THE CALIFORNIA MILK MARKETING PROGRAM

A Special Report To

The Senate Committee on Agriculture and Water Resources

Pursuant to the Provisions of Senate Resolution No. 98

of the 1973-1974 Regular Session

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Submitted by

The California Department of Food and Agriculture

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of the State of California

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May 22, 1974

Honorable Ed Reinecke, President
and Members of the Senate

Gentlemen:

The Senate Committee on Agriculture and Water Resources, functioning pursuant to the provisions of Senate Standing Rule No. 12.5, transmits herewith a report on the California Milk Marketing Program.

This report was prepared by the California Department of Food and Agriculture at the request of the committee as a source document for use by all interested in the committee's continuing consideration of Senate Resolution No. 98, of the 1973-74 Session, relative to marketing of milk.

Respectfully submitted,

Howard Way

HOWARD WAY
Chairman

Senate Resolution No. 98

Introduced by Senators Way, Ayala, Biddle, Nejedly, Richardson, Stull, and Zenovich

April 15, 1974

Senate Resolution No. 98—Relative to marketing of milk.

WHEREAS, With the enactment of the fluid milk and cream stabilization and marketing provisions and the Gonsalves Milk Pooling Act (Chapter 2 (commencing with Section 61801) and Chapter 3 (commencing with Section 62700) of Part 3 of Division 21 of the Food and Agricultural Code, respectively), the Legislature declared that fluid milk and fluid cream are necessary articles of food for human consumption, and the production and maintenance of an adequate supply of healthful milk is an industry affecting the public health and welfare; and

WHEREAS, In order to insure an adequate and continuous supply of fresh and wholesome fluid milk at fair and reasonable prices, the Legislature specifically prescribed the terms and conditions under which milk shall be purchased from producers and sold by distributors and retail outlets; and

WHEREAS, Historically, the prices paid by consumers of fluid milk in this state have been below the national average; and

WHEREAS, There have been substantial changes in business practices in recent years, which led to unforeseen relationships between processing distributors and retail outlets; and

WHEREAS, As a result of a recent court decision, the joint venture business structure has emerged as a viable entity, resulting in requests for suspension of minimum wholesale prices; and

WHEREAS, The quota program under the Gonsalves Milk Pooling Act has progressed slowly toward equalization; and

WHEREAS, It has been approximately 20 years since the Legislature has made an in-depth study of the fluid milk and cream stabilization and marketing provisions and the regulations adopted pursuant to such provisions; and

WHEREAS, During the last 20 years the state and federal legislative enactments and administrative actions have had significant effect on the original concepts incorporated in the Young Act and the Desmond Act; and

WHEREAS, There is a great concern by many segments of the milk industry, and the public in general, regarding the current viability of such concepts; now, therefore, be it

Resolved by the Senate of the State of California, That the members hereby request the Senate Committee on Agriculture and Water Resources to undertake an in-depth review of the fluid milk and cream stabilization and marketing provisions and the Gonsalves Milk Pooling Act; and be it further

Resolved, That the Senate Committee on Agriculture and Water Resources report its findings and recommendations, including its recommendations for any appropriate legislation determined to be necessary, to the Senate as soon as possible.

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THE CALIFORNIA MILK MARKETING PROGRAM

A REPORT TO

THE SENATE COMMITTEE ON AGRICULTURE AND WATER RESOURCES

SUBMITTED BY

THE CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

C. BRUNEL CHRISTENSEN, DIRECTOR

MAY 7, 1974

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THE CALIFORNIA MILK MARKETING PROGRAM

A REPORT TO

THE SENATE COMMITTEE ON AGRICULTURE AND WATER RESOURCES

We welcome the opportunity to discuss the California Milk Marketing Program with you today. The Department was requested to prepare a comprehensive report on the milk program. This report is submitted to you in fulfillment of that request and pursuant to Senate Resolution No. 98 of the 1973-74 Regular Session of the Legislature.

The California Milk Marketing Program is truly a total milk marketing program in that it covers all segments of the industry. It has been carefully designed and refined over the years to satisfy the needs of the industry while safeguarding the interest of consumers.

Under this milk marketing program, California's dairy industry has moved from chaos at all levels of marketing to an industry that has become a model for the rest of the country. It is the most technologically advanced and most efficient of any state in the nation. It has also been responsible in meeting the ever-changing needs of the industry and the public interest. This is evidenced by the fact that through the coordinated efforts of producers, handlers and the Legislature, California has introduced and successfully operated several innovative changes which are being considered by other milk programs. These include component pricing, milk production cost analysis, resale quantity discounts, distributor

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For presentation to the Senate Committee on Agriculture and Water Resources, Sacramento, May 7 and 8, 1974. Presented by Jed A. Adams, Milk Marketing Administrator and prepared by the staffs of The Bureau of Milk Marketing Enforcement, Paul L. Andrew, Chief; The Bureau of Milk Pooling, Glenn T. Gleason, Chief; and The Bureau of Milk Stabilization, L. R. Walker, Chief, Division of Marketing Services, California Department of Food and Agriculture.

cost analysis and the Milk Pooling Plan. These innovations have contributed towards the increased efficiency of the industry and to the benefit of consumers.

This report will discuss the history of milk regulation and the principal aspects of the California Milk Marketing Program.

Before embarking on this endeavor, certain key words should be defined.

Market milk is that milk produced under rigid sanitary standards and subject to inspection at all levels of the production and marketing process to insure that consumers receive a high quality, pure, healthful product.

Manufacturing milk is any milk that does not meet these high standards but does meet lesser standards as provided for in the Food and Agricultural Code.

There are four other terms used in the dairy industry that should be explained.

First, Grade A milk is synononous with market milk;

Second, Grade B milk is synononous with manufacturing milk;

Third, Fluid milk means market milk and is so defined in the Milk Stabilization Act.

The classical examples of fluid milk are:

1. Regular homogenized milk which contains a minimum of 3.5% milk fat and 8.7% solids-not-fat.

2. Low Fat Milk which contains 2% milk fat and a minimum of 10% solids-not-fat.

3. Nonfat milk which contains not more than 1/4 of 1% milk fat and not less than 9% solids-not-fat.

Fourth, manufacturing usage means any dairy product that may be made from manufacturing or Grade B milk. Market or Grade A milk may also be used for these products.

HISTORICAL DEVELOPMENT 1/

Milk is subject to more governmental regulations than any other agricultural product. This is due to its acceptance as one of the essential foods in the human diet and its unique characteristics as a product. Among the most important characteristics are the following:

First - milk is highly perishable. In past history its longevity was measured in terms of a few hours. Today with the rapid advance of technological innovations in the areas of refrigeration and milk handling, its longevity is measured in terms of a few days.

Second - milk is harvested twice a day each day of the year without the opportunity to delay, shut down or otherwise disturb the harvesting pattern.

Third - milk must be marketed on a daily basis each day of the year by the producer because he cannot feasibly maintain sufficient storage capacity to hold his production for extended periods.

Fourth - it takes 2-1/2 years to develop a replacement cow to produce milk.

1/ The material for the early historical discussion has been derived principally from the works of D. A. Clarke, Jr. For a complete historical review, refer to the following sources:

D. A. Clarke, Jr., Fluid Milk Price Control in California: A Report to the Joint Legislative Committee on Agriculture and Livestock Problems (Berkeley: California Agricultural Experiment Station, 1955), pp 27-39.

William J. Kuhrt, The Story of California's Milk Stabilization Laws, From Chaos to Stability in the California Milk Industry, State of California, Department of Agriculture Bulletin, 1965, Vol. 54, No. 4.

J. M. Tinley, Public Regulation of Milk Marketing in California (Berkeley: University of California Press, 1938), especially Chapters I through IV.

Fifth - its composition makes milk an excellent host for disease-producing bacteria if it is not handled properly.

It was natural for government to establish controls over a product this unique to protect the health and well-being of its citizens and to insure an adequate supply of this important food. The earliest law on record dealing with milk sanitation is reported to have been adopted at the turn of the 17th Century in Vienna. The first ordinance of this type in the United States was passed in Boston in 1856 and prohibited adulterating milk with water. This beginning spawned a multiplicity of sanitation regulations throughout the United States and in California.

Price controls also evolved naturally. As milk production became a small but viable commercial business in the late 1800's, producers realized that they did not have very good bargaining strength as individuals. A large volume milk buyer only had to indicate that he could not purchase his normal amount to put the farmer in the distressed position of trying to salvage what value he could from his milk.

Dairy farmers began to form cooperative associations to strengthen their bargaining position to enable them to play a more important role in price determination. This proved to be quite effective and by the early 1920's, these milk bargaining cooperatives were very common throughout the nation. It was during this period that the classified pricing system was developed which is still used today in pricing milk. This system will be described later in the report.

The success of the cooperative bargaining movement in milk was to a large extent responsible for its own downfall. Acting as a voluntary group, these associations favorably influenced the price which, in turn, stimulated more production. As supplies increased, the average price to farmers began to fall because the excess amounts had to be used for products that brought much lower returns. Individual producers found it to their advantage to leave the cooperatives holding the umbrella over the system and marketing their milk direct through independent handlers. In this way these producers were able to capture more of the higher priced milk uses. As cooperative members observed these producers improving their situation, more left and by the early 1930's most of the milk bargaining cooperatives collapsed.

The dairy industry in California enjoyed substantial growth from 1925 to 1929. Sales increased which improved the cost efficiency of distributor's plants. As long as each distributor was satisfied with the volume of business he had, he exhibited a "live and let live" attitude and stability prevailed. However, as the Depression got underway, sales declined due to high prices and low consumer incomes. Retail home delivery which had been the predominate method of distribution, slowly gave way to wholesale sales through stores. As sales volumes continued to decline, competition for store business increased.

Adding to the already chaotic marketing situation, some distributors purchased distressed milk from producers at low prices. They were able to sell at lower prices than distributors who were trying to pay a more adequate price to producers. This stimulated the general practice of price cutting to obtain a competitor's business and milk price wars began. The out-of-store price fell to 5 to 6 cents per quart with some reported as low as 1 cent per quart. You can imagine how well producers fared with store prices at these levels.

The large financial losses resulting from these price wars brought unrest, insecurity, and mutual distrust in the industry. With the failure of all voluntary attempts to obtain the stability so desperately needed, the California dairy industry turned to government controls.

The first California attempt to achieve stability through government regulations was in 1932. Milk Arbitration Boards were organized under the State Marketing Commission Act of 1916. This effort might be described as voluntary government regulation because there was no statutory authority to establish or enforce prices. A degree of price stability was reached for a short period, but prices broke again in early 1933.

The next attempt was to use the Federal Agricultural Adjustment Act of 1933, and develop a Federal Milk Marketing Agreement. The Agreement in California provided for minimum producer prices and minimum resale prices, but never had an opportunity to prove its effectiveness. The federal government withdrew these agreements in 1934 because of doubts that milk was in interstate commerce and therefore not under federal jurisdiction.

With stability still eluding the California dairy industry, attention was again focused on State regulations. The final result was the passage of the Young Act of 1935. Basically the Young Act authorized the Director of Food and Agriculture to establish minimum prices at the producer level only and was to create a business environment under which market milk producers could anticipate a reasonably stable market.

After passage of the Young Act, it became apparent that market stability for the production of fluid milk could not be attained until some degree of stability was created for the vital function of processing and distributing milk. If the market by which milk reached the ultimate consumer was not fully operational on a daily basis, there could be no stability under the Young Act. To fill this void, the Desmond Act was passed in 1937. This Act authorized the Director to establish minimum wholesale and minimum retail prices for most Class 1 products.

These two laws, the Young Act and the Desmond Act, formed the nucleus for the current California Milk Stabilization Laws. Incorporated in these laws are several unfair practices provisions which provided a Code of Ethics for distributors. The Unfair Practices Provisions were designed to maintain an economic climate where businesses could compete, expand, and meet the needs of the public and restrict or eliminate destructive trade practices that waste resources.

As this system began to operate, a few things surfaced that needed to be corrected. The original Young Act called for a Milk Control Board to be appointed by the Director in each designated milk marketing area. It was the boards' responsibility to formulate a Stabilization and Marketing Plan, and, subject to the approval of the Director, establish the minimum prices to be paid to producers. As a result of court action to test the legality of the Young Act, it was decided that the power to fix prices was vested in the Director and could not be delegated. The law was amended making the boards advisory in nature and the Director assumed the direct responsibility for establishing the minimum producer prices.

Another example is the contracting provision. The original Young Act did not require contracts between producer and distributor. Producers felt contracts were necessary to safeguard their interests and the law was amended accordingly. As the industry gained more experience operating under these laws, it became apparent to producers that there was sufficient latitude for unscrupulous distributors to create market instability unilaterally in spite of the contract provisions. Basically, the problem was this. Under the contracting system, distributors had to guarantee that 70 percent of the contract amount would be paid for at the Class 1 price with the remainder at the Class 2 price. These contracts had a 30-day cancellation provision that could be activated by either party. It was simple for distributors to acquire new producers because there was keen competition among producers for these contracts. The probability of a producer promptly securing a new contract was quite low.

