CALIFORNIA DEPARTMENT OF AGRICULTURE
BUREAU OF MILK STABILIZATION

FINDINGS AND CONCLUSIONS RELATIVE TO POOLING PLAN PROVISIONS

The following Findings and Conclusions are based on material issues raised at a Public Hearing which was conducted during the period of February 6 and 7 at Los Angeles, February 13 at Visalia, February 19 and 20 at Sacramento, February 28, 29 and March 1 at Berkeley and in Sacramento, California on March 5 and 6 and May 28 and 29, 1968.

This hearing was for the purpose of giving consideration to incorporating a Pooling Plan into the stabilization and marketing program for fluid milk in California as authorized through legislation adopted by the 1967 Legislative Session and signed into law which became effective November 8, 1967. This legislation made it incumbent on the Director to proceed with the necessary procedures to establish such Pooling Plan within the framework of the legislative authority.

The Gonsalves Milk Pooling Act makes a declaration of the purposes of a milk pooling plan and establishes numerous manditory provisions which must be included in any pooling plan considered and adopted by producers. It was from this framework that the following considerations and findings were developed.

The material issues, based on testimony and evidence, related to:

1. The number of pooling areas and boundaries.
2. Terms and definitions.
3. Eligibility for production bases and pool quotas.
4. Base and quota adjustments for new Class 1 usage.
5. New producer entry.
6. Base and quota transfers.
7. Producer-handler options.
8. Hardship and inequity review.
9. Handler reports of the utilization, classification and assignment of receipts.
10. Location differentials.
11. Equalization of returns to producers.
12. Miscellaneous provisions.

Preliminary Comments

Most of the material issues testified to at the public hearing were those which were deliberated upon by the Director and the Formulation Committee appointed by the Director prior to the development of a proposal for pooling which became the basis for initiating hearing testimony.

The Gonsalves Milk Pooling Act specified certain of the subject matters on which the Formulation Committee was required to make recommendations to the Director. After a series of meetings, and upon the recommendation of the Committee, the Director determined that the initial pooling proposal should be drafted under a single pool concept for hearing consideration.

Another major item recommended by the Formulation Committee was the establishment of an historical period covering the period from July 1 through December 31, 1966, as the period to determine bases and quotas for individual producers eligible to participate in the pool. Subsequent to the conclusion of the hearings held on the material issues and prior to the completion of these Findings, an amendment to the Gonsalves Milk Pooling Act established an option to the base period under which producers could qualify for a base and quota allotment. This option expanded on the historical period as proposed initially by the Formulation Committee and the Director, to include the calendar year 1967 as an alternative to the period of July 1 through December 31, 1966. This amendment has been incorporated into the Pooling Plan resulting from these Findings and Conclusions.

FINDINGS AND CONCLUSIONS

1. The Number of Pooling Areas and Boundaries

The pool area should include all the territory within the boundaries of the following marketing Areas: Central Coast Counties, Del Norte-Humboldt, Fresno, Imperial County, Kern County, Madera-Merced, North Central Valley, Redwood, San Diego County, San Luis Obispo, Shasta-Tehama, Southern Metropolitan and Ventura-Santa Barbara or as such areas may hereafter be modified or consolidated.

Representatives of producers who market their milk with handlers located within the Siskiyou and Northern Sierra Marketing Areas requested through testimony and written petition to remain outside the pool initially. Fluid milk production in the Siskiyou Marketing Area is marketed primarily to one major handler located in the area and through a number of other smaller plants with limited distribution within a very local market. Any production in the area not marketed to handlers in the Siskiyou Marketing Area is handled by plants located in Oregon and subject to the Oregon regulations.

The producers in the Northern Sierra Marketing Area market primarily through a small cooperative plant with distribution within the marketing area. Local production accounts for about one-third of the Class 1 requirements in this area. Additional supplies are brought into the area in processed and packaged form from distributing plants located in the adjacent marketing areas of Siskiyou, Shasta-Tehama and North Central Valley. An additional small volume of packaged milk is distributed by Oregon distributors in the northern part of the Northern Sierra Marketing Area, primarily in Modoc County. The Siskiyou and Northern Sierra Marketing Areas are quite isolated from any major metropolitan markets and from any sizeable production areas. Any inter-area movements have been into the area from plants which would be regulated under the pooling plan provisions since they are located in areas designated as being subject to the pooling plan. On the basis of the testimony and evidence, the requests of the producers in these areas should be granted.

The Inyo-Mono Marketing Area is another isolated and sparsely populated area which required consideration for exclusion from the pooling plan proposed. This Area is separated from the rest of the California milk marketing areas by the Sierra Mountain chain to the north and west and by the arid desert region on the south with the Nevada boundary line on the east. There are two small producer-distributors located in the Area with their plants located in Bishop and Lone Pine with distribution in the local communities. Supplemental supplies, which account for about 70 percent of the total fluid sales in this Marketing Area, are brought in from

the Fresno, Kern and Southern Metropolitan Milk Marketing Areas.

Production costs are considerably higher in the Inyo-Mono Area than in other areas of California. The pooling of these two producer-distributors could not benefit or result in any gain for these producers, inasmuch as the conditions which initiated the pool provisions have not prevailed in this Area. These two producer-distributors probably will not qualify for exemption from the pool because of failing to meet the conditions of having two-thirds of their distribution at retail. The current Class 1 price net is $6.35 per hundredweight in this Area. With their only interest being in the distribution of milk for fluid use, any participation in the pool would result in a lower net price to these operations. At this time, the prices which exist have been found to be necessary to supply the Area with adequate fluid milk. By reducing the blend returns, it would then indicate a higher Class 1 price would be necessary or the assumption made that all of the milk would be relayed in from other marketing areas. The matter of relay costs from the adjacent marketing areas into Inyo-Mono must be considered and, here again, it has not been found that the established minimum prices are resulting in excessive returns to those handlers supplementing the local milk supply for the Area. It is, therefore, determined that the Inyo-Mono Marketing Area should be excluded from the pooling plan provisions.

The regulations affected by a marketing order are basically a determination of what is to be regulated and who shall become subject to such regulations. To accomplish this purpose, definitions and terms are necessarily established to designate the persons, the plants and the commodities involved.

One of the primary problems considered at the meetings in the formulation of the pooling plan and one which received a lion's share of the testimony was concern with the matter of the number of pools which would be necessary and practical in developing a proposed pooling plan. In general, producers marketing directly to handlers' milk plants which are located in the Southern Metropolitan and San Diego County Marketing Areas were in favor of at least two pools. They recommended a boundary line between the two pools as the northern and western boundary of Fresno County, extending to the western boundary of Kings County, and extending along the northern boundary of San Luis Obispo County to the Pacific Ocean.

