "ride the order": dumping excess milk on the order when it was not needed. Disaster struck a second and even deadlier blow, on January 1, 2000 when USDA added a huge geographical area to the Southeast Order extending it to include a portion of Missouri. It is interesting to note that this was done without any public discussion, and it is probably just coincidental that a national co-op with a small minority of its members in the Southeast is headquartered in Missouri. The drop in utilization from pre-January 2000 to the months beginning January 2000 shows a dramatic Class I utilization decline of 15-20 points on a month to month comparison. This has been widely viewed as a $1.50 to $2.00/100# cost to Georgia and other geographical Southeast producers. The combination of these two "disasters" have cost Southeast producers untold tens of millions of dollars.

Which brings us to the issue of how could this happen? Don't co-ops operate in a democratic manner and represent their producers in Federal Order hearings and on Capitol Hill? Absolutely! Just as plants have merged, co-ops have also merged due to economic pressures. The problem is that the majority of milk in the Southeast is controlled by co-ops whose majority membership (and directors) lives outside the Southeast, and whose farms are in less populous areas, with subsequently lower utilization. You can be sure that they understand that "working the system" to get their milk pooled on a higher utilization market puts money in their pockets. Management is only too happy to oblige "working the system" to accomplish that, for that is their job security. They understand only too well the importance of representing the "majority interests" of their boards. The problem is compounded by the move by some co-ops to "lock up" supply contracts with major processors, thus locking out other producers and their coops.

The present system of using a formula that locks Class I pricing to manufactured pricing is adversely affecting markets that are primarily Class I. The expansion of milk production west of the Rocky Mountains propelled by the explosion of mega-dairies results in an adverse impact on dairymen producing for fluid markets. A system needs to be developed that would partially de-couple Class I.

Our nation is rightfully concerned with our dependence on foreign oil, air pollution, highway congestion, and bio-security. I would submit that the current system of milk pricing and marketing is increasing our dependence on foreign oil, increasing air pollution and highway congestion, and placing our nation at greater risk of bio-security. Locally produced fluid milk for local consumption just makes good, common sense.

In summary, we recommend:

1. Geographical reduction in the Southeast Order, restoring the relationship between plant utilization and production in the geographical proximity to those plants.

2. Tightening of "touch base" provisions and a review of order rules that would discourage "riding the pool".

3. Congressional restoration of the authorization for Base-Excess plans in the federal order system that was omitted in the 1995 Farm Bill.

4. Development of a plan to partially de-couple Class I.

Thank you for the opportunity to submit our plea for help and a call for drastic change, both for the good of Georgia and Southeast dairymen as well as for the ultimate benefit to our region and our nation.