Under this system, a producer shipping to a plant with all Class 1 usage fared well financially. Another producer, however, located in the same vicinity who produced and sold milk in like quantity and quality to another plant received considerably less because his production was utilized, in most part, in the manufacture of Class 2, 3, and 4 products. The cost of production was essentially the same for both producers. Thus, the producers' financial welfare was directly related to the type of contract he could negotiate with a distributor.

Because of the difference in the level of usage among plants and the resulting differences in the blend prices received by producers, a sharp competitive scramble developed to secure the highest usage contracts. This placed the producer in a weak position to bargain with distributors. Some distributors abused this power and required producers to produce large amounts of over contract milk. Some coerced producers to accept reductions in the contract amount, to accept excessive haul charges or to make other concessions to obtain or retain the coveted Class 1 contract.

Since the producer was in a disadvantaged bargaining position, he usually acquiesed to distributor demands because it was very difficult for him to obtain a new contract, especially one with a favorable Class 1 guarantee. The loss of contract was a severe economic blow to him. He would often have to ship to a manufacturing plant under a so-called "one pound" contract and receive up to $1.70 cwt. below the Class 1 price, or if more fortunate ship to a plant at considerable distance and high haul cost to obtain even a mediocre Class 1 contract. The uncertainty of gaining or maintaining a contract at a favorable usage level restricted many producers in their credit and future planning horizon.

It should be pointed out that most distributors did not exercise this power unjustly. However, it was exercised frequently enough by some to cause great alarm because any producer could lose his market in 30 days.

Another development detrimental to producers was a court decision that the Federal Government cannot be required to pay minimum resale prices. This left distributors free to bid military contracts at whatever price they chose. Since distributors bid these contracts at less than the Class 1 price, producers bore the economic brunt of this competitive bidding. Some producers received as low as $3.00 cwt. for their milk sold as Class 1 to the military.

Producers became aware of the need to band together and in some way develop a system that would bring relief to their problems and provide a more equitable apportionment of the Class 1 market among producers.

Producers were unsuccessful in their own attempts to correct this problem so they once again looked to the Legislature for assistance to regain the much needed stability. Considerable time was spent trying to determine what avenue would be proper and acceptable to most producers. Long years of effort were finally culminated with the passage of the Gonsalves Milk Pooling Act in 1967. This Act gave each eligible market milk producer a production base and pool quota which represented his historical share of the statewide Class 1 market. The base and quota belong to the producer and could be bought and sold without arbitrary restriction by a third party. In effect, this Act made the producer completely independent from the distributor for the first time and reestablished market stability for producers.

Thus, the Young Act, the Desmond Act and the Milk Pooling Act formed the legal basis for the California Milk Marketing Program.

MINIMUM PRODUCER PRICING

THE YOUNG ACT

The Young Act established the basic purposes, policies, and objectives for a milk marketing program at the production level. The Legislature determined that sufficient disruptive marketing practices were prevalent for the State to intervene and prevent further expansion of chaotic marketing and destructive practices.

The primary objectives of the Milk Stabilization Laws as they were initially written and as they still currently apply may be summarized as follows:

1. To insure an adequate and continuous supply of pure and wholesome fluid milk at fair and reasonable prices to the consuming public.
2. To eliminate wasteful and unfair destructive trade practices.
3. To create reasonable market stability in the dairy industry by promoting, fostering, and encouraging intelligent production and orderly marketing.

This initial legislation authorized the Director of Food and Agriculture to establish minimum prices for fluid milk and cream which distributors would pay to producers. Such minimum prices were to be based upon prices paid for milk for manufacturing purposes plus the additional costs of producing and marketing fluid milk.

A major amendment came about in 1955 after a number of years of hassle between producers and the Department relative to the level of prices established. It was finally determined that the difficulty lay in the basic standard - the price of manufacturing milk which was now under support programs. Cost surveys indicated production costs of manufacturing milk in California were substantially above the manufacturing milk prices and no longer a sound basis for establishing producer prices. (See Exhibits 1 and 2.)

The amended standard necessitated more comprehensive production cost surveys for both grades of milk. These related costs, along with manufacturing milk prices and the supply requirement of the law, provided the legislative standard for pricing milk.

CLASSIFIED PRICING

One of the provisions of the Young Act was the establishment of a classified pricing system. Classified pricing is a "use" plan wherein separate prices are established for milk depending on the ultimate use of portions of the milk.

Classified pricing may be used either to bring about price stability and market security, or to increase producer returns through exploitation of differing demands for alternative product uses. The ultimate criteria centers on differences in demand elasticity. The demand schedule for milk for fluid purposes is quite inelastic - relatively large changes in milk prices are required to bring about small changes in quantities purchased.

While the demand for fluid milk is inelastic in most fluid milk markets, the demand for raw product supplies to satisfy some manufacturing needs is highly elastic. This is particularly true where sufficient supplies of milk eligible for fluid purposes are available at some or all times of the year. These supplies must be disposed of through manufacture of more concentrated products such as butter or cheese. Some provision must be established to serve as a safety valve to protect the market structure for that group of products outside the Class 1 market. This can be provided through the establishment of two or more separate classifications.

Where supplies are no greater than those quantities needed to manufacture perishable products, a minimum of classes are necessary. The limits to the level of these prices are determined by the availability of alternative sources of supplies.

One of the situations leading to classified prices arises from differences in milk handlers' operating practices. Some may be able to dispose of practically all their milk at the highest price - Class 1. Somewhere, a considerable reserve must be carried from day to day, week to week, month to month, if changes in consumption are to be properly met. This situation results in conflicts and friction in negotiating prices between producers and the distributors. How is the burden of market reserves to be carried? When all dealers pay for milk according to the actual use, these problems are avoided.

There are four classifications established by statute for purposes of price differentiation. Class 1 is comprised basically of fluid milk, fluid low fat, fluid skim, half and half, and yogurt which is supplied to consumers for consumption in that form. This would include all the milk fat or solids-not-fat used for fortifying and standardizing.

Class 2 is comprised basically of the heavy creams and cottage cheese which must be made from market grade milk exclusively. Other Class 2 products would include egg nog, whipped cream toppings, and sterilized milk and creams of all types.

Class 3 contains ice cream and ice cream mixes and most other types of frozen desserts containing dairy products.

Class 4 products are butter, hard cheese, and dried milk or dried skim milk.

A comprehensive listing of the various products in their respective classes is given on the following table.

Even though there are four separate classifications, the Director

CLASSIFICATION OF FLUID MILK USAGE - Effective Jan. 1, 1974

CLASS 1

Market Milk Products

Acidophilus Milk
Concentrated Market Milk
Concentrated Market Skim Milk
Fluid Market Goat Milk
Fluid Market Milk
Flavored Milk
Low-Fat Milk
Flavored Low Fat Milk
Fluid Market Skim Milk or Nonfat Milk
Flavored Nonfat Milk
Imitation Milk Product
Filled Product
Modified Milk
Milk Drink
Milk Drink Mix
Half and Half
Acidified Half and Half
Cultured Half and Half
Sour Half and Half
Yogurt
Yogurt Sherbet
Dietetic Yogurt
Fruit Yogurt
Low Fat Yogurt
Low Fat Yogurt Drink
Nonfat Yogurt
Nonfat Liquid Yogurt Drink

CLASS 2

Market Milk Products

All Purpose Cream
Pastry Cream
Table Cream
Whipping Cream
Acidified Cream
Sour Cream
Sour Cream Dressing
Buttermilk
Acidified Buttermilk
Cottage Cheese, Uncreamed Cottage Cheese
Creamed Cottage Cheese
Creamed Cottage Cheese Spread
Low Fat Cottage Cheese
Partially Creamed Cottage Cheese
Hoop Cheese

Milk Products

Egg Nog
Cream Topping
Cream Topping Mix
Whipped Cream
Whipped Cream Mix
Sour Half and Half Dressing
Acidified Half and Half Dressing
Acidified Cream Dressing
Dry Whey
Sterilized Milk
Sterilized Flavored Milk
Sterilized Milk Drink Mix
Sterilized Flavored Drink
Sterilized Cream
Sterilized Flavored Cream
Sterilized Half and Half
Sterilized Sour Flavored Half and Half
Sterilized Dairy Spread

CLASS 3

Milk Products

Ice Cream
Ice Cream Mix
Diabetic Ice Cream
Dietetic Ice Cream
Imitation Ice Cream
Ice Milk
Ice Milk Mix
Diabetic Ice Milk
Dietetic Ice Milk
Imitation Ice Milk
Sherbet
Quiescently Frozen Confections
Frozen Dairy Dessert
Frozen Yogurt Dessert
Nonfat Frozen Dairy Dessert

CLASS 4

Milk Products

Butter
Cheese,
  other than Cottage Cheese
Dried Milk, Dried Whole Milk
Dry Buttermilk
Nonfat Dr Milk

Subject to Section 61847
"Shall be assigned to
the Classification of
Ultimate Usage"

Clotted Cream
Condensed Milk
Condensed Skim Milk
Evaporated Cream
Evaporated Milk
Evaporated Skim Milk
Sweetened Condensed Milk
Sweetened Evaporated Milk

may find that two or three separate prices would be sufficient. At times in the past, this has occurred where Classes 3 and 4 were priced at the same level.

COMPONENT PRICING

The California dairy industry moved into component pricing of milk in April 1962 following a legislative amendment providing for this procedure. Component pricing is a method by which distributors pay the dairy farmer for market milk based on both the milk fat and solids-not-fat content. Three separate prices are established which account for the total value of milk used for Class 1 purposes. These are prices for milk fat, solids-not-fat and residual fluid.

This procedure was necessary to permit the milk fat and solids-not-fat values to be competitive with the market prices for these components. Additional value remained for which the dairymen needed to be compensated so that value was assigned to the residual portion of a hundredweight of milk after accounting for the milk fat and solids-not-fat.

The program has had good acceptance as a step toward more equitably recognizing the protein value of fluid milk.

FACTORS AND OBJECTIVES IN ESTABLISHING CLASS I MILK PRICES

All too frequently, discussions of milk marketing programs are in a frame of reference that label them as control or regulatory agencies when they are, in fact, essentially administrators of marketing programs which require policing in order to effectuate their purposes.

The real problem in a program such as this is not in the analysis of volumes of hearing transcripts or in writing complex marketing plans. If someone could define precisely the meaning of three or four key words, most anyone could write the balance of the marketing plans. If someone could state unequivocally the meaning of a "satisfactory marketing condition", what is "reasonable prosperity", or what is an "adequate supply", it would answer some of the dilemma.

Historically, the standards as set forth by the Legislature have been interpreted as supply and demand standards at the production level. The standards the Director must consider are as follows:

1. The relationship of market milk prices with those for manufacturing milk.

2. The additional costs of producing and marketing fluid milk over and above the cost of producing and marketing manufacturing grade milk.

3. The current and prospective supply of fluid milk as related to the current and prospective demand for such fluid milk.

4. Such prices shall provide an adequate supply of milk to consumers at fair and reasonable prices.

5. He must consider the fluctuations and variations in the supply and demand conditions.

The Department's interpretation of adequate supply includes a volume of fluid milk which will cover all Class 1 needs at all times. There are rather wide seasonal fluctuations in the supply due to the biological behavior of the production unit - the dairy cow. There are equally wide variations in consumer purchases. Sales of milk tend to decline as schools close and vacation seasons occur. In the fall, when schools open and consumers move back into their more normal routines, the demand for fluid milk increases quite dramatically. All these conditions must be provided for in a supply. It should be remembered that the variations in production and the variations in consumption are counter seasonal.

Information on supply and demand of fluid milk and dairy products is obtained from many sources with the principal one being processors and distributors in California. The Bureau of Milk Stabilization and the California Crop and Livestock Reporting Service have had a cooperative agreement for the collection, tabulation and analysis of production, sales, prices, and manufacture of all milk and dairy products in California. Economists and dairy marketing specialists throughout the nation credit California with having more complete data on the dairy industry than anv other state in the nation.

Reports from handlers, processors and distributors are filed monthly and as otherwise might be requested to supplement these basic reports. This gives the Director a current knowledge and a history of trends in the market place for a foundation for decision making.

The Director considers costs of production an important factor in determining sound price levels. Feed costs and farm wage rates make up about 75 percent of the total costs on a California dairy farm. The Department obtains accurate and current information to keep abreast of both the general level of costs and the trending of such cost factors.

The legislative standards do not guarantee producers their cost of production. The extent of coverage and at what precise levels such costs may be covered at a particular time will vary. In the long run, price levels must equal the costs of production for those necessary producers to satisfy the consumer demand for milk.

MILK PRODUCTION COST PROCEDURE

Costs are one of the basic standards used in pricing milk in this State. Cost trends are studied continuously for all production areas to determine the need for adjustment in the classified prices paid producers.

Milk production costs are run on a sample of the 2416 market milk dairies in California. The current sample consists of 372 dairies, approximately 15.4 percent of the total number. The dairies on the cost program are there on a voluntary basis.