Producers located in the northern and central California Marketing Areas who market their milk primarily through country plants and to processing plants serving these markets, were equally as firm in their arguments for one statewide pool. The history of the marketing area structure in California in recent years has been toward consolidation as economies in size of producing units and processing plants have more than offset the costs in the movement of milk greater distances over greatly improved highway systems. Marketing area identity is maintained where differences in population density, production costs, distribution costs and other marketing functions reflect enough variation to warrant such separate area recognition.

The Legislature recognized that separate pools may be necessary by giving the Formulation Committee and the Director the responsibility of the alternative of one or more pools. It did, however, very definitely limit the Director to presenting one proposed plan for the entire state or portion of the state to be included in the pool.

One industry proposal was presented through testimony which provided for two pools with certain definite restrictions on the movement of production base and pool quota to any area outside the particular pool to which such base and quota was initially

assigned. In response to this two-pool proposal, the Director obtained an opinion from the Attorney General's Office which was directed to the question of restricting producer movements between pool areas if such separate areas were established. It was the opinion of that office that such restriction of transfer between pool areas would be contrary to the mandate of the Gonsalves Milk Pooling Act.

One of the criteria that cannot be overlooked in establishing pool boundaries is the extent of the bulk milk movements over the boundaries being considered. The volume and number of transfers is important as well as differentiating between direct shipments from producer ranches and the transfers from supply plants or other processing plants. Any sizeable volume of milk relative to the total pool supply that moves from one pool area to another pool area will create multiple accounting and regulatory problems.

Evidence was introduced at the hearing which presented information on movements of bulk unprocessed market milk supplies in California. This information was based on data for May and November, 1965. It is recognized that these data may be somewhat obsolete. However, current and continuous statistical data, published in monthly bulletins will substantiate that currently even greater volumes of milk are moving between the areas under consideration here.

Milk processing plants in California receive supplies from two sources. (1) Direct receipts from producers and (2) bulk shipments from other plants. Direct shipments from dairy farms provide the major proportion of the processing plant milk supplies, while supplementary supplies are obtained through transfers of bulk milk from other plants.

As an illustration of the volumes involved in the data referred to, during November, 1965, 66 plants located in the Central Coast Counties Marketing Area received approximately 120 millions pounds of milk. From that total, approximately 84 million pounds were shipped directly from producers and 36 million pounds from other plants.

The receipts from producers direct involved 567 producers who were located in 5 different supply areas. One hundred and sixty eight (168) producers were within the Central Coast Counties Marketing Area, 174 in the Redwood Marketing Area, 4 in the Fresno Marketing Area, 52 in the Madera-Merced Marketing Area and 169 in the North Central Valley Marketing Area.

Shipments of bulk milk from other plants into the Central Coast Counties Marketing Area, involved 41 plants receiving these bulk shipments from 54 supplying plants. Of the 54 supplying plants, 15 were located within the Marketing Area and they furnished 6.1 million pounds of milk. 30.1 million pounds were shipped by plants outside of the Marketing Area. The supply plants were located geographically from Humboldt County on the north to Tulare and Kings Counties to the south. In considering the boundary line for two separate pools, as testified to by proponents for more than one pool area, any supplies from the Fresno, Kings and Tulare Counties would be from another pooling area. These data indicate there were 4 such supply plants who shipped milk on a regular basis to the Central Coast Counties Marketing Area.

Flow charts which were developed show the supplies that moved into the Southern Metropolitan Area markets were from as far away as Sonoma County. There were 10 supply plants located in the counties to the north of the boundary proposed in

setting up the two-pool area as testified to by the proponents. These data show that large volumes of bulk milk have moved and would continue to move between the two-pool areas proposed. The history of the movements and the development of supplies by milk plants in major metropolitan markets, tend to support the fact that California is one market with respect to market milk supplies.

Under the contract system of market milk procurement in California over the past 30 or more years, movements of market milk have developed which have been questionable with respect to economies or practicality in the interest of the total industry. Provisions which result from a pooling plan may tend to alter some of the marketing practices, but they should not result in such drastic changes that the stability of the market milk industry is threatened. Any changes having a wide-spread economic effect should be permitted to adjust in an orderly manner through economic incentives rather than by governmental edict. In view of the extensive movements of market milk in the state and the varying effects a pooling program will have on the milk industry in California, the interests of producers and handlers would appear to be served by the application of a common plan to all concerned at the outset. As experience and knowledge is gained under the operation of a pool, refinements can be made with greater assurance and confidence and with less fear of the unknown problems which can jeopardize the entire program. The initial establishment of one pool would not preclude subsequent changes which could result in two or more pools.

2. Terms and Definitions.

(a) Producer.

The primary feature of a milk pooling plan is the allocation and payment of minimum prices for milk which handlers purchase from producers. Pooling is a scheme which change the payment to individual producers from a system based on actual physical usage of each producer's milk to a program of uniform usage and payment to all producers in the pool irrespective of the physical use of the individual producer's milk.

The Act requires that a production base and pool quota shall be established for each producer directly affected by the pooling plan. This, in effect, requires the definition to include anyone meeting the requirements of a fluid milk producer as defined under Chapter 2. Most of the testimony on this subject supported a broad interpretation which would tend to reduce claims for inequity and reduce the possible litigation directed to qualification opportunities. The term "producer" must differentiate between the dairy farmers who supply market milk to plants for fluid consumption in compliance with standards for Grade A inspection requirements and those who produce for manufacturing uses and are not qualified as market milk producers. The definition of a producer is also in terms of the receipt and handling of the milk production at a pool plant or at some other milk plant which would qualify such milk as pool milk. Producer milk which is under contract to a pool plant and diverted from the producer's ranch to nonpool plant for the account of the handler, should be considered as qualifying milk. This will permit efficient movements, particularly during seasons of heavy production. A producer qualification should also hinge on the qualification of a plant to which the producer markets as a pool plant and the retention of such plant qualification as a minimum requirement.

(b) Handler.

The term "handler" needs to be defined in order that identity be made of persons who will receive or handle the milk subject to regulation. A handler should include all plants operating in the pool area which receive market milk from producers and also include any other plant in the pool which receives market grade milk from dairy ranches. Cooperatives which market the milk for its members, but do not physically receive the milk in a plant, should also be classified as a handler for purposes of accounting.

Marketing associations which act as marketing agents for producer members' milk should account to the pool and make settlement for its producers. Under base and quota accounting, placing the full accounting and reporting responsibility on the plant actually receiving the producer milk from marketing associations would be more difficult and complex, if not impossible in the limited time available for accounting to the pool. The marketing association will be the only source for knowing the base and quota for the individual producers within the organization. By making the marketing association responsible for reporting to the pool, the handler who physically receives the milk can be notified by the marketing association of the total base and quota accompanying any receipts for use in its reporting without being involved in the individual producer's base and quota. The marketing agent can report to the pool the transfers to other handlers and record changes in the base and quota of individual producers as they may occur.