Costs are calculated for each of the recognized cost categories (feed, labor, etc.) indicating unit costs per hundredweight (cwt.) of 3.5 percent fat corrected milk.[2/] The costs are run bimonthly for ten regional market milk production areas throughout California.

The following standard cost procedure is applied uniformly in all production areas of the State in the calculation of costs:

1. Feed Costs

This is the major category accounting for 59 percent of total costs. The energy value for each feedstuff in the dairy cow ration is calculated to determine total feed costs per hundredweight of 3.5 percent fat corrected milk. The feedstuff prices used in the feed cost calculations are the prices paid per ton by the producers on survey. The energy content of the feeds is expressed in pounds of total digestible nutrients abbreviated T.D.N.

Derivation of energy content is from actual testing, research tables developed by the National Research Council for dairy feeds, Marrison's "Feeds and Feeding" manual, and university bulletins providing

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2/ The following formula will volume-correct to a 3.5% test:
.4324 x pounds milk + 16.218 x pounds milkfat = total pounds 3.5% milk.

such information. By applying the cost per pound T.D.N. to the pounds of T.D.N. for each feedstuff fed in the total ration required to produce a hundredweight of milk, the feed cost per hundredweight of milk produced is determined.

2. Labor Cost

Labor expense accounts for 10 to 15 percent of the total cost of producing milk. Labor expense is confined to the hours and hourly rates pertaining to the milking and general work requirements for the milk production enterprise.

3. Herd Replacement Costs

Twenty-five to thirty-five percent of the herd cows are culled from the herd sometime during the year mainly for low production. The expense for replacing these cows runs close to six percent of total costs. The expense of replacing the cows culled from the herd is computed by taking the cost of new cows coming into the herd and subtracting from this value the salvage value received for the culled cows showing a net cost for replacement. Net cost is divided by the hundredweights of milk produced for the period indicating unit cost.

4. Taxes and Insurance

This category contributes about two percent to total costs. Taxes include county taxes for land, improvements, personal property such as equipment, cows and feed inventories primarily used for the production of milk. It is necessary to segregate and allocate dairy expense from the total tax bill. This information is obtained for a sample of dairies in each production area and calculated on a cost per hundredweight of milk. These costs are then applied as standards for the balance of the dairies on cost in the production area.

5. General Operating Costs

Close to ten percent of the total cost relates to the general run of expense for the use of goods and services needed to operate the dairy such as utilities, veterinary and medicine, dairy supplies, repairs and maintenance. This is taken from invoices, canceled checks, or the general ledger. Total expenditures are divided by the hundredweights of milk produced for the period.

6. Depreciation

Depreciation expense for dairy buildings and equipment runs between one and two percent of total costs.

Straight-line depreciation is established for each item in the dairy buildings and equipment inventory. The annual depreciation expense is divided by 12 to provide a monthly prorated cost. Unit cost is determined by dividing the monthly depreciation cost by the hundredweights of milk produced for the same period.

7. Less: Miscellaneous Income

Dairymen receive a small portion of their total income from the sale of week-old calves born to cows freshening; also limited value is recovered from salvaged manure. This miscellaneous income displaces about four percent of total costs; and is subtracted from total costs. Usually the week-old bull calves are moved to auction yards and sold as vealers; the week-old heifer calves are either sold to other dairies or to the replacement enterprise on the same dairy. In either case they are costed at the prevailing market value.

At this point in the costing procedure we have established the cost of producing milk at the ranch location indicated as "Total Costs f.o.b. Ranch."

8. Marketing Costs

There is added expense born by the producer for marketing his milk. About 4.5 percent of total costs is for milk hauling, assessments, sales and promotion of milk, and for any producer marketing associations to which he pays dues. The total expenditure is divided by the hundredweights of milk marketed for the period.

Fluid milk assessments which are used to finance the Stabilization Program are currently set at four mills per pound milk fat on Class 1 usage and two mills for Class 2 and Class 3 usages. This is the fee paid by both the dairy farmer on the production and by the distributor on the sales.

9. Return on Investment

In order to provide land, buildings, equipment, cows, and feed inventories necessary for the production of milk for the consumer, dairymen are required to invest substantially large amounts of either their own capital or the capital provided by lending agencies.

An allowance of eight percent per annum on his investment is figured into the costs. On a unit cost basis, this allowance becomes between six and eight percent of total costs.

The investment is based on purchase value at the time of acquisition. This investment is not depreciated down to a reserve investment value which is the method used for income tax computations. Dairies on survey include old investments, which are relatively low, as well as new investments which are relatively high.

10. Return for Management

Close to 4.5 percent of total costs are allowed for the dairy management function.

Most California dairies are family owned and operated. Due to the relatively small scale of operation compared to milk plants and other business firms, the limited net farm income that would have to be shared with a full-time manager has eliminated hired managers from dairy farm payrolls. The dairy operator or a member of the family make the management decisions in conjunction with carrying out daily work chores. Managers' salaries in other businesses are many times based on a percentage of the gross income from the sale of goods and services.

The management cost standard used in these studies is based on the same principle, as follows:

Area: Blend Price Paid Producers for 3.5% milk/cwt. times 5 percent = management allowance per cwt.

Data for the blend prices paid producers for each area is made available from records compiled by the California Crop and Livestock Reporting Service for the Dairy Information Bulletin which is published monthly. The individual cost studies for each dairy surveyed in an area are combined and weighted based on volume of milk produced. These are then put in a summary for the area and used as the basic cost information by the Director in his deliberations for establishing Class 1 price levels.

MARKET MILK SUPPLIES

Since milk production costs are one of the basic standards in establishing Class 1 prices, certainly one would expect these cost-price levels to have some trend relationship, particularly on a long-term basis. (See Exhibits 3, 4, 5, and 6.) One must also realize that variations of production costs must be recognized when they are compared with Class 1 prices and in relation to variable Class 1 prices between markets.

Production costs in the San Joaquin Valley have tended to be somewhat below Class 1 prices since about 1960 with one or two exceptions. Production costs for the Southern California market has tended to be above the Class 1 price levels since the mid-1950's when the standard cost system was first being developed.

During this period, supplies in excess of Class 1 usage expanded from about 16 percent of market milk production to approximately 39 percent in 1973. (See Exhibits 7 and 8.) This supply of market milk going to manufacturing products brings up the question of the need for this amount of additional market milk supply.

The supply standards, as initially written, were to require supplies which would meet the prospective demands for fluid milk. With the indication that the Director would interpret this literally, the industry prevailed in getting this amended to include "for all purposes" and, ultimately, to add "including manufacturing purposes".

Manufacturing milk production began to decline in the mid-1950's as production costs increased relative to manufacturing prices. This decline has continued and now less than six percent of the total supply comes from this source. As this trend developed, handlers encouraged and, in some instances, coerced market milk producers to expand their market milk production in an attempt to keep the manufacturing facilities in operation. Under the mandatory contract system, some handlers threatened cancellation of contracts with producers who were opposed to the reduction in Class 1 guarantees of their existing contracts. Manufacturing producers were given contracts to convert over to market milk as another means of protecting plant supply needs.

The legislative change which provided for the development of a pooling plan which included the recognition of transferable quotas has not caused any reduced supply of market milk in excess of Class 1 usage.

A recent amendment to the Code which requires certain Class 2 products to be made from market grade milk will necessarily require recognition in the level of available supplies. With this modification, the supply over and above the market milk requirements has been reduced to approximately 18 percent. (See Exhibits 7 and 8.) The Department has considered a 13 percent reserve was needed for standby requirements.

ESTABLISHMENT OF CLASS 1 PRICE

The level of Class 1 prices then must recognize both supply and demand factors and production costs with different weight factors being applied depending on the market conditions at the time. There is no precise formula or procedure. It is left to the Director to analyze and evaluate these factors within the overall standards of the Act.

Some years ago the State Board of Agriculture asked that a written opinion be obtained from the Attorney General on the interpretation of the producer pricing standards and how they should be applied. That opinion is still applicable and bears repeating.

"Milk for fluid consumption is to be priced competitively with milk used for manufacturing purposes. Competition is not, however, to be allowed to create unreasonable instability of prices. On the other hand, prices are not to be more than is necessary to maintain adequate production. The weight that is to be given at any particular time to any particular factor influencing price is a matter within the discretion of the expert administrative agency charged with the administration of the law. Thus, the statute requires that pricing policy be a two-edged sword. Price regulations must sustain production under some conditions and must suppress production under other conditions. Properly administered, the law stands as a safeguard against excess. The health of the dairy industry is a matter of public interest. That consumers pay no more than necessary for their milk is also in the public interest. A balance of interest is involved. The danger is in imbalance."

When all the mathematical formulas and complex marketing plans are reduced to final results or accomplishments, we believe the objectives and purposes are only intended to reduce the wide fluctuations in price levels and in the reduction of marketing instabilities.

Attention must be given to the basic question of the long-term need of price adjustments within the framework of an otherwise free enterprise economy. Administered pricing programs interfere in some form or another with competitive activities. That is the reason why they must be complementary with and not in opposition to such economic forces.

EVALUATION OF CALIFORNIA'S MINIMUM CLASS I PRICE

It is axiomatic that regulation of fluid milk prices at the producer level will be maintained in California whether by State or Federal jurisdiction. If State regulations were withdrawn, Federal regulations would be instituted immediately. Virtually all markets have some regulation at the producer level so comparison to an uncontrolled market is not possible. However, in comparison to Federally regulated markets, the performance of the minimum producer price establishing functions in California is exceptionally favorable.

Exhibit 13 shows that in 1972, 96 percent of all fluid milk was sold to plants under some regulation at the producer level.

Exhibit 14 shows the history of controlled programs and indicates that during the last 20 years the numbers have remained fairly stable. A very modest expansion in resale pricing programs began in the 1960's with an even greater increase in the producer programs.

The performance of California's producer pricing program in nationally known for its efficiency. As of May 1974, the California Class 1 producer price was 44 cents below the estimated average price in Federal Milk Marketing Areas as shown in Exhibit 10.

Another evaluation of the effectiveness of the program in meeting tne legislative standards and public interest is through comparison of the california Class 1 price levels with those in other markets. Exhibit 9 shows a comparison between Oregon and the Southern Metropolitan Marketing Area. As of March 1974, the California Class 1 price was $1.44 per hundredweight less than the Oregon price. After the price increase on April 1, 1974, California's Class 1 price is still 28 cents per hundredweight less than the Oregon price.

Exhibit 11 compares the price in Los Angeles with eleven other selected Cities across the Nation. These data for five Cities is charted in Exhibit 12. Other comparisons would be repetitious in showing that California's minimum Class 1 prices to producers are among the lowest in the Nation.

FACTORS AND OBJECTIVES IN ESTABLISHING CLASS 2, CLASS 3, AND CLASS 4 PRICES

The basic standards which the Director must consider in establishing Class 2, Class 3, and Class 4 prices are all relevant factors including the relative market values of the various manufactured dairy products and the market price of other milk which can be used to make such products.

Manufacturing grade milk is directly competitive with market milk in Classes 3 and 4 and certain Class 2 products. Up until January 1, 1974, all Class 2, Class 3, and Class 4 products were directly competitive. A legislative amendment became effective that requires all cottage cheese and buttermilk to be made from market grade milk. This change will necessarily require some modification in the supply standard interpretation and also in the level of price necessary for Class 2 to accommodate this change. Semifinished products of one classification may be used to make a higher usage product. Minimum prices established for Class 2, Class 3, and Class 4 must, therefore, be very competitive with all possible alternative sources of supply.

California has changed its basic formula for establishing minimum prices for Class 2, Class 3, and Class 4 over the years to provide the best possible return for producers and yet meet the criteria for being competitive to provide market clearance for all supplies.

After a review of the varying methods of pricing, together with the many changes in classifications within the markets across the nation over a period of time, one can only come to the conclusion that there is no way to measure or establish a price or prices for surplus fluid milk that will equate precisely all the factors at work over a period of time.

Despite the lack of exact measuring devices, some indicators exist that are a guide in evaluating the Class 2, Class 3, and Class 4 prices. These include: (1) a determination of measures of profitability to manufacturing plants with low product costs based on such class prices, (2) estimates of costs of purchasing the ingredients of manufactured products from alternative sources, and (3) comparison with prices paid producers in other areas for milk used for similar products. (See Exhibit 2.)

Under administered pricing programs, the pricing agency has the responsibility of establishing these excess prices to the highest possible level which would promote the utilization of all available supplies. In other words, it is an attempt to get all one can out of our product and still clear the market of all supplies. Here in California we have used varying methods and formulas to fit the changes in the particular market and the peculiarities as they exist in relation to minimum prices for usages other than Class 1.

The minimum Class 4 price is established by a formula which uses either the Federal support price or the Chicago Mercantile Exchange price for butter and the f.o.b. California plant price for nonfat dry milk powder, whichever price is higher. When the free market prices for butter and powder are above the Federal support prices, Federal support has no direct effect on the Class 4 price. Conversely, when the commercial market price drops to the Federal support level, the Federal support price becomes in effect the market price and is then used to establish the Class 4 price. As an example:

<u>March 1974 Milk Fat Computation</u>

Chicago Mercantile Exchange Weighted Average Price	$.672 Per Lb.
Less Cost of Processing a Lb. of Butter	- .055 Per Lb.
	$.617 Per Lb.
Less Transportation Allowance between Chicago & Calif.	-$.04
	$.577 Per Lb.
Overrun Factor (100 lbs. of milk fat renders 120 lbs. of butter)	x 1.2
Milk Fat Price Based on Free Market Butter Quotations	$.6924 Per Lb.

Federal Support Price for Butter in California	$.590 Per Lb.
Less Cost of Processing a Lb. of Butter	- .055 Per Lb.
	$.535 Per Lb.
Less Cost of Servicing Sales to the Commodity Credit Assn.	$.005 Per Lb.
	$.530 Per Lb.
Overrun Factor	x 1.2
Milk Fat Price Based on Federal Support Price	$.636 Per Lb.

March 1974 Solids-Not-Fat Computation

Weighted Avg. Price Nonfat Dry Milk f.o.b. Calif. Plants	$.5765 Per Lb.
Less Cost of Processing a Lb. of Nonfat Dry Milk	- .05 Per Lb.
Solids-Not-Fat price, f.o.b. California Plants	$.5265 Per Lb.
Federal Support Price per Lb. Nonfat Dry Milk	$.566 Per Lb.
Less Cost of Processing a Lb. of Nonfat Dry Milk	$.05 Per Lb.
Solids-Not-Fat price based on Federal Support Price	$.516

Both milk fat and solids-not-fat price computations resulted in a higher price using free market butter and powder quotations. These, therefore, are the criteria for establishing the Class 4 price for March.

In the past 20 years, the formula for determining the Class 4 price has varied a number of times. The Department has changed the basic formula as better or more representative data became available.

In 1953, the Class 4 formula was based on the prices paid to producers who supplied milk to California milk condensing plants. The Class 4 price was determined for a hundredweight of milk. This hundredweight system was amended in 1955 to a combination payment on a value per pound of milk fat and a hundredweight price for skim milk. The fat value was determined by the butter prices in the San Francisco market, while the skim value continued to be established by prices paid f.o.b. California milk condensing plants.

This method of computing the Class 4 price continued until 1964 when the formula was adjusted again. The San Francisco butter market continued to establish the fat value but the skim value was established on a Minnesota-Wisconsin price series. In 1965, the Minnesota-Wisconsin series was replaced by the Chicago powder price. The Class 4 price continued to be based on the San Francisco butter quotations and Chicago nonfat dry milk price until 1972. During 1972, the Federal support price for both butter and powder was used to establish the Class 4 price. As the market for milk solids-not-fat had improved by January 1973, the formula was again amended. The Federal support price for butter was retained, but an option of either the support price for nonfat dry milk or the price paid f.o.b. California processing plants, whichever was higher, was used.

By September 1973, the San Francisco terminal butter market ceased to be a major butter market and the formula was changed again. Currently, the Class 4 milk fat value is determined by a formula using either the California Federal support price or the Chicago Mercantile Exchange price for butter whichever is higher. The solids-not-fat price is determined by either the California Federal support price or the weighted average paid f.o.b. California processing plants for nonfat dry milk powder, whichever is higher. This formula, with its optional features, is in effect today but modified to weight the Chicago Mercantile butter price each week by the volume of butter sold in California during the same week.

Since the alternate system has been in effect, the milk fat price has been based on the Federal support price 60 percent of the time, and on the open market price 40 percent of the time. The solids-not-fat price has been based on the open market 100 percent of the time.

MINIMUM RESALE PRICING

THE DESMOND ACT

The basic purpose of the Desmond Act was to stop price cutting and secret rebates among distributors and retail stores. This was to be accomplished by authorizing the Director to establish minimum prices at wholesale and retail.

The basic standard or guide was that the minimum prices and margins established were to be adequate, but not more than adequate, to maintain in business in each market sufficient distributors of each type to provide adequate service to consumers. This standard necessitated detailed costing surveys in each market as a preliminary to minimum price establishment.

Crucial elements of resale pricing involve problems of both price level and price differentials. The latter is probably the more important and most difficult, particularly in the short run. "Incorrect" price levels reflect upon the prices consumers must pay and bears on profit levels for firms in the market channels. Ultimately, they will also reflect on the maintenance of adequate facilities.

Although prime concern should be centered on cost-price relationships, it is not to say that short run accounting costs can always determine appropriate prices. There is one distinguishing difference in the legislative standards established between resale pricing and pricing at the producer level. Resale pricing must be based on costs of processing and distribution, while producer prices are based on supply and demand factors including cost of production.

A discussion of the costing procedures will help one follow the process of applying the standards to develop minimum prices at all resale levels.

PROCESSING AND DISTRIBUTION COSTING PROCEDURE

The Department selects the plants to be studied. The objective is a representative sample in each marketing area. At the present time, there are 14 marketing areas in the State. Eighty-seven percent of all fluid milk sold in the State is sold in the following four marketing areas:

Southern Metropolitan	49.5%
Central Coast Counties	20.2%
North Central Valley	9.3%
San Diego-Imperial	8.0%
Four Marketing Areas Total	87.0%

The cost data submitted at the most recent resale hearings in the above four marketing areas are representative of the costs of plants having the following percentage of total area sales:

Southern Metropolitan, hearing 3-5-74	73.6%
Central Coast Counties, hearing 12-18-73	74.6%
North Central Valley, hearing 10-12-73	91.5%
San Diego-Imperial, hearing 11-5-73	89.2%

In the remaining ten smaller marketing areas, the sample is a higher percentage of total sales.

The cost study period is, in general, a three-month period during which sales were approximately 25 percent of annual sales. When sales fluctuate widely, a twelve-month period may be selected.

1. Raw Product Cost

Raw product costs for processing plants are computed on current raw product component costs. All component costs are calculated on the minimum prices in the current Stabilization and Marketing Plan in effect for the area where the plant is located. There is an allowance of 1% for plant loss for all components.

Raw product costs for subdistributors is represented by the price a subdistributor pays for the packaged product.

2. Processing Costs

The distributor's records are analyzed and only those expenses that are reasonably necessary and applicable to the processing of milk are allowed. The distributor's payroll is analyzed and after verification, a functional hour analysis is made to allocate costs to the various functions performed. Whenever possible, a direct allocation of cost is made. For example: If an employee spends his entire time filling half-gallon milk containers, his entire salary including cost of fringe benefits is allocated directly to the filling schedule for half-gallon containers. If the filler is used only for filling more than one product, those products share the expense in proportion to the units of each product filled.

Equipment that is used for pasteurizing and pasteurizing labor will be allocated to various products pasteurized on the basis of gallons pasteurized. The unit cost for general plant labor is found by dividing the cost by the gallons processed. Depreciation is based on acquisition cost. All depreciation costs are analyzed and adjusted to straight line depreciation when found on some other basis.

3. Receipts and Usage

The primary purpose of this computation is to verify that all sales are accounted for. The difference between the gallonage to be accounted for and the usage is the plant loss. The maximum plant loss is limited to 2 percent. Only in very rare circumstances is this maximum reached. The plant loss in most cases is below 1 percent. The plant loss includes breakage at the fillers, route returns, cold room shortages, and other unaccounted losses in the processing plant, the cold room, or on routes.

4. Carton Cost

Carton costs are determined on the basis of unit costs obtained from the latest available price quotation of the principal supplier, less any trade discounts.

Many special schedules used to determine unit costs for the various processing functions have developed over the years and are of proven merit. The accuracy of the processing expense developed by the Department is rarely questioned. These techniques have been repeatedly examined by independent certified public auditing firms, other State agencies, universities and individuals.

5. Delivery Expense

Delivery expense is the largest single expense incurred by a distributor, aside from raw product cost. This expense also varies most widely between distributors depending largely on the number of units delivered per route day. All expenses are analyzed and allocated between wholesale and retail routes depending on where the expense is incurred. After the cost for each type of distribution has been determined, the unit costs are determined through the use of modifiers. Two types of modifiers have been developed after extensive studies. The labor modifier is used to determine the unit cost of delivery labor including supervision and a case modifier is used to determine the unit cost for other delivery expenses, such as truck depreciation, gas and oil expenses and other delivery expenses. Case modifiers are also used to properly allocate the expense of operating a relay truck, including the labor cost of the driver, when the driver makes no delivery to the trade but merely transports products from the processing plant to a depot. The basic unit for this modifier is the case. The theory underlying this concept is that there is no cost difference in transporting a case regardless of what dairy product it contains. If the case contains 24 quart containers the modifier for a quart would be 1. If the same container holds 48 one-third quart containers, the modifier for a one-third quart would be .5. The determination of the labor modifier is based on extensive route studies and the time needed to effect delivery is a prime consideration.

6. Selling Expenses

Selling expenses are analyzed like any other expense and allocated between wholesale routes and retail routes on the basis of specific identification. For those expenses that cannot be directly allocated, the ratio of net sales revenues may be used. The unit costs are determined by dividing the expense for each type of delivery by the appropriate general and administrative units. Salesmen's salaries and advertising expenses are the two largest items appearing as selling expenses. Advertising expenses vary widely between periods. A specific three-month period may have abnormally high or low expenses for advertising. For this reason, the annual expense has to be determined and the advertising expense for the three-month study period is adjusted to reflect one-fourth (1/4) of the annual expense. The unit advertising expense is limited to 3 percent of the wholesale selling price. The actual unit expense is used if the actual is lower than the limitation.

7. Collection and Route Overhead

This type of expense includes collectors' salaries, the salaries of office personnel engaged in checking the drivers cash collections, preparing billings, summarizing unit sales, and all other office work connected with routes. These expenses are allocated between wholesale and retail etc. on a direct basis. A functional hour analysis is used if an employee has functions covering several departments. Other costs in the collection and route overhead department are depreciation of the office equipment used, rent of data processing equipment used in the department, route stationery, a portion of postage, telephone and telegraph expenses. After the expense accounts have been set up properly, the units must be classified to correspond.

Bad debt expenses are a part of collection and route overhead expenses. This expense varies greatly. Some distributors can operate a long time, perhaps years, without suffering very substantial losses. The allowance for bad debt losses is a standard allowance. The allowance is computed at one-fourth percent on wholesale charge sales and one-half percent on retail charge sales. The standard allowance for bad debts does not apply when costs for vertically integrated distributors are developed. Such integrated distributors have no bad debt losses.

8. General and Administrative Expenses

General and administrative expenses are the expenses incurred in the direction and administration of the company. Included are expenses for such employees whose functions cannot be properly allocated to a specific department, for example, wages for watchmen. Charges must be examined to determine that they are proper expenditures for the period. "General and administrative expenses" constitute only a small portion of the distributor's total expense, and the unit costs are limited to a maximum of 3 percent.

9. Allowance for Return on Investment

The Department has conducted studies to determine the average investment needed for plant and distribution facilities. Based on such studies, it has been determined that, for example, the average investment needed by a processing plant selling milk on wholesale routes is $80 per average daily gallon sold. The return on investment is based on a rate of 8.4 percent per annum. The allowance for return on investment per average daily gallon is therefore $80 x 8.4% ÷ 365 or $.0184. Unit allowances for the various container sizes have been computed on the basis of weighted average costs. The allowance per quart sold on a wholesale route by a processing distributor is $.0045.

For sales to a subdistributor purchasing at the processing distributor's platform, the investment needed is reduced by $16, representing the investment for delivery equipment. Unit allowance for return on investment for sales to a subdistributor is, therefore, $.0036 per quart.

The investment of a subdistributor represents 20 percent of the processing distributor's investment. The unit allowance per quart is, therefore, 20 percent of $.0045 or $.0009.

10. Allowance for Federal and State Income Taxes

Allowances for Federal and State income taxes are based on prevailing tax rates. The combined maximum rate equals 52 percent of the amount subject to taxes. The average rate for small plants is 29 percent.

These processing and distribution costs are summarized for each distributor in the sample and used by the Director in the price determination process.

RETAIL STORE COSTS

The Department conducts periodical surveys to determine the cost of doing business by stores selling milk. For the purpose of this survey, several marketing areas are combined.

Cost data from individual stores are combined with other similar stores and presented as a group. Stores are classified as:

Group A - Stores with annual sales under $300,000

Group B - Stores with annual sales over $300,000

Group C - Chain stores with 4 to 14 stores

Group D - Chain stores with more than 14 stores

The combined costs and operating expenses for each group are expressed as a percentage of the sales for this group.

Exhibit 16 showing the results of the survey covering Southern California Marketing Areas illustrates the procedure.

All data in this survey are summarized from the records of the stores surveyed. Only in Group A has an adjustment been made. These small stores are frequently owner-operated and no expenses for labor appear on the records. When this condition is encountered, a labor expense equal to 10 percent of net sales is permitted.