If a cooperative association assumes the responsibility for the collection of milk from the farms of individual producers and delivers such milk to the pool plants, it should be the resonsibility of the handler for purposes of reporting the tests, weights and quantities delivered to the various plants. The association should also be accountable to the settlement fund for all quantities of milk received from producers based on the farm measurements and for any differences between such quantities and the amounts claimed as received by purchasing handlers.

The handler definition covers all plants which have any potential of becoming pool plants or would be associated with the pool in any way. Testimony by one witness requested that all plants should be covered in the definition of a handler. Such broad coverage would not be necessary or, in fact, desirable because of the additional number of reports required to be screened which would have no bearing on the pool program. Milk plants which receive no market milk from producers and operate entirely from ungraded milk, certainly would not contribute to the pool in any conceivable manner and should not be considered a handler.

(c) Pool Plant.

For the effective operation of a pool, it is highly essential that some distinction is made between the plants which handle and supply the fluid needs of the market and those plants which do not.

Basically, two approaches can be taken to the question of which plants should be associated with the pool. A liberal approach was testified to by one segment of producers at the hearings. Their recommendation was to make all plants which received, processed or manufactured milk products, pool plants. No restrictions or limitations whatsoever. The other approach was to require some standards of performance or at least put the plant participation in jeopardy if certain standards were not met.

The reasoning for unrestricted participation in the pool by milk plants seemed to result from a fear that application of minimum standards of performance could result in the loss of a market for one or more producers. A program which guarantees all producers a market, may be morally acceptable but economically unacceptable and impractical.

Performance standards under regulated marketing programs are basically the rules and operating procedures through which the administrative body operates to accomplish the purposes of the program. It becomes increasingly important in a pooling program to have provisions for the distribution of usage and money equalized without the mandatory physical movement of the commodity into the usage for which payment is made. If such were not the case, the proceeds from the higher value of classified usages could be dissipated on milk acquired by handlers and plants and used primarily for manufactured products.

During the earlier years of fluid milk price regulations, market-wide pooling concepts were not of great importance because of the adequate supplies of ungraded milk for use in the nonfluid product requirements. Following the Korean War, manufacturing milk production began a decline from a volume which represented approximately 60% of the total milk supply in California to the present volume which represents about 10% of the total milk supply. The disappearance of ungraded milk from the market has shifted the demands of handlers to market milk supply sources to augment their manufactured dairy product requirements. This change in market demands has resulted in greater pressures on market milk producers to supply a larger volume of milk for the lower usage classifications. Many manufacturing plants depend almost exclusively on market milk producers for their raw product needs. This has tended to create wider disparity in blend usages and payouts to producers throughout California.

Along with the gradual equalization of usage among producers, the Director must determine the extent to which the market milk producers are obligated to produce for the manufactured product market and whether in fact the fluid milk consumer shall subsidize the consumer of manufactured dairy products and in what volumes.

Initially, any plant receiving fluid milk from producers should be a plant pool, except those specifically exempted by plan provisions. This, in effect, gives all producers an opportunity to be a part of the pool and continue to so participate so long as the plants they market to retain pool status. The Director should have the authority to establish additional performance standards for plants when he determines adequate supplies of pool milk are not made available for Class 1 uses.

As stated previously, a number of plants operating entirely as manufacturing plants, depend on market milk supplies for their raw product. It is quite probable some of this market milk will be needed seasonally to satisfy the total pool needs and therefore, should be available. Some provision should be made to require this movement from manufactured products to the higher usage classes, for it is doubtful that the manufacturing plants will voluntarily release these supplies.

Associated with the general concern of plant qualification is the more specialized problem concerning those plants which would not fall into the classification of a pool distributing plant. A distributing plant which disposes of a portion or all of its market milk receipts on routes or in packaged products to other plants will normally have no difficulty in meeting the minimum performance standards. Supply plants, on the other hand, may have difficulty in meeting the performance standards

during all seasons of the year when their only Class 1 usage depends on movements in bulk to Class 1 outlets through other processing plants. To accommodate efficient handling of milk through supply plants, some provision is necessary to permit the coordination of shipments of milk by handlers operating more than one plant by combining any of their pool plants for the purpose of computing the percentages of minimum performance standards, if such are invoked. Such provision should also permit independently owned pool plants to enter into voluntary agreements with other pool plants for coordinating shipments for Class 1 dispositions, if approval is so given by the Director.

With the benefit of these additional provisions for coordinating shipments, there should be no difficulty for milk plants with any real interest in supplying milk for the Class 1 market from qualifying as a pool plant. A review of 1967 data for country supply plant type of operations reveal that none of the companies or cooperatives would have experienced difficulty in meeting minimum percentages of 20% during the months of December and January-July and 40% for the other months, if the application of such provision is on the basis of using the percentage of the component for which the usage was the highest in relation to the receipts. A number of the plants have historically shipped large amounts of cream to the metropolitan markets for Class 1 usage and retained the skim for use in manufactured products. Such plants would not have had the required minimum percentage for solids-not-fat components but did supply more than the minimum percentages when applied to the milk fat component.

If, as a result of any reduction in the supply requirements, a plant would qualify as a pool plant, the operator of such plant should be permitted to continue his nonpool status by filing a written request for such nonpool status. This option would thus prevent the mandatory pooling of a plant which may have begun as a new plant and designed his operation to meet the nonpool plant status.

Any combination of a system of plants which may qualify for the purpose of meeting the shipping requirements should designate on the application to the Director the order in which the plants are to be excluded in the event the minimum percentage for shipping requirements are not met by the system.

(d) Base Period

The base period cannot be extended beyond January 1, 1968, but must include a period prior to that which will be representative for dairymen who were producing market milk for the pool area prior to January 1, 1968 and have continued in business. Recommendations by the Formulation Committee were divided in their recommendation relative to the use of 1966 in its entirety or only the months of July-December as the base period. When the calendar year 1967 was also included as an option for use by the producer, general agreement was indicated by witnesses that the option of either the last half of 1966 or the calendar year of 1967 was adequate to give most dairymen an opportunity to select a period which would be quite representative of his production and reduce the number of hardship claims.

Provision should be made for each individual producer to select the base period to be used by the Director in the determination of such producer's production base and pool quota. Testimony by spokesmen for a number of the cooperative associations requested the order should permit the cooperative associations to select the base period for the individual members.

Section 62707(b) of the Agricultural Code reads in part:

> "The base period to be used in determining the production and Class 1 usage bases of each producer directly affected by the pooling plan. Such base period shall, at the producer's option, be his fluid milk production and usage in the pool area.....".

The language seems quite explicit that each individual producer shall be given the opportunity to make his own decision in the selection of his base period. Certainly, the cooperative management could advise each member as to a base period but it is questionable if management would know or understand all the factors involved in the determination of a producer's future program or goals.

The Pooling Act seems to refer to a producer as the person or individual actually producing the milk and qualifies for the exceptions when referring to the cooperative association as a producer. The Act is quite clear with respect to the producer who exercises his option as to the use of his actual production or his contract or association allocation for the determination of his production base. The plan should be specifically clear that cooperative associations cannot select the history forming period for individual members.