It should be pointed out that the original Desmond Act only provided for the cost of handling milk in retail stores to be a standard. It was found shortly after enactment of the law that it was impractical to determine the cost of handling milk as a separate item. In 1939, the Act was amended to provide that in the absence of satisfactory evidence to the contrary, the cost of handling fluid milk in retail stores is presumed to be the same percentage of sales as the overall cost of doing business by the retail store.

RESALE PRICING STANDARDS

The general standards for resale pricing are briefly summarized as follows:

1. The maintenance of an adequate supply of healthful milk is vital to the public welfare.

2. The policy of the State is to promote and encourage the orderly marketing of commodities necessary to its citizens.

3. Enable the dairy industry, with the aid of the State, to maintain satisfactory marketing conditions and a reasonable amount of stability and prosperity in the marketing of fluid milk.

4. None of the provisions of the Milk Stabilization Act may be used to develop conditions of monopoly.

5. Consumers are to be ensured a continuous supply at fair and reasonable prices.

The direct standards may be summarized as follows:

1. In every Marketing Area where producer prices are established, minimum wholesale and retail prices shall be established.

2. The following economic factors shall be taken into consideration in determining resale prices:

a. The quantities of fluid milk which are distributed.

b. The quantities required by consumers.

c. The estimated purchasing power of consumers.

d. The cost of fluid milk to distributors and retail stores.

e. The reasonably necessary cost of handling fluid milk incurred by distributors including all costs of processing and distribution and also including a reasonable return on necessary capital investment.

These costs are to be determined by impartial cost surveys of a representative group of distributors to indicate the reasonably necessary costs of sufficient efficient distribution for a particular Marketing Area.

f. The available capacity for processing and distribution and the extent to which this capacity is being used.

g. The cost of handling milk incurred by retail stores. In view of the cost of handling fluid milk as an individual item, the cost of doing business of a retail store in conducting its entire business may be used.

3. The minimum wholesale and retail prices shall be reasonably sufficient to cover costs and reasonable return on necessary capital investment.

4. However, if the Director determines that prices established, based on these cost standards, would not effectuate the purposes of the Act, he shall establish minimum wholesale or retail prices above or below cost.

For the past several years the principal problem in the establishment of minimum wholesale prices has arisen from the growth of vertically integrated operations. In recent months this problem has been intensified with the legalization of the joint venture type of operation. Vertically integrated distributors in the month of October 1973 accounted for approximately 48 percent of the volume of sales of fluid milk sold through retail stores in the State. (See Exhibit 15)

True vertically integrated plants are highly efficient operations. This high degree of efficiency is achieved through processing only a limited line of high volume fluid milk products in the major container sizes, supplemented by the purchase of low volume fluid milk and dairy products in packaged form from conventional distributors, and sold through a selected group of large volume outlets. As a consequence of these extremely efficient methods of processing and distribution, the average costs of these distributors are relatively low.

The remainder of the market, which includes large independent supermarkets, small to medium size grocery stores, restaurants and institutions including hospitals and schools, is served by conventional distributors. Because of the high costs of serving the smaller stores and "consumed on premise" outlets, the average costs of conventional distributors are relatively high.

As a result of the above situation, two distinct groups of costs are observable in the cost samples developed by the Department. One group is made up of the low costs of the vertically integrated plants - the other group, the higher costs of the conventional distributors.

ESTABLISHMENT OF MINIMUM WHOLESALE PRICES

The process of establishing wholesale prices has evolved considerably over the years. In the early years of the Act when flat wholesale prices (i.e., all wholesale customers paid a single price on a particular container size) were established, the method used was relatively simple. After the cost studies for an area were completed, an analysis of the relationship of the currently effective prices to the new costs was made. If the existing prices covered the costs of sufficient efficient distribution to adequately supply the market, prices would be left unchanged. If prices were considered not sufficient to accomplish this, they were increased to an appropriate level.

Since the introduction of quantity and limited service discounts into the wholesale pricing process, the establishment of wholesale prices has become more intricate. In addition, the need to provide for wholesale prices which will allow conventional distributors to remain competitive with vertically integrated operations has added another element of complexity to the setting of prices. Probably the clearest way to explain the present methods used is by way of an actual example. The following illustrates the manner in which the wholesale prices for the predominant half gallon container were developed for the Southern Metropolitan Marketing Area, Order Number 52, which became effective May 5, 1974.

From a comparison of the current average net price for each plant in the cost array with the individual cost for each plant, it was determined that a price increase was necessary if even a few most efficient conventional plant costs were to be covered.

Next an examination was made of the costs of the vertically integrated plants included in the cost sample. From hearing testimony and evidence, it was indicated that a low net price of 2 cents to 2-1/4 cents above the highest integrated plant's cost would be appropriate as the new low net wholesale price.

The next step was the selection of a base or list price. This selection is made on a more or less trial and error method with the present policy being to maintain this wholesale list price slightly below the possible out-of-store price. In this case, a list price of $.704 was selected. Applying a 21 percent discount to this price yields a low net wholesale price with the desired relationship to the integrated plant's cost.

Following this, the wholesale discount brackets were selected. The brackets used were closely related to the existing brackets which had received the support of distributors in hearing testimony.

Developing the proper rate of discount at each bracket level was the next step. Price differences at each discount bracket level may not exceed cost differences in respect to single deliveries of varying quantities. In 1973, Section 62482 of the Code was amended to make it subject to Section 62487. The effect of this amendment was to extend the Director's authority in making above and below cost findings to quantity discounts.

In determining the proper rates of discount at each bracket level, the Department uses formulas developed by the Giannini Foundation, University of California. These formulas indicate the effect of volume per delivery on unit costs. High unit costs are shown for small volume deliveries with a rapid drop as the volume per delivery increases to medium size deliveries, and then a slower drop as volumes increase out to the very large deliveries.

In the case of Order Number 52, this cost curve was used to determine the rates of discount out to the $660 purchase level. At the level of a $660.01 purchase, use was made of the secondary standards to allow the decrease in price at this level to exceed the indicated cost differences.

The next step in the process was to determine the effect of the proposed amended list price and discount schedule on individual distributors. To do this the proposed new discount structure was projected through the distribution pattern of sales of each distributor. This provided an estimated average discount for each plant. Upcharging the plant's costs by this average discount results in showing the list price which this plant needs, under the proposed discount schedule, to cover its costs.

Such a procedure in this case being illustrated showed that the list price of $.704 would cover the costs of all integrated plants and three of the seven conventional plants in the Department's cost array. These plants whose costs are covered represent a little over 60 percent of the volume sold through retail stores in this area.

The above illustration is typical of recent wholesale pricing policy. The average net wholesale prices provided in the various marketing areas cover the costs of the integrated plants and one to three of the most efficient of the conventional distributors.

The addition of Section 62491 to the Code in 1969 has provided the Director with an additional tool in meeting conditions of market instability. This Section permits the temporary suspension of the regulation of either or both the minimum wholesale and retail prices in an area or in a resale price zone.

ESTABLISHMENT OF MINIMUM RETAIL OUT-OF-STORE PRICES

Minimum out-of-store prices are currently being established at levels which provide gross margins which cover the cost of doing business of stores purchasing in the discount brackets where conventional distributors make the bulk of their sales. Again using Order Number 52 as an example, stores purchasing at a level of $660.01 or more comprise approximately 48 percent of the volume of sales of conventional distributors. From the $660.01 bracket to the deepest discount bracket, the range in store margins is from 19.7 percent to 21.7 percent. Evidence of the cost of doing business in retail stores shows a range of from 18.9 percent to 23.3 percent. (See Exhibit 16)

The following chart shows the discount structure, wholesale prices and retail store margins for a half gallon of fluid milk sold at a minimum out-of-store price of $.71 under Southern Metropolitan Marketing Area Order Number 52.

Size of Purchase	% Discount	Net Price	Store Margin $	Store Margin %
Full Service:				
$ 0 - $ 55.00	-	.704	.006	0.8
55.00 - 95.00	4.5	.6723	.0377	5.3
95.00 - 140.00	8	.6477	.0623	8.8
140.00 and over	10	.6336	.0764	10.8

Size of Purchase	% Discount	Net Price	Store Margin $	%
Limited Service:				
$180.00 - $275.00	13.5	.6090	.1010	14.2
275.00 - 495.00	15	.5984	.1116	15.7
495.00 - 660.00	17	.5843	.1257	17.7
660.00 - 880.00	19	.5702	.1398	19.7
880.00 - 1100.00	20	.5632	.1468	20.7
1100.00 and over	21	.5562	.1538	21.7
Est. Avg. Processing Distributors	15.8	.5928	.1172	16.5

EVALUATION OF MINIMUM RESALE PRICING

One of the best ways to evaluate the results of regulated pricing programs is to compare these results with other markets and prices. A series of tables, charts, and graphs have been prepared that make these comparisons.

Exhibit 17 shows the extent of consolidation of fluid milk bottling plants in California compared to those in the United States. The decline in numbers have been greater nationally than in California.

Data has also been tabulated and presented in Exhibit 18 showing the volume of fluid milk sold by the four largest and eight largest processor-distributors over a time period. Additionally, Exhibit 19 shows the percentage of the market represented by the 12 largest plants in California and the change in their rank in the period covered. When these data are compared with all similar data available on a national basis, there appears to be little evidence to suggest monopoly development tendencies. In fact, the trend in California is less so than the national average.

A number of comparisons have been developed showing the margin experience of distribution in California as related to other milk markets nationally. Exhibit 20 compares the gross spread between the raw product and the retail store price for Los Angeles and eleven markets scattered over the country. The spread in Los Angeles compares favorably with the spread in other cities. This information is charted for a few selected cities in Exhibit 21 and shows rather dramatically the stability of the gross spread in Los Angeles. Exhibit 22 shows that the gross spread in San Francisco, Los Angeles, and Sacramento is below the average of 19 cities.

Exhibit 23 gives a breakdown of the share of resale price for the producer, distributor, and retail store in the Los Angeles area. The column under the heading "Percentage of Resale Prices" points out the wide change over the past 10 years. The producers' percentage share of the resale price has increased while the distributor's share has narrowed. The store share has returned to its 1964 level.

An analysis of consumer prices for milk at retail stores shows California consumers would pay more for fluid milk in almost any part of the United States should they go outside the boundaries of the State. Exhibit 24 shows this very clearly for eleven cities. Recognizing the differences in raw product costs, as well as margins for processing and selling, consumers in California during April 1974 paid approximately 12 cents per half gallon less than the average of a sample of 66 cities as shown in Exhibit 25 which was taken from another source. Exhibit 26 again shows the stability of the Los Angeles retail price compared to selected cities from Exhibit 24.

Exhibit 27 compares the estimated monthly retail half-gallon milk prices in 23 cities since 1971. It also shows the price trend within each city.

Most actual fluid milk markets differ significantly from the ideal of free market conditions of pure competition. It would be wishful thinking to assume that conditions in California, long subject to regulation, would revert to an approximation of pure and efficient competition if controls were removed today.

To illustrate this fact, the State of Oregon went through that type of experience in the past 20 years. Comparisons of prices paid to producers between California and Oregon shown in Exhibit 9, show a small, but rather constant, differential. Out-of-store price differentials, shown in Exhibit 28, fluctuated widely with Portland showing prices up to 10 cents per half gallon higher than Los Angeles.

Processing facilities have reduced in number over the period of years as indicated in Exhibits 29 and 30 showing the change for California in total and separately for Los Angeles County. The numbers have declined in almost all volume categories except the 40,000 gallon per day and over. This trend in size is primarily the trend result of centralized processing for a broader-based market and the resulting need for large volume facilities to handle this change.

Exhibit 31 compares fluid milk and fluid skim price differences at wholesale in regulated areas for both fluid milk and fluid skim vs. unregulated skim markets in California. Retail store prices are compared for regulated vs. nonregulated fluid skim markets for various type store outlets.

Milk is invariably given headlines among all other food items when its price increases. Exhibit 32 shows that fluid milk prices to consumers have risen at a slower rate than other foods and all items purchased in California.

The evidence strongly indicates that the performance of the pricing portion of the milk program is operating in the public interest.

JOINT VENTURES

Part of the change in the business and legal structure was the emergence of the joint venture as a new dimension of vertical integration through a Superior Court Decision.

The principal characteristics of the joint venture include the following:

1. A milk processing plant is jointly owned by a fluid milk distributor and one or more retail store organizations.

2. The jointly owned plant is set up as a white milk plant meaning that it will not furnish product to the general public through all channels of distribution. Product processed and packaged is normally confined to the dominant fluid milk containers in gallons, half-gallons, and quart sizes. Through trademark license agreement, the joint venture operation is granted the use of the participating distributor's brand and trade styles thereby benefiting from established customer acceptance. It may also package fluid milk under any of the members' private labels.

3. The participating distributor independently owns and operates a separate milk plant through which he provides a supply balancing function on bulk milk to the joint venture plus the sale of packaged product in the inefficient low volume items.

4. The joint venture purchases its manufactured dairy products from the distributor. Again, these may be packaged under the distributor's label or the members' private label.

5. The distributor as a member of the joint venture may also purchase packaged fluid milk from it.

6. The joint venture can restrict its membership by establishing arbitrary standards for retailer participation. These standards may

include purchasing minimum amounts of milk and dairy products, requiring a substantial percentage of shelf space devoted to the distributor's labeled products, and the distance from the processing plant to the store. This stratification of customers creates at least two classes of trade in which those customers selected and admitted to the joint venture receive a more favorable price.

7. The joint venture pays its profits in the form of shareholder dividends to its membership and adjusts the stock holdings so the dividend each member receives is in direct relation to the amount of milk and dairy products purchased. These dividends reduce the effective cost of milk and dairy products below the established minimum wholesale prices.

From this description, it is readily seen that in a joint venture a distributor who is actively selling its proprietary brand products organizes an affiliated company and joins with selected retailers to form a separate method of distribution. Fluid milk carrying the distributor's own label can then be purchased by the select joint venture member at a price lower than nonmembers can purchase the same labeled fluid milk directly from the distributor. Thus, the joint venture introduced the concept of dual pricing for the same brand and quality product. Joint ventures also result in expansion of total markets serviced by integrated firms and increase the amount of fluid milk that is not subject to the minimum wholesale prices established under the legislative standards of the Act.

Under our current interpretation of the court judgment and the Food and Agricultural Code, a retail store must become a member of a joint venture to obtain this lower price and the joint venture must have a processing plant different from the distributor's regular plant to qualify.

The plant requirement can cause inefficiencies and it seems incongruous to require a store to join an organization just to receive a lower price. The lower price results from reduced average costs associated with the single delivery of high volumes of milk per store.

The opportunity to purchase below the established minimum wholesale price provides a tremendous incentive for stores qualifying for membership to join joint venture operations. The regulated wholesale price acts as the umbrella and the higher the established wholesale price relative to raw product cost, the greater the incentive.

Many of the large conventional distributors are prevented by the Antitrust laws from entering into a joint venture arrangement with stores. Smaller conventional distributors do not have plants in which they can set up joint ownership with stores. The conventional distributor cannot directly charge less than the established minimum wholesale prices legally. If he offers a rebate of any kind, he is in violation of the Unfair Practices Provisions. Consequently, conventional distributors view joint ventures with considerable concern because they can forecast a loss of a substantial portion of their large customers unless they can find a way to become legally competitive with the joint venture.

It was this type of situation that lead to the suspension of minimum wholesale prices first in the Sacramento Area and then in Fresno, Tulare, and Kern County Areas. Even though minimum wholesale prices are suspended, distributors must still file their selling prices, so they are not totally uncontrolled. They can reduce the price to their own cost level or lower it if they are meeting someone else's price that is legal. But the joint venture dividends on investment to members and dividends are not a part of price. Therefore, even in areas where the minimum wholesale prices are suspended, the conventional distributor cannot legally compete with the joint venture.

The problem then becomes one of finding a way for the conventional distributor to compete legally with joint venture. Part of this is considered in SB 2111 which would give the Director authority to terminate as well as suspend minimum wholesale or minimum retail pricing or both. While this would permit removal of wholesale prices, it would not do anything for the second half of the problem - permitting conventional distributors to lawfully meet the joint venture's net price after dividends. One possible suggestion is to define, in the Code, dividends paid by joint venture as a part of the price. Then conventional distributors could, at their option, meet the joint venture package and not be in violation of the Unfair Practices Provisions of the law.

WIDENING SPECTRUM

Another change in market structure has been the widening of the spectrum between the large and the small retailers and a movement to the extremes of this spectrum for both distributors and retail stores.

One dilemma confronting the industry and the Department is the establishment of appropriate minimum wholesale and retail prices. The basic problem centers around the substantial cost difference at the wholesale level for milk processed and delivered to stores who take very large volumes per single delivery as contrasted with the cost of milk delivered by distributors to stores who can only take very small volumes of milk at one time.

This difference in itself does not present an insurmountable obstacle and can be handled with appropriate wholesale discount schedules. These discount schedules reflect delivery cost savings to the distributor as certain aspects including costs of handling milk are transferred to the store. However, the establishment of the out-of-store price superimposed on the wholesale price schedule creates the problem.

For example, if the grocer margin or cost is added to the greatest wholesale discount level, the resulting out-of-store price would be disastrous for small distributors and stores whose costs and margins would not be covered. On the other hand, if the out-of-store price was based on the wholesale cost of the small distributors, then the out-of-store price appears excessive for the large stores.

As the Department has established the out-of-store price, the store margin of the very small volume stores is two or three percent and the store margin of the very high volume stores is 21 - 22 percent which is the maximum range of the store cost of doing business. With the establishment of a single retail store price, you can't maintain the store margin of the small volume store without also giving more gross margin to the high volume store. Likewise, you can't reduce the margin of the high volume store without reducing the margin of all stores.

The law implies that the minimum wholesale price should not exceed the minimum retail price. Consequently, this change in business structure of retail outlets and the increased disparity between the volumes handled has created another problem area. One suggestion is to separate the establishment of wholesale prices from the establishment of the retail prices. This might be done by amending the standards basing retail price determinations on the predominate method of delivery or limited service. This could result in an out-of-store price that would be below the established list wholesale price before discounts and would obviously place the small retail outlet in a mandatory position of upcharging more than the established minimum price. The information we have supports the fact that this is exactly what the majority of small retail outlets are currently doing.

Another possibility would be to amend the standards of the Act so retail prices are based on the most efficient store operation rather than the reasonably efficient store operation. In any event, it seems appropriate to more clearly define efficiency standards for retail store operations to determine essential guidelines in the establishment of store margins and the resulting out-of-store price.

GONSALVES MILK POOLING ACT

The Gonsalves Milk Pooling Act was passed in 1967 to correct instability that developed under the operations of the Young Act. This Act was of a slightly different character than the previous milk acts. It was enabling legislation which required the Director of Food and Agriculture to formulate a milk pooling plan, detailing provisions and authorities contained in the Act. The plan was to be submitted to market milk producers for their approving vote. If approved, the Director could implement the milk pooling plan when feasible. The plan was developed, producers voted overwhelmingly in favor of it, and the Milk Pooling Plan became effective July 1, 1969.

ESTABLISHMENT OF QUOTA

One of the mandatory provisions of the Milk Pooling Act was the allocation of production base and pool quota. This was the system used to transpose existing producers with Class 1 contracts into the new statewide system with as little disturbance as possible. Thus, under the Pooling Plan, the producer is no longer paid directly in accordance with the class usage of his contracting handler. Rather, he is paid on the basis of his allocated quota, base, and overbase amounts at prices which reflect the poolwide usage of all classes.

Exhibit 33 shows how the production base and pool quota were calculated for each eligible producer. Under the quota system, existing producers who had shipping contracts during the 1966 or 1967 base years were allocated a share of the state-wide market based upon the volume they shipped in 1966 or 1967, and the proportion of it which was Class 1, and the volume shipped. The volume of market milk shipped became the production base of the producer, while the Class 1 portion increased by ten percent became his quota. Thus, a producer with a 70 percent Class 1 contract who shipped 100 pounds per day would have 100 pounds of production base and 77 pounds of quota (70 lbs. of Class 1 plus 10%).

Under the quota system, all classified usage in the state is captured through reports submitted by distributors. A blend price is computed for quota, base, and overbase milk. Quota has already been defined. "Base milk" is the difference between a producer's production base and his quota. "Overbase" is any amount of market milk which he may produce and ship in excess of his production base. A sophisticated computer system performs the calculations necessary to arrive at the blend prices. Quota is determined by using first Class 1 and as much Class 2 or Class 3 as is necessary; overbase is determined beginning with the lowest class (Class 4) and blending upwards. Base milk is the remainder.

These prices must be announced by the Director of Food and Agriculture on or before the 24th of each month. As a by-product, the computer prints out a statement for each producer in the state, and these statements are sent to distributors for their use in paying the producers shipping to them.

Another function of the computer program is the preparation of distributor (processor) statements. Processors who have low class usage obviously do not generate the same value as processors with a high Class 1 market, yet they must pay the same quota, base, and overbase prices to their producers. In order to equalize payments to producers, the computer compares classified usage and prices against the producer payout. The difference results in either a check for a low-usage processor or a bill for a high-usage processor. The name "Equalization Fund" comes from this equalization of producer prices.

VARIABLE PRODUCER RETURNS

Exhibit 34 shows the collection of class usage and the determination of the value of that usage. This plant has $3,927.60 in total class value. However, based on the hypothetical pool prices, he only needs $3,280 to pay his producers according to their bases and quotas and $647.60 goes to the Equalization Fund.

Exhibit 35 compares the monetary return to the four hypothetical producers in Exhibit 34 to illustrate the effect of varying amounts of quota, base, and overbase pounds on the same volume of milk production.

Producer A is at equalization with quota amounting to 95 percent of production base. His return on 12,000 pounds of milk is as follows:

	Product Pounds	Price	Dollar Amount
Quota	9,500	$8.26	$784.70
Base	500	6.27	31.35
Overbase	2,000	6.18	123.60
			$939.65

Producer B has quota amounting to 50 percent of his production base. His return on 12,000 pounds of milk is:

	Product Pounds	Price	Dollar Amount
Quota	5,000	$8.26	$413.00
Base	5,000	6.27	313.50
Overbase	2,000	6.18	123.60
			$850.10

Producer C has production base only and no quota. His return is:

	Product Pounds	Price	Dollar Amount
Quota	0	$8.26	$ 0
Base	10,000	6.27	627.00
Overbase	2,000	6.18	123.60
			$750.60

Producer D is a Market Milk producer with no base and quota. The total amount he produces is paid for at the overbase price.

	Product Pounds	Price	Dollar Amount
Overbase	12,000	$6.18	$741.60

It can be easily seen that even though the payments from distributors to producers are equalized, the actual return to the producer is not equalized. There are a number of factors which influence this. First, all producers do not have the same percentage of quota in relation to production base. A producer who has reached equalization (quota = 95 percent of production base) will receive a higher return than one who has a lower percentage unless he produces excess or "overbase" milk.

Second, a "location differential" is added to or subtracted from producer payouts depending on the location of the plant from the two zero basing points of Los Angeles and San Francisco. These differentials are a compensating factor in marketing distances; they may or may not create a difference, depending upon whether hauling contracts are favorable or unfavorable. Producers are required to pay the haul rate to the plant of first receipt. Any further movement of milk in a bulk state is the processor's responsibility.

Third, a market milk producer may have no production base or quota. In this event, he would receive the overbase price if shipping to a pool plant; or a classified price of Class 2, Class 3, or Class 4, or a blend of those, if shipping to a nonpool plant.

TRANSFERS

Another mandatory provision in the Milk Pooling Act was the transferability of production base and pool quota. The Pooling Plan permits a producer to sell to any other producer or to change locations himself.

This transfer may be made with certain restrictions which are as follows:

1. A transfer may not be made of production base only or of quota only, except where a producer has only production base.

2. When a portion of a producer's quota (as opposed to his entire quota) is transferred, and the production base exceeds the quota, the buyer receives an equal amount of production base and pool quota. For example, if a producer has 100 pounds of production base and 90 pounds of quota, and wants to transfer 50 percent, he sells half or 50 pounds of production base, and 45 pounds of quota. The acquiring producer will receive only 45 pounds of both quota and production base. In effect, the new producer will receive "equalized quota".

3. Transfers may be made only to other producers who hold a market milk permit or to a person whom the Director of Food and Agriculture determines may qualify as a market milk producer.

4. Transfers are limited to a minimum of 10 pounds unless the entire production base and quota is transferred to one producer.

5. The effective date of all transfers is the first of the month following the agreement by the parties.

6. Production base and pool quota may be transferred freely from one location to another.

7. A producer who has acquired production base and quota in the past 12 months may not transfer production base and quota.

8. A producer who has transferred a portion of his quota may not acquire quota by transfer within 12 months.

9. The 12-month restrictions do not apply to transfers within a cooperative association or within a producer's immediate family.

10. A producer who has acquired production base and pool quota under the "hardship" provisions of the Plan is not allowed to transfer such

production base and pool quota for a period of two years, except to his immediate family, but the family member receiving the production base and quota is subject to the two-year limitation.

VALUE OF TRANSFERS

The value and number of transfers are illustrated in Exhibits 36 through 40. Exhibit 36 shows the average value per pound of quota solids-not-fat transferred and the range by three-month periods from 1969 to 1974. Exhibit 37 shows the same information by six-month periods. According to these exhibits, the average price of quota gradually increased through the first half of 1973 and then has declined slightly. The lowest average value was August 1969 and was $109 per pound quota solids-not-fat. The highest average value was in January 1973 and was $347.

Exhibits 38 and 39 show the number of transfers in terms of buyers and sellers and those sales in which the seller sold all his base and quota. Exhibit 38 is for three-month periods and Exhibit 39 for six-month periods.