(e) Production Base

The Act requires the pool plan to provide the producer with the option to have his production base computed from his contract or allocation in lieu of his marketing of fluid milk produced. The plan should require the producer to furnish adequate information to the Director for proper documentation that such contract or allocation did actually exist during the base period.

Provisions of the plan should not permit any combination of production history and contract or allocation in the computation of a producer's production base. A producer who marketed milk from a single production unit to two or more separate outlets could use a combination of production history with one handler and contract history with a second handler to great advantage. At times, handlers have encouraged producers to deliver less than the contract called for because of the handler's reduced sales or because of the fact the handler may have over-contracted initially in relation to his plant requirements. In such instances, some producers have continued to produce the contract amount and negotiated a second contract with another handler to receive the balance of the milk contracted for but not received by the first handler. Unless restricted as indicated, the producer would select his contract amount with the one handler and his marketings to the second handler.

(f) Class 1 Usage Base

The basis for determining the producer's participation in the pool will be his history of Class 1 usage in the market during the historical base-forming period. The Class 1 usage base shall be computed on an average daily basis calculated similarly to his production base with the exception that the Class 1 usage base should in no instance exceed the producer's production base. Such a situation could arise where the producer may have marketed milk during the history period without any Class 1 usage for a part of the period of such marketing.

(g) Nonpool Plant

The definition of a nonpool plant is primarily to facilitate the formulation and clarification of various provisions of the pool plan as they may apply to such plants. There are a number of milk plants in California which receive market milk from producers for use exclusively in manufacturing dairy products. Other plants which receive market milk may dispose of their receipts in areas outside the pool area or out-of-state. Duplicate regulation could result under such situations.

The pool administrator will need to be apprised of the continuing status of the nonpool plants and the operators of such plants should be required to report regularly to the administrator with respect to the receipts, utilization and disposition of market milk components for verification by the administrator.

(h) Pool Milk

Pool milk should be defined to cover all possible changes in pool plant qualification provisions which could alter the qualifications of milk for the pool. This is particularly important if the Director invoked minimum Class 1 usage requirements on pool plants and participating handlers. Marketing cooperatives acting as handlers that divert directly from the dairy ranch to a nonpool plant would account for such milk as pool milk. However, if the Director announced minimum usage qualifications for pool plant status, such marketing cooperatives, acting as handlers, should meet these minimum Class 1 shipping requirements before any diversions to nonpool plants qualify as pool milk.

If such provision is not a part of the plan, the nonpool plants could arrange for a regular supply of milk for manufacturing use from the diverting handler who may have little or no interest in serving the Class 1 market.

There are a number of marketing cooperatives in California whose members are made up primarily of producers who either lost their Class 1 market to other producers, or who converted from manufacturing to market producers but were unable to negotiate a contract for a Class 1 market. Considerable volumes of milk marketed by this type of handler goes directly to manufacturing plants which would probably be nonpool plants. Such marketing cooperatives tend to be located in close proximity to manufacturing milk plants which probably would not qualify or want to qualify as pool plants.

3. Eligibility for Production Bases and Pool Quotas.

The statute provides the basic requirements which a producer must meet to qualify for a base and quota. The Formulation Committee proposed and advocated additional detail in establishing the specific base periods to be used and the operational requirements. One recommendation at the hearing was for the establishment of a provision which would require the producer to have continuous production after the base period at "reasonable amounts". Some minimum was considered necessary to prevent the claims of those who may have sold their production business as market milk producers but retained sufficient animals to market milk commercially but at a small fraction of the amount produced and marketed during the base period. If a producer dropped more than 50% below his history for an extended period between the base-forming period and the effective date of the plan, it may be questionable as to his interest or ability to perform under a pool plan.

Unforeseen emergencies which may have resulted in a heavy reduction in marketing for a short period might logically be exceptions and should be provided for. A provision allowing a reduction of not more than 50% below the historical base average for a maximum of three consecutive months, should be a part of the plan. Any exceptions to such provision should be heard by the review board for any possible relief.

The statute made provision for the recognition of transfers of a producer's business during the interim between the base period and the effective date of the pooling plan. Since it failed to define a producer's business, the pooling plan should establish some further guides. The Act provides for the transfer of base and quota after the pooling plan is in effect. The Formulation Committee recommended the transfers of base and quotas should be permitted without the transfer or sale of the dairy animals or other real property which may be a part of the dairy unit. This approach was supported by testimony at the hearing but with specific guidelines which are covered in a later portion of this Finding. If transfers of base and quota are permitted without the transfer of equivalent production units after the plan becomes effective, it would appear proper that similar interpretation be given to transfer of a production business in the interim period referred to.

4. Base and Quota Adjustments for New Class 1 Usage

The Formulation Committee advocated and proposed the basic formula for the allocation of new Class 1 usage and the resulting adjustment of the pool quota. Under a pool program, the Director is required by the statute to make a determination of new Class 1 usage based on any increase during the previous year, plus an estimate of the next year's requirements. Any such usage so determined should be allocated to producers on the ratio of 80% going to producers already participating in the pool and the balance available for new producers.

The amount allocated to existing pool producers should be on a formula which would tend to give producers with relatively low quotas a larger percentage of the new usage. Testimony of producer representatives was divided when a counter proposal was presented which contained a formula that would result in all producers reaching equalization at the same time. There was rather severe criticism to this latter proposal from dairymen who would be near to equalization initially. A provision that gives some additional weight to low usage producers over the initial formula proposed, seems the most generally acceptable procedure for new usage allocations to pool producers.

Section 62707 of the Act requires the Formulation Committee to recommend and the Director to include in the plan, a provision for the establishment of production bases and pool quotas for new producers who may wish to operate under the pool. The only guide the statute provides for new producer entry is that the Committee recommendations shall be reasonably equitable to both such new producers and to participating producers and consistent with effectuating the purposes of the Act. The Formulation Committee developed and proposed that 20% of any new usage which the Director determined was available for distribution in any year, should be allocated to new producers or be available for such allocation.

Initial proposals and recommendations at the hearing generally supported the assignment of a pool quota equal to 20% of the production base amount allocated to each new producer and such quota would then remain unchanged until such time as all of the producers with bases and quotas, assigned under the initial pooling provisions, reached their equalization point.

The history of market milk production in California has followed the general trend nationally of reduced numbers of dairy units of increased size and productivity per

animal unit. The incidence of entirely new producers entering the business has been relatively small and would most generally be the dissolution of a family partnership arrangement into separate units or instances of vertical integration of distribution entering the production business. With the highly competitive nature of milk production and limited interest of new entry, a provision which would allocate 20% of market growth to such new interest would appear equitable to such prospective new producers and to the existing producers currently serving the market. There were no data introduced to indicate numbers of new market milk dairy operations in recent years. Records do show total numbers have declined each year since 1957 at an average annual rate approximating 120 dairies. The majority of producers who would be classified as entirely new operators are those who purchased existing dairy operations with a contract or "shipping rights" for a market milk production business.