Exhibit 40 contains the data in tabular form. It might be interesting to point out that 1108 individual sales and 1909 individual purchases have been made accounting for 436,280 pounds of quota solids-not-fat or 25 percent of all quota allocated to date.

In spite of the restrictions on transfers listed previously, the value of quota has an increasing trend. This is due principally to three economic factors:

1. Quota determines the highest return for production by the dairy farmer.

2. The total state-wide quota has not increased except for two years (1972 and 1973) since Milk Pooling began. Increases in quota are tied into increases in Class 1 usage, and there were no increases in Class 1 usage

in 1970 or 1971.

3. There are two competing forces for quota -- the existing producer who wants to expand as opposed to the new producer coming into the market. In either case, they have a choice of buying quota or selling milk at overbase; a difference in price of approximately $1.25 per hundredweight.

In addition, the slow movement toward equalization has aggravated this pressure.

GEOGRAPHICAL MOVEMENT OF QUOTA

The economic pressures which have helped to create the high price of quota are demonstrated in the movement of quota. Exhibits 41, 42, and 43 show that Southern California began to acquire quota from the very beginning through purchase and this trend has continued.

Although the 1972-73 year shows a decline in the amount of quota transferred to Southern California, the totals are still impressive. Of all the geographical areas in which quota was transferred in 1972-73, all except Northern California showed a loss and the Northern California Area showed a gain in solids-not-fat pounds of only 32 pounds.

LOCATION OF QUOTA

Exhibit 44 shows the percentage of state-wide quota, base, and overbase milk produced in each Marketing Area for four years. It shows that Southern Metropolitan Marketing Area produced almost 40 percent of the quota milk.

An interesting factor is that Marketing Areas with high quota production generally also have a high overbase production. Again using Southern Metropolitan Marketing Area as an example, 38.27 percent of all quota milk was produced there, but also 20.65 percent of all overbase milk was produced in this Area.

Exhibit 45 shows the relationship within Marketing Areas of quota, base, and overbase produced and shipped which is of interest.

PROGRESS TOWARD EQUALIZATION

The gradual equalization of Class 1 usage among the producers of the state was a key point in the original legislation which created Milk Pooling. Basically, the theory was a gradual change from the status quo to the equalization point which is defined as 95 percent of production base.

The Act contained the basic principle that new quota for equalization come from new Class 1 usage and that the new quota should be allocated in such a manner that would permit new entry and give proportionately more quota to those having relatively small amounts and, thereby, gradually bring all producers to equalization.

The concept was sound because Class 1 usage had been increasing. Although it was never recorded anywhere, most people thought equalization would be reached in seven years. However, Class 1 usage has not grown as anticipated and the anticipated movement toward equalization has been frustrated even though new quota was allocated in 1972 and 1973.

As of March 1971, producers were short of equalization by a total of 289,022 pounds quota solids-not-fat per day. March of 1972 saw this spread narrowed by 7,107 pounds. The spread was further narrowed by 10,078 pounds as of March 1973 and 30,537 pounds as of March 1974 which placed the quota short of equalization at that point by a total of 241,300 pounds of solids-not-fat per day. The improvement shown for these two latter dates reflect the new quota allocation for the 1972 and 1973 periods.

Other factors affecting the proximity to equalization include loss of production base during the performance period, partial transfers and the merging with existing holdings the purchase of production base which is low in relation to purchased quota.

NEW QUOTA ALLOCATION

The Milk Pooling Act provides that new Class 1 usage shall be determined annually for the most recent twelve-month period ending August 31, and that such usage shall be allocated as new quota to producers. It gives broad direction, within certain specified guidelines, that allocation be made to producers already in the pool, and to new producers wishing to enter the pool. The Milk Pooling Plan further detailed this authorization to allocate 80 percent of the new quota to existing producers and 20 percent to new producers.

1. Calculation of New Class 1 Usage

From Departmental statistical and Pooling records, the Class 1 usage by fat and solids-not-fat components for the current twelve-month period ending August 31, is determined and compared to that of the preceding twelve-month period. If an increase is shown, it is adjusted by the Director's estimate of Class 1 requirements for the succeeding year, and further adjusted to account for the corresponding estimate that had been made for the year preceding. After the adjusted Class 1 increase has been determined for each component, a ratio of one pound fat to 2.5 pounds solids-not-fat is applied to each component. The component yielding the largest allocation of new quota is selected.

2. Allocation of New Quota to Producers.

Eighty percent of new quota so determined is allocated to qualifying producers holding production base and pool quota. Under provisions of the currently effective Pooling Plan, the actual award of new quota is made effective January 1 of the year immediately following allocation determination. Under preceding Plans, the award was made effective November 1 following determination.

Producers whose quota is equal to or above 95 percent of production base are considered to be at the equalization point, and do not qualify to participate in the allocation. If one component is below this percentage, the producer participates in allocation for that component only.

Quota is allocated to qualifying producers in a manner that gives highest allocation to those who have lower quota (Q) in relation to production base (PB). The formula for determining each producer's percentage share of the new quota is:

$$1/2\ PB + 4\ (PB - Q)$$

This formula is applied to each producer's holdings as of December 1 to determine his factor basis. The individual factor bases are each divided by the total of all producer's factor bases, and the result represents each producer's percentage entitlement of the total new quota.

The allocation to any producer is limited to an amount that would bring his quota up to 95 percent of his production base. If the allocation results in a producer reaching equalization in one component, or if he were already at equalization in one component, he is granted the additional amount to bring the other component to equalization also. If after the allocation process a producer is within 3.5 pounds fat or 8.5 pounds solids-not-fat of equalization, both components are increased to the equalization point. These additional amounts so granted are over and above the new quota represented by the increase in Class 1 usage.

Exhibit 46 is an example of allocation under the above formula application with the assumptions that the total new quota to be allocated is 50 pounds fat and 125 pounds solids-not-fat and that there are four producers in the pool. The same production base amount is used for each producer to give ready comparison of the varied results. It should be noted that since Producer A is at equalization in both components, he is eliminated from the allocation process. Producer D's participation is limited to fat only because only that component is below equalization. After allocation, he is granted additional fat necessary to reach it. This is done because of his equalized position in his solids-not-fat component.

The policy of higher allocation to those holding comparatively low quota is apparent in the case of Producer C, who with his low quota of 30 pounds received considerably more new quota than the other two with quotas in higher amounts.

The remaining twenty percent of new quota is made available for issuance to new producers who do not hold production base and pool quota. Any producer who has benefitted from the sale or transfer of production base and pool quota during the previous five years does not qualify to receive consideration as a new producer.

Unlike the formula pro rata system that applies to existing producers, new quota is assigned directly to new producers in descending order of priority standings. Such producers submit new producer applications which form the basis of their qualification as to priority and amount of entitlement.

Producers of manufacturing milk are eligible to make application for quota, but in order to be awarded such amounts, they must convert to market milk status and ship through a pool handler.

Exhibit 47 details the four general priorities in which the applicants are placed. The subpriority standings within each are assigned in sequence, beginning with the person who has been in continuous commercial production for the longest period of time.

In order for an applicant to receive consideration, he must have been in commercial production during the most recent twelve-month period ending June 30. Such production is computed to a daily average of fat and solids-not-fat components. This average represents the production base entitlement, except that it can be no greater than ninety percent of the average production base of all other producers having production base. The quota entitlement is determined by applying to the computed production base the lowest percentage ratio of quota to production base of all producers in the pool, or twenty percent, whichever is the lesser.

Quota is assigned in descending priority order until the available amount is exhausted. Since the start of the pooling program, new quota has been allocated only two times. In each instance, the twenty percent portion was more than enough to satisfy the entitlements of all the qualifying new producers. As shown in Exhibit 48, the excess for 1972 was 1,756 pounds fat and 3,006 pounds solids-not-fat. Exhibit 49 shows the 1973 amount to be 3,563 pounds fat and 8,574 pounds solids-not-fat. The excess in both cases was added to the amount allocated to existing producers.

New producers admitted to the pool will participate as existing producers in the allocation for subsequent periods.

3. What Allocation Did to Producers.

Under the original Milk Pooling Plan, effective July 1, 1969, the new quota provisions were applicable after the Plan had been in effect for six months. This eliminated the period ending August 31, 1969, from consideration. There was insufficient growth in Class 1 sales to warrant new allocation for the corresponding periods ending in 1970 and 1971. There was growth, however, for the 1972 and 1973 periods, and new quota was allocated accordingly effective November 1, 1972, and January 1, 1974.

Exhibits 48 and 49 show the amount of allocation for each of these periods, and its impact on producers, including the degree of progress made toward total equalization. It is noted that for each of the periods, additional grants were made over and above the basic amount available for allocation in order to satisfy the qualifying conditions of equalization.

These gratis amounts of fat were considerably greater than the amounts removed as excess to equalization needs. In the case of solids-not-fat, the additional grant and the excess removed were practically offsetting. The attachments show that allocation for the 1972 and 1973 periods, respectively, brought 325 and 206 producers to equalization. At the conclusion of the 1973 allocation, there were 863 producers at equalization, representing 35.46 percent of all producers having production base and pool quota. The corresponding percentage for the 1972 period was 29.83 percent.

There were 232 new producers entering the pool from the 1972 allocation. Within six months after receiving the allocation, twelve of these producers sold their production base and pool quota; within twelve months, six had sold; and within seventeen months, thirty-three had sold. Seventeen of these thirty-three producers went out of business, and the remainder continued to ship either as market grade or manufacturing grade producers.

There are 102 new entrants from the 1973 allocation. Of this number, one producer sold his allocation one month after receiving it; six, after two months; and seven, after three months. Of these seven, two went out of business and the remaining five continued production of market grade or manufacturing grade milk.

To date, 12 percent of the 334 producers entering the pool during the two periods have sold their allocated production base and pool quota.

Entry of new quota into the pool brings more of the lower class usage into the quota pool and tends to lower the quota price. Exhibits 50, 51, and 52 illustrate for the effective month of allocation the class usage composition and pool prices of quota, base, and overbase, compared to what would have been had there been no allocation. It is noted in Exhibit 50 for the effective month of the 1972 allocation that because of the quota increase, 3,092,880 pounds of Class 2 solids-not-fat were contained in quota with a resulting quota price of $0.3982 per pound. Had there been no new quota allocation, only 1,863,624 pounds of class 2 solids-not-fat would be required to complete quota, and the quota price would be $0.4003. Therefore, the installation of new quota into the pool diluted the quota solids-not-fat price by $0.0021. This also caused a loss to the base pool of the top level usage in the lower classes, beginning with Class 2. In like manner, the base pool price was diluted from what it would have been. As indicated in Exhibit 51, the base price for solids-not-fat dropped $0.0066 from what it would have been without the allocation. Exhibit 52 shows that quota and base prices dropped for both components, and the amount for each, as a result of allocation. The overbase, which was composed of 100 percent Class 4 either with or without allocation, shows no change in price.

Exhibit 53 expresses the quota, base, and overbase prices in terms of fat and solids-not-fat and hundredweight covering the period from July 1, 1969, the beginning of pooling to date. Exhibit 54 charts this data in three-month periods with a monthly inset beginning July 1973.

SUGGESTED ALTERNATIVES

The slow progress toward equalization is a matter of concern to the Legislature, the Department, and the producer industry. It has been below expectations and all are aware of the need to consider and review suggested alternatives for solution, including the following:

1. Let new quota recognition be given to the increase in sales of Class 2 products which mandatorily require market grade milk in their manufacture.

2. Program an annual fixed growth in addition to or regardless of

growth in Class 1 and Class 2 usage.

3. Withholding and setting aside a certain percentage of each quota transfer, to be added to the new quota allocation from other sources.

4. Adjust to more currently realistic production bases, rather than keeping chained to that generated during the historical base period.

SUPPLEMENTAL STATISTICS

PRODUCTION BY GEOGRAPHICAL AREA

Since California is the second largest milk producing state, it is interesting to identify production by geographical area within the state. Exhibit 55 shows market and manufacturing milk for December 1973 by geographical area in tabular form and Exhibit 56 illustrates it with bar graphs.

It should be noted that, while Southern California has the largest production of market milk of any area in the State, there is no manufacturing milk except for an occasional degrade by a health authority. As a corollary, there are no powder plants or condenseries in Southern California.

The second and third largest geographical producers of market milk are the Southern and Northern San Joaquin Valleys. These two areas, along with Northern California, also produce the largest volume of manufacturing milk. Predictably, these areas contain the largest number of manufacturing plants and most of these plants are multi-usage, making both the Class 1 usage necessary for the fresh milk market of the area, but also acting as "escape valves" for any surplus fresh milk from the metropolitan areas principally Southern California and to a lesser extent, the Bay Area.

AVERAGE HERD SIZE

The relatively large average herd sizes of California dairies as shown in Exhibit 57 is one of the major factors in efficiency. These herd sizes are made possible primarily by California weather conditions which permit animals to remain outdoors. This reduces investment to milking barns as opposed to other dairy areas in the United States which require animal housing during the winter for all animals and a larger investment in barns.