One of the basic principles of the pooling Act was the incorporation of a system for the establishment of production bases and pool quotas for each producer within the pooling program and a procedure for aiding in the development of efficient and economical production units. Supplies of market milk in California are more than adequate for Class 1 usage requirements. The development of such excess supplies for use in manufacturing, have been encouraged in the contract system which has been in operation. The statutory provisions of Chapter 3 indicate there was intent that producers be given an opportunity to adjust their production levels more closely to the Class 1 market needs if they so desire. The pooling plan provisions should so accommodate such intent through some limitation on new entry so that producers in the pool can move toward their equalization point. Unrestricted entry could well perpetuate the very conditions which initiated the legislation in the first instance. The provisions restricting new entry certainly should be reviewed after the plan has been operative for a period of time. As the producers initially in the pool, approach equalization, the supply and usage balance may well warrant some relaxation in the new entry provisions.

The provisions should permit new producers who are allocated quota to be eligible to participate in the equalization procedure in all subsequent adjustment periods. The recommendation of the Formulation Committee was proposed at the hearings to the effect that new producers would remain at the level of quota initially allocated until such time as all the producers in the pool on the effective date of the initial pool plan reached their equalization point. This restriction or "freezing" of a producer's ability to grow into an efficient and economical unit would appear somewhat incongruous with the intent and purpose of the Act. The history of new Class 1 usage in California has leveled off in the past five ye ars to an annual average increase of approximately 2% and practically no change in the past two years. Equity to and among all producers in the pool cannot be accomplished if new producers are granted entry but restricted in their participation of all rights of other producers for an indefinite period.

5. New Producer Entry

The Formulation Committee advocated that producers who had been in production as manufacturing grade producers and had converted to market grade, be given a new producer priority over a producer who began production more recently as a market milk producer.

Testimony supported a provision which would give first priority to producers who had been producing market milk and had lost their contract prior to the base-forming period but had remained in business continuously to the date of application. This

priority should include those dairymen who may have given up their market milk permit in the interim but had produced commercially as manufacturing grade dairymen.

6. Base and Quota Transfers

The milk pooling Act establishes certain basic criteria for the transfer of base and quota after the effective date of the pooling plan. However, it also instructs the Formulation Committee and the Director to provide in the plan for the transfer of base and quota from one producer to another under conditions designed to prevent abuses and avoid the development of excessive values for base and quota.

Testimony was introduced by one of the cooperatives with multiple units that the plan permit a federation of cooperatives to act as custodian and controller of the base and quota of all producer members of the unit associations. There is no indication in the Act itself that would give authority to superimpose a federation structure beyond the unit association. Such structuring could result in (1) allocations by the federation to the local or unit associations entirely dissimilar to their historical experience and (2) blend payouts to the producers grossly different from those of competing handlers in the marketing area. No support for this proposal was given by the individual cooperative association units which leaves considerable question of any general support.

Transfer of bases and quotas should be in amounts of not less than 300 pounds milk equivalent in partial transfers and they should represent the total if less than that amount. Such transfers shall be under conditions that are bona fide and in the best interest of producers and the public. Recommendations for transfer amounts ranged from 100 pounds of milk equivalent to as high as 60 pounds of milk fat as minimum amounts for transfer. There may be many producers with quotas considerably less than the higher minimums recommended. All transfer transactions should be effective at the beginning of the month to provide uniformity and simplification in processing and recording of transfers.

Proponents for two or more pools advocated the restriction of the physical transfers of production units from one pool into another and the transfer of base and quota from producers in one pool area to producers in another pool area.

Advocates of free transfer of base and quota maintained that any rigid restriction would defeat the purpose of pooling by not permitting a producer to be competitive with all other producers. Relatively free movement of production unit locations and transfer of base and quota will permit changes toward more efficient organizations and economical production units. Reorganization and relocation of milk production has probably become more critical in California than in most other major milk-producing states. The need for continued opportunities for movement and consolidation makes transferability of bases and quotas in the public interest as well as in the interest of producers. Dairymen located in areas where land values and associated taxes have increased phenomenally must either relocate or dispose of their production business entirely. The retirement of marginal producers and the expansion of other units will continue to be necessary for California milk producers to be competitive and for an assurance of adequate milk supplies.

Transferability of bases and quotas will undoubtedly become an asset of some value. Strict review of all transfers by the Director must be a requirement and approval from the Director for transfer must be received prior to any transfer. The Director must seek to avoid the development of excessive values for bases and quotas as required under the provisions of the Act.

Proposals by the Formulation Committee and testimony of witnesses included safeguards to insure that transfers will be to bona fide producers and speculation or questionable dealing will be quite prohibitive. Producers will be required to perform by marketing with a pool plant and any break in continuity of production extending beyond 60 consecutive days will result in such producer's base and quota reverting to the pool, or the producer may elect to transfer such base and quota within that 60-day period.

The purchase of base and quota shall result in disqualification for sale of base and quota within a 12-month period by the purchaser and sale of base and quota received under a hardship provision shall be prohibited within the succeeding 2-year period.

Provisions for transfer should not require the purchase of dairy animals to accompany the base and quota. Many dairy operations have an efficient production unit and are in need of quota to bring their utilization of Class 1 up to or more nearly in line with their equalization point. In many instances, dairymen with registered herds may be interested in purchasing quota which may only be available from herds of another breed which could not be brought into the production unit. To require animals to move with quota could result in extra costs in the acquisition of base and quota to the purchaser but no offsetting gain by the seller.

Production base should accompany all transfers of quota even after all producers initially in the pool reach their equalization point. As new usage develops, producers' quota could conceivably exceed their production base. After equalization, the production base will have little meaning or value except when transferred to producers who have not reached equalization.

7. Producer-Handler Options

The pooling plan provisions should enlarge on and clarify where necessary, the option provisions of the statute relating to the conditions under which producer-distributors may qualify for operating outside of the pooling plan. Section 62708 of the Act establishes the conditions for qualification for exemption in some detail. Testimony was presented by one witness recommending that the right to a deduction of 100% of the producer-distributor's quota from his Class 1 sales before being required to account to the pool, should not be restricted to those producer-distributors initially electing to become part of the pool.

The statute grants an option to qualified producer-distributors to operate outside the pool, but this option or choice must be made at the time of the adoption of the initial pooling plan. Therefore, the right of a producer-distributor to deduct the pool quota from his own Class 1 sales should be only for those electing to become a part of the pool and this election would only be at the start of such pooling plan.

Section 62722(b) provides that producers claiming exemption under 62708 or 62722 as a producer-distributor, who loses exemption, shall automatically become a part of a producer pool and his admittance into the pool shall be on the basis of production base and pool quota calculations as set forth in those Sections.

If exempt producer-distributors decided to enter the pool after the initial pool plan became effective, and were permitted to deduct their pool quota from their own Class 1 sales before accounting to the pool, this same privilege would need to be

extended to producer-distributors who lost their exemption and automatically were brought into the pool. Such interpretation is not read into the provisions of Section 62708 of the Gonsalves Milk Act.

8. Hardship and Inequity Review

Guidelines and procedures should be established in providing for the review of cases of hardship or inequity which may be the result of the general application of the plan. The Formulation Committee recommended the plan cover specific areas which it considered were qualified for hardship review. Acts of God or disasters not controllable by prudent and normal business activities should be open for review as well as those areas where some question of doubt may exist. Witnesses testifying on this subject generally agreed that the majority of cases which would be eligible for review, would be those involving base and quota eligibility or assignment prior to the actual operating date of a pool plan.

Provision should be made for the review board to operate as more than one unit for purposes of effectively processing all the cases. Such separate units should be available to operate on a geographical basis or as the Director may determine necessary. Each review board shall submit recommendations of action on each case to the Director who shall have the authority to approve, modify or reject the recommendation of the review board and notify the producer in writing of the decision within 15 days after receipt from the review board.

There are qualifications for producer-distributor exemptions from the pool plan to which hardship or inequity relief may be applied. Certain of the limitations on transfers of base and quota may also be cause for application for inequity relief. The producer shall be responsible for filing a formal request for relief from an alleged hardship or inequity and include a statement of the conditions causing the alleged hardship and the type or extent of relief requested with the reasons justifying such relief.

The review board shall be composed of producers whose terms of appointment, representation and reimbursement shall be as specified in Section 62719 of the Gonsalves Milk Act.

9. Handler Reports of the Utilization, Classification and Assignment of Receipts

The pooling plan should include provisions requiring handlers to maintain records of their operations which are adequate to make necessary reports for the proper classification and pricing of milk and payment obligations due to producers. Time limitations must be established for filing prescribed reports with the Director and dates shall be established for payments due producers.

Representatives for some of the handlers objected to the earlier reporting date specified in the proposed plan relative to handlers monthly receipts and usage accounting to the Director. They proposed splitting the report into segments reporting their product receipts by the 7th and their utilization of receipts by the 12th of the following month.

The dates for payments to producers are dependent upon other specified dates which include the date on which handlers file their reports, the date on which the various pool prices are announced by the Director and the date handlers make payments to the settlement fund. It is recognized there are also many inter-handler transfers each month which must be accounted for before handlers can accurately complete their reports to the Director. There was no testimony to support extending the settlement

dates to producers therefore the handlers' reports should be submitted to the Director no later than the 10th day of the following month.

Opposition was also received from some handlers relative to the additional information which would have to be reported under the proposed plan. Testimony was given for the segregation of reports which are required under the stabilization and marketing plans and those reports which are determined necessary for pool accounting purposes. It must be recognized that the pricing provisions of the stabilization and marketing plans and the pooling provisions will have to be coordinated on a functional basis or combined into a single order. Testimony supports the maintenance of separate orders or plans and the development of a single report of accounting by handlers to the Director. This matter may necessarily need to be considered further in future hearings to amend certain plan provisions to make the pricing plan and pooling plan functionally compatible. To insure the proper accounting of all milk handled within the pool, detail reports of receipts and usage are necessary along with substantiating records of the handler's plant operation which will permit a complete audit of each handler's entire milk plant operation.

All plants not included as pool plants should be required to report if they have any fluid milk disposition, either directly or indirectly, in the pool area. The information required should be sufficient to give the Director adequate means for a determination of any change of status by such plant with respect to its association with the pool.

Provision should be made for the accounting of transfers between handlers in such manner as will not adversely affect the value of the pool accounting to producers. Testimony of some handlers advocated classifying bulk transfers of fluid milk between handlers as Class 1 and thereby reduce the end of the month accounting problem where "round robin" types of transfers take place. Such provision could result in the development of excessive movements of bulk shipments from the San Joaquin Valley supply area plants to the metropolitan area of Los Angeles and San Francisco as Class 1 for the purpose of retaining the local metropolitan area production for other than Class 1 uses. Such practice would reduce the value of the total pool payout to producers while contributing to inefficient marketing practices.

Allocating the receiving plant usage pro rata to transfers will discourage the inefficient and unnecessary movements between handlers and between plants in different marketing areas.

Some disposition of fluid milk from out of state is made in California through plants located in the pool area. It is appropriate that such milk received by handlers in California should be assigned a usage on a pro rata basis to the various classifications according to the utilization of all the fluid items received by such handler.

No testimony was given to extend the payment dates for handlers' settlement with producers from whom milk is received. To accommodate the additional time which may be required for a final pool accounting, payment to producers should follow a schedule wherein handlers will settle with producers for the approximate value of milk received during the last half of the preceding month on the 15th day of the month and on the last day of the month, make a payment for the approximate value of milk received during the first half of the month, plus a final settlement for all milk received during the preceding month if adjustments from the two payments made are necessary.

Handlers purchasing milk from cooperative associations, acting in a capacity as a handler, should pay such cooperative association handlers for receipts at an earlier date than prescribed for settlement with producers. Proponents of such provisions

stated this is a necessity in order for such cooperative association handlers to in turn meet the due date for accounting to individual producer members.

10. Location Differentials

One of the major problems to which testimony was given was in the area of whether, under the pooling plan, milk would move to plants or markets where it is needed for fluid use. Unfamiliarity with the operation of pool programs by the majority of witnesses, was no doubt the reason for question of the proposals submitted for the coordination of a pooling program with a classified pricing program.

In any market where more than one milk plant operates, the question of geographical differences in producer prices exists. With this question in mind, the following points are considered as basic.

1. Fluid milk must be moved more or less regularly from the distant supply areas of the San Joaquin and Sacramento Valleys to keep the metropolitan markets adequately supplied.

2. Marketing provisions should be such that producers will be encouraged to locate in areas where cost of production, plus cost of transportation to market, will result in the lowest cost of adequate market milk supplies.

3. Transportation companies can be expected to provide transportation if they are adequately reimbursed for their services.

4. Under a statewide pooling plan, each pproducer can be expected to deliver his milk to a pool plant in the area where his returns f.o.b. the ranch are the most favorable. Under a pooling plan, producers will shift from one plant to another in seeking improved returns. This will be done more readily than under handler pools.

The problem of aligning producer prices in different areas of the state would not be difficult to analyze if shipments of milk between plants were not involved. In a situation when each producer marketed his milk directly to the plant where it was used, and he stood all the transportation expense, prices distributed to producers delivering their milk to the metropolitan areas of Los Angeles and San Francisco for instance, would have to be enough higher than the prices distributed by San Joaquin Valley plants to the extent necessary to attract adequate amounts to those metropolitan markets. This price difference would obviously have to be related to the hauling costs for milk. If the price differences were inadequate to cover hauling costs, producers in the San Joaquin Valley would ship their milk to plants in the nearby area for fluid use or for manufacture since, under pooling, the actual use of a particular producer's milk would not determine the return received by that individual producer.

For example, it becomes quite obvious that the difference between the Los Angeles quota price (area of deficit supply) and the Fresno quota price (area of excess supply) would have to be high enough so that adequate incentive is provided for enough producers in the excess supply area to ship the amount of milk required into the Los Angeles area. As the differential between the prices in the two areas is increased, those producers most favorably situated for moving milk into Los Angeles (either because of distance, size of load, road access, etc.) would be attracted to ship milk there. Under this procedure, producers who can ship milk to Los Angeles most efficiently would be the ones to do so. If the differential in prices became too wide, excessive quantities would be attracted to the higher-priced market.

Under the conditions outlined where there were no interplant movements, adequate differences in quota prices received by producers at plants in production vs. consuming areas would be accepted without question.

Since interplant movements do take place, they must be considered in the marketing processes mentioned previously that (1) the milk must be moved, (2) someone must pay the cost for moving the milk, and (3) producers will market their milk to the plant where the returns f.o.b. the ranch are the best. From this, two major questions arise which must then be answered:

1. How much of the milk will move to the metropolitan markets from the supply areas through plants (vs. direct shipment) and

2. Who will stand the cost of any interplant movements.

It is evident that the second question will need to be answered first because the other answer will depend on it. Who could stand the cost might first be enumerated. Theoretically such cost could come from the individual producer or from various groups of producers, from the handler, from the consumer or from the taxpayer.

(a) The cost could be borne by the individual whose milk is shipped from the plant of first receipt to the metropolitan plant. (For purposes of the discussion of this alternative, it is assumed that the quota price to be distributed at all plants would be the same regardless of location.) This alternative could not work. No individual producer would want his milk re-shipped to a distant market, particularly if only part of the milk at the plant or at nearby plants is re-shipped. To charge certain producers added haul costs would bring about arbitrary discrimination and alienation of individual producers. If the entire supply of milk of a plant was re-shipped, all producers delivering to the plant would be assessed an extra hauling cost. This leads into the second point.

(b) All producers supplying a particular plant or cooperative, might share the cost of hauling any milk re-shipped. This system would certainly cause producers supplying San Joaquin Valley plants to oppose letting their particular plants or associations re-ship all or any milk if all other plants in the area did not do so. If a plant did re-ship milk, the producers would tend to shift to a plant which did not do so and thus avoid any reduction of returns which would come from an individual plant using the producer's money to subsidize a second haul of milk.

(c) Wider sharing of the cost of subsidizing interplant movements of milk such as an established marketing area basis but not pool-wide, would be another alternative. This system would simply amount to lowering the quota price to all producers whose milk is delivered to plants in the particular marketing area. This is just another way of increasing the price differential between areas and would be objectionable as a substitute for raising the metropolitan area prices in the first place. This would also be an indirect approach and tend to obscure what was actually happening. If the objective was actually to lower prices, in the valley supply area to create price differentials, this should be done more straightforwardly and easily by simple lowering the price in the area under the plan itself rather than giving the producers the price and then taking it back as a so-called subsidy to a second haul. Since any reduction in returns would have to be uniform to all producers shipping to plants in the area, a uniform reduction in price to all producers would accomplish the same thing.

(d) Another method for consideration could be pool-wide sharing of the cost for movement of milk from distant plants to the metropolitan area plants. This is possibly the most undesirable alternative and has rather obvious disadvantages.

Under it, the producer located in and shipping to a metropolitan area plant such as Los Angeles, would be forced to help subsidize the cost of haul from distant plants. Also, producers located in the San Joaquin Valley areas who might ship directly from ranch to the Los Angeles plants, would not only pay for their own direct haul but subsidize the cost of the haul from distant plants. Under such a system, any direct shipment from valley producers would be discouraged, while it would encourage country plant development and excessive hauling along with probable relocation of production facilities on an uneconomic pattern.

(e) Added hauling costs could be borne by the consumers in the metropolitan markets which are deficit in supplies of milk. Under this arrangement, higher Class 1 prices would result in the areas to which milk must be moved. Differences in Class 1 prices in the various marketing areas would reflect the cost of transportation which would be experienced by the metropolitan market handler who purchased milk from plants in the more distant areas (under a condition where the milk was priced at the plants where received from producers). Under this system, competition would take over in the determination of who hauled the milk, and where, and the Director would be involved only to the extent of computing or adjusting price differentials between areas and proper location differentials for pool settlement purposes. It is obvious this approach would involve changes in Class 1 prices established under the stabilization and marketing plans.

Alignment of quota prices could be made without any change in Class 1 prices and should be carried out in any event to encourage producers to deliver milk where it is needed. It is mathematically possible to establish a system of differentials for quota milk to return 50¢ per hundredweight more for quota milk delivered to Los Angeles than to Fresno while all dealers in the pool would be charged exactly the same price for milk used as Class 1. This would not be an economically sound arrangement but points up the fact that location differentials are essential to provide necessary incentives for movements of milk where it is needed.

Distributor testimony was in general opposition to a change in the pricing concept as indicated under the proposal presented for hearing. This opposition was primarily based on the provision contained in Section 62215(b) of Chapter 2 of the Agricultural Code which states "that producers shall be paid not less than the minimum prices which are established for the marketing area wherein such fluid milk, fluid cream, or the milk fat is, or fluid skim milk components of such milk or fluid skim milk are, ultimately sold or distributed."

The above provision was adhered to in all stabilization and marketing plans in the pricing of fluid items used in Class 1 products. It has not been generally applicable to Class 2 and 3 uses, although in recent years, all Class 3 prices have been uniform for all the marketing areas which then met the provisions of said Section 62215(b).

Section 62724 of Chapter 3 states as follows:

> "62724. This Chapter does not modify the provisions of Chapter 1 (commencing with Section 61301) nor Chapter 2 (commencing with Section 61801) of this part, except as may be necessary to effect the purposes of this Chapter. If necessary to effect the purposes of this Chapter, the Director, in establishing the minimum prices which shall be paid for fluid milk to producers, may establish minimum producer prices applicable at the producer's place of production."

The provisions of Section 62724 indicate the legislature specifically gave consideration to the possible need for a change in the location of applicable prices under a pooling plan and made specific provision for one method if it is found to be necessary.

The concept of pricing on the area of ultimate usage is economically feasible when considering the movements of milk under an individual plant pool concept when milk moves from lower to higher priced areas. Such movement tended to be the rule for many years when processing plants were located in most or all of the marketing areas and serviced the local needs. In more recent years, there has been a decided change toward centralized processing with plants located in the areas of high population concentration where service to outlying areas is made through a system of relay or direct routes from the central processing plant. The centralized plant systems are in the metropolitan areas which are the areas of highest minimum prices. The pricing concept of area of ultimate usage, although mandatory under Chapter 2, may no longer be economically sound with the relocation of processing facilities. Producers from the outlying production areas must pay the higher cost of transportation into the processing plant while their returns are based on prices established for the producer's local production area. Such prices, in turn, tend to be based on local area production and marketing costs.

It is apparent the area of ultimate usage price was intended to be applicable to the particular milk physically marketed there since marketing costs would be the logical reason for area price differences. Under a pooling program, allocation of usage prices to the specific producers physically supplying that particular milk will be impossible. In some instances, producers will be receiving a price reflecting Class 1 usage in an area in which none of their particular production reached. Thus, to interpret the provision of Section 62215(b) the same as under a plant pool concept, would be in direct conflict with the intent of Chapter 3. It probably could be mechanically possible to price all fluid milk usage on the basis of area of ultimate usage to provide a total overall value the same as currently computed under the stabilization and marketing plan accounting technique. A continuation of pricing to producers on the basis of area of ultimate usage would then necessarily require a change in the concept of differential pricing as referred to earlier and the acceptance of some form of subsidization of hauling and other marketing expense and a determination of how it would best be provided for. To accomplish such pricing concept would necessarily entail a more complex and sophisticated accounting procedure, both on the part of handlers in computing for reporting purposes and for the pool administrator in computing the total pool settlement.

The industry has generally associated Section 62215(b) with Section 61875(b) in the interpretation or application of the latter which reads as follows:

> Section 61875.
>
> "(b) Authorize and enable the Director to prescribe marketing areas and to determine prices to producers for fluid milk or fluid cream, or both, which are necessary due to varying factors of costs of production, health regulations, transportation and other factors in such marketing areas of this state. The cost to distributors within any marketing area, for fluid milk or fluid cream shall be uniform with all other distributors purchasing fluid milk and fluid cream of similar grade or quality under like terms and conditions."

Distributors objected to the pool plan provisions which would result in minimum price application effective f.o.b. the plant of first receipt on the basis that such would also be in conflict with Section 61875(b) of Chapter 2. This objection would probably be valid if the interpretation was given that the cost to distributors shall be uniform or equal with all other distributors under all conditions. The qualification which adds "of similar grade or quality under like terms and conditions" makes it possible for each distributor within the area to have uniform costs with all other distributors by giving them equal opportunity, under the plan, to have like terms and conditions.

The Act specifically gives the Director authority to establish minimum producer prices applicable at the producer's place of production. If the Director sees fit to use that authority, the application of said Section 61875(b) would be changed and in all probability to a greater degree than provided for under the pooling plan considered here.

To accomplish the purposes of Chapter 3 to the greatest degree, the point of applicable minimum prices to be paid producers by handlers should be f.o.b. the plant where the milk is first received from the producer.

The specific differentials established recognize the transportation rates which tend to be most representative for the various competing markets and are based on costs of transporting milk by economical methods. Such differentials may not necessarily reflect actual transportation charges to the various markets for all types of hauling arrangements but should reflect the transportation costs to alternative markets available to the producer. It is recognized that the differentials in the plan under consideration may not result in competitive price alternatives to producers located in the same area but shipping to different market outlets. It is also recognized some review may be necessary of the minimum effective producer prices in relation to the location differentials applicable to the various marketing areas.

Further analysis of transportation rates and hauling practices will be in order as the pooling program develops under operation and additional realignment of prices and differentials may then be in order.

Location adjustments should apply to quota milk received at plants located outside the base zones. Fluid milk products incur a relatively high transportation cost by reason of their bulk and perishable nature. At least 10 percent of quota milk initially will represent usages other than Class 1 (very probably Class 2). To establish a differential only on the Class 1 components under a system of production bases and pool quotas would be mechanically and economically impractical.

Quota milk moving from distant ranches or supply plants will, in many instances, have some Class 2 utilization allocated to it and subject to the same location differential as the Class 1 use. Class 2 price differences between the market have not and cannot reflect the entire cost of hauling bulk milk from country areas to city plants for manufactured uses on an economic basis. Some producers may tend to subsidize the haul of Class 2 usage within their quota through the Class 1 price. This opportunity for choice will be for producers who may have alternative markets, one of which is the local plant with a differential price and the other a distant metropolitan plant with no differential. The application of location differentials to quota milk will result in adequate supplies of milk moving to the deficit markets to satisfy the fluid milk needs.

11. Equalization of Returns to Producers

The pool plan should contain provisions which establish the means in which the payment obligations of handlers for milk at the various class prices are converted to uniform prices to be paid to producers for milk within the various payment pools.

Provision should be made in the plan for the exchange of money among handlers subject to the pool which will permit each handler to settle with his producers at the uniform prices applicable. This should be accomplished through a settlement fund with a separate fund for each of the milk fat and solids-not-fat components.

A handler whose obligations at the classified prices is greater than he is required to pay to his producers, shall pay the difference into the producer settlement fund. A handler whose obligation at the classified prices is less than he is required to pay to his producers, shall receive such difference from the producer settlement fund. A reasonable reserve should be established by setting aside each month a sum which will maintain a uniform balance sufficient to handle normal adjustments. If the balance of the settlement fund should be insufficient to cover payments due, a provision should establish a procedure for a uniform reduction in payments to such handlers.

12. Miscellaneous Provisions

The pool plan should provide for the appointment of a pool manager by the Director to administer the plan. It should also outline the duties and obligations of such manager.

Testimony on the record and briefs which were filed were considered in making the Findings stated above. Recommended Findings from testimony inconsistent with those reached herein are denied. The pool plan proposed herein will tend to effectuate the policy and purposes of the Gonsalves Milk Act.

Signed at Sacramento, California on September 8, 1968.

Earl Coke
Director of Agriculture

By L R Walker

L. R. Walker
Senior Milk Economist
Bureau of Milk Stabilization

FINDINGS
OF THE DIRECTOR OF AGRICULTURE
UPON THE PROPOSED POOLING PLAN FOR FLUID MILK AND CREAM
IN CALIFORNIA

WHEREAS, a public hearing was duly and regularly called and held for the purpose of modifying a preliminary proposal and formulating a pooling plan which would best accomplish the purposes of Chapter 3, Part 3, Division 21 of the Agricultural Code; and

WHEREAS, such hearing began on February 6, 1968, in Los Angeles and continued in Visalia, Berkeley and Sacramento until all persons were afforded an opportunity to be heard and testimony and evidence, both oral and documentary, were offered and received.

NOW, THEREFORE, after due deliberation upon and full consideration of the facts and evidence adduced, said Director of Agriculture hereby finds the pooling plan proposal submitted for referendum to producers will tend to effectuate the purposes of Chapter 3 and best accomplish such purposes within the standards prescribed under said Chapter.

Earl Coke
Director of Agriculture

By L R Walker

L. R. Walker
Senior Milk Economist
Bureau of Milk Stabilization

Dated: September 6, 1968