It should also be noted that total herd sizes for market milk producers has increased steadily and sharply for the period from 1950 through 1973, but the same has not been true for manufacturing milk herd size. Starting with a much smaller base, manufacturing herd sizes increased until 1972, then dropped off sharply in 1973. This probably can be attributed to the fact that manufacturing producers with larger herd sizes began upgrading into the market milk business when new quota became available in 1972. Exhibit 58 shows the statewide average market milk herd and average manufacturing milk herd. It is interesting to note that the average manufacturing herd in 1972 reached the same size as the market milk herds were in 1950.

Another comparison in herd size is given by Dairy Herd Improvement Association statistics as shown in Exhibit 59. Although there is a discrepancy in the data Exhibit 59 and Exhibits 57 and 58, the interesting feature is the very small herd size of most other states. Consider for a moment that Wisconsin, the leading dairy state, has a reported herd size of 41. Minnesota and New York, both pushing California for second spot as far as milk production is concerned, have reported herd averages of 38 and 53 respectively.

Herd size in Southern California as shown on Exhibits 60 and 61 is larger than the rest of the state. Again it should be noted that Southern California has no manufacturing milk producers. The Southern San Joaquin and Northern San Joaquin areas lead in herd size of manufacturing producers. Once again this illustrates the complimentary role that the valley areas and the metropolitan areas play in the total state market.

NUMBER OF PRODUCERS

Exhibits 60 and 62 show that the valley areas have more producers than Southern California. Northern San Joaquin leads in producer numbers with 752 market milk dairymen and 595 manufacturing milk dairymen and has more than twice the total number of any area. Southern California, which leads in both total market milk production and herd size is third in number of producers. It is interesting to note that Northern San Joaquin has more manufacturing milk producers than Southern California has market milk producers.

The total number of producers, both market and manufacturing as shown on Exhibits 57 and 63 has declined steadily from 1950 through 1973. The basic difference in the decline is in the way it has taken place.

The decline in the number of market milk producers has been primarily a result of increasing herd size. Accordingly, market milk production has increased despite the decline in number of producers.

On the other hand, manufacturing producers have declined in number from approximately 15,000 in 1950 to less than 2,000 at the end of 1973. This illustrates the economic advantage in being able to supply both the Class 1 market and the manufacturing market from the same herd.

LEGISLATIVE CHANGES 1967-1973

There has been continual interest in refining the California Milk Marketing Program. To illustrate this, a list of legislative changes from 1967 to 1973 is given.

<u>1967</u>

A.B. 910 Ch. 927	(Gonsalves) Authorizes the development of a milk pooling plan to be submitted to producers in a referendum as a condition precedent to making effective the pooling plan. (Sections 62700-62731)
A.B. 2278 Ch. 1386	(Duffy) Authorizes coordination of milk price regulations with Federal marketing orders if such become effective in California. (Sections 61933 and 62492)

<u>1968</u>

S.B. 1063 Ch. 824	(Way) Establishes a new Class 3 for fluid milk for payment purposes composed of evaporated and condensed milk.
A.B. 1670 Ch. 606 (Effective 7/16/68)	(Gonsalves) Amends the Gonsalves Milk Pooling Act to revise the base period for determining each producer's production and usage base; makes other related changes.

<u>1969</u>

A.B. 1086 Ch. 76	(Britschgi) The bill broadens the present exemptions in the 1967 Milk Pooling Act for producer-distributors.
A.B. 1492 Ch. 884	(Gonsalves) Amends the Milk Stabilization Law to revise the definition of "distributor" and to clarify the applicability of subdistributor prices under the Act.
A.B. 1504 Ch. 1350	(Pattee) Revises provisions in the Milk Stabilization Law concerning the suspension of resale prices for fluid milk.

<u>1970</u>

S.B. 1272 Ch. 873	(Way) Provides that the transfer of the entire pool quota of any producer under the Milk Pooling Law, shall carry to the recipients the same percentage of the production base rather than the same quantity as the pool quota.
A.B. 1076 Ch. 262	(Thomas) Includes in the definition of distributor, persons who supply documented or foreign registry vessels with milk.
A.B. 1337 Ch. 384	(Ketchum) Revises definition of "cost" as applicable to prohibition of below cost sales of milk and dairy products.

A.B. 1346 (Wood) Repeals outdated section of Milk Stabilization Law
Ch. 145 relating to amendment or termination of stabilization plans established prior to a specified date.

A.B. 1356 (Belotti) Establishes a procedure for filing of briefs in
Ch. 627 connection with milk pricing hearings.

A.B. 1357 (Belotti) Provides for written statement giving basis for
Ch. 628 decisions concerning milk price orders.

A.B. 1386 (Duffy) Establishes January 1, 1971, as the final date for
Ch. 1253 application for a pool quota under Milk Pooling Law.

1971

S.B. 557 (Marler) Eliminates the provision requiring a subdistributor
Ch. 835 of fluid milk or cream to pay the subdistributor price for the marketing area in which it is ultimately sold.

A.B. 1290 (Briggs) Provides that in considering current and prospective
Ch. 480 supply and demand of fluid milk for all purposes in setting minimum prices for fluid milk paid by distributors to producers, the Director shall specifically consider such supply and demand for manufacturing purposes.

1972

S.B. 525 (Marler) Provides that the Director of Agriculture declare
Ch. 379 milk stabilization and marketing plans in effect within 62 days from date of consolidated hearings, instead of 45 days (Food and Agricultural Code Section 62186).

S.B. 526 (Marler) Clarifies retail store cost standard for retail
Ch. 147 pricing of fluid milk - requires costs to include "any quantity discounts". Bill also broadens authority for Director to establish "particular" wholesale quantity discounts. (Food and Agricultural Code Section 62479 et. seq.)

A.B. 486 (Gonsalves) Revises the Gonsalves Milk Pooling Act, extending
Ch. 1271 from two to four months the time period after August 31 for allocation of new quota; provides that partial transfer of pool quota and production base shall be proportionate when the pool quota exceeds the production base (Food and Agricultural Code Section 62707 et. seq.).

A.B. 1276 (Monagan) Provides for the reallocation of milk producer
Ch. 1311 funds designated for education and trade stimulation programs but not used for that purpose. Provides that such funds shall be used for research rather than for the administration of the Milk Stabilization Act. (Food and Agricultural Code Section 62322.5)

A.B. 1396 (Murphy) Changes from Class 1 to Class 2 market cream or
Ch. 745 market half and half which is packaged in presterilized containers under asceptic conditions to meet the marketing requirements for such products in states other than this state. (Food and Agricultural Code, Section 61482)

1973

S.B. 503 (Marler) Defines the terms "processor" and "processing" and
Ch. 586 provides that the Director may, by regulations, exclude from subdistributor prices sales of fluid milk and fluid cream, or both, between processors, under specified standards and guidelines.

A.B. 1029 (Mobley) Adds milk dispensing devices to the equipment for
Ch. 349 which the Director must establish rental rates. Allows rental or leasing of all refrigeration equipment to wholesale customers.

A.B. 1030 (Mobley) Changes condition under which equipment may be sold
Ch. 350 to retail store or other wholesale customers.

A.B. 1055 (R. E. Johnson) Changes definitions that apply to flavored
Ch. 245 milk and flavored drink and incorporates these flavored products into flavored milk, flavored low fat milk, and flavored nonfat milk.

A.B. 1227 (Thurman) Changes amount of funds allocated for the purpose
Ch. 970 of checking the correctness of various tests that apply to fluid milk.

A.B. 1570 (Briggs) Changes the classification of various dairy products.
Ch. 1193

A.B. 1994 (Briggs) Provides that no provision of law or of any stabiliza-
Ch. 839 tion and marketing plan re. fluid milk or fluid cream with respect to minimum prices paid by distributors to producers shall be affected by specified matters relating to minimum wholesale and minimum retail prices including suspension or termination of such prices; also provides that fluid milk includes flavored milk, low fat milk includes flavored low fat milk and fluid skim milk includes flavored nonfat milk.

PENDING LEGISLATION

1973

A.B. 850 (Briggs) This bill remained in Senate Committee after passing the Assembly in 1973 and after provisions of the bill were incorporated in another bill. A.B. 850 is not dead and is considered a spot bill at the present time.

A.B. 1192 (Thurman, et al) Provides enabling legislation that would bring manufacturing milk under the classified pricing system at the same Class 2, 3 and 4 price levels established for market milk.

A.B. 1855 (Duffy) Changes classification of cheese other than cottage cheese from Class 4 to Class 3.

1974

A.B. 3242 (Briggs) Spot bill using Section 62471 relating to authority to establish minimum prices.

A.B. 3652 (Montoya) Spot bill using Section 61846 relating to classification of any new milk product.

A.B. 3926 (Keene) Requires that sterilized flavored drink, sterilized flavored milk, sterilized flavored cream, sterilized dairy spread, sterilized milk drink mix, whipped cream or cream topping, whipped cream mix or cream topping mix, eggnog, sour half-and-half dressing, or sterilized sour flavored half-and-half be made from market milk, market cream, or derivatives of market milk.

Provides that sterilized milk or sterilized cream is market milk or market cream, rather than milk or cream, which has been subjected to a temperature which is high enough to sterilize the product.

A.B. 3927 (Keene) Includes within Class 2 any fluid milk, fluid skim milk, fluid cream, milk fat, or milk solids-not-fat which is used in the fortifying of any milk product which is Class 2 for purposes of the fluid milk and cream stabilization and marketing provisions.

S.B. 1757 (Marler) Spot bill using Section 62491 which relates to suspension of prices.

S.B. 2111 (Way and Zenovich) Authorizes the Director of Food and Agriculture to terminate minimum milk wholesale or retail prices, or both, which are in effect in any marketing area, subject to prescribed requirements, in addition to present authorization to suspend such prices.

CONCLUSION

The California Milk Marketing Program is a total program which establishes minimum producer, wholesale, and retail prices. As such, it is the most comprehensive and complex program of any in the nation. The basic purpose is to help stabilize the industry and to prevent erratic and capricious price fluctuations which are costly to all segments of public interest.

Significant changes have developed in the business environment of the dairy industry. Some have occurred naturally and others abruptly. This virtually demands a continuing analysis and evaluation of the legislative standards and administrative policy to make certain the program continues to serve the public interest.

Inflation is one of the change factors that has plagued everyone. The resulting spiraling cost structure has had an adverse effect on the dairy industry. When compared to the past 20 years, minimum prices have had to be increased at an unprecedented rate to cover these costs and satisfy the legislative standards of the Act. These price increases have provided additional stimuli to scrutinize the operations of the program.

The California Milk Marketing Program is not easy to evaluate because of its complexity. Before evaluation can begin, criteria must be selected against which program performance is judged. The only criteria for program review the Department has are the standards contained in the Act and comparisons of California's milk prices to those in other states.

The Department believes the minimum producer prices set under the program are in conformity with the standards of the Act. Supply, demand, and milk production costs are all used in determining the proper price level. As these prices are compared with those across the country, it is shown that California's Class 1 price is among the lowest in the nation.

The minimum wholesale prices are established on the cost standards of the Act. Extensive distributor cost studies are conducted and used as the basis for these prices. Minimum retail prices are based on the retail store cost of doing business standard. Store cost of doing business surveys are conducted to develop this information.

Data is not available to compare distributor margins and store margins with those in other states. However, a comparison can be made in the gross spread between the raw product cost and the retail price. This comparison shows the gross spread in California and the consumer retail price is among the lowest in the nation.

The Department concludes that the total milk program is being administered according to the legislative standards, that the performance of the total program in California rates very high in comparison to other states, and that the stability objective of the Act is being fulfilled.

This should not be interpreted to mean the California program cannot be improved. Improvements will require changes in the legislative standards. Areas that have been identified are:

1. A precise definition of key words such as "adequate supply" and "reasonable prosperity".

2. Clarification of the standard referring to the cost of producing manufacturing milk.

3. The modification of wholesale pricing standards so the conventional distributor may compete legally with joint ventures.

4. The modification of retail pricing standards that recognize an out-of-store price superimposed on the wholesale price schedule, the implied inseparability of wholesale prices from retail prices, and the margin relationship between stores handling large and small volumes of milk per single delivery.

5. The slow progress being made toward equalization of quotas.

The Department accepts the basic fact that it is the designated administrator of the law and should do its utmost to administer it according to the legislative standards. Consequently, very little was said in the report about whether there should be a California Milk Marketing Program.

There are some who believe that the complete withdrawal of the milk laws would magically return the marketing of milk at the producer level to a free enterprise situation. This is an admirable objective, but completely unrealistic. If State regulations concerning producer pricing were withdrawn, federal regulations would be instituted immediately. The fact that 96 percent of all fluid milk was sold to plants in 1972 under either State or federal regulation certainly supports this conclusion. It is unrealistic to conclude the California dairy farmer can forego the stability of government regulation.

It has also been suggested that abolition of the program will bring free enterprise to the wholesale and retail segments of the industry. Observation of these segments throughout the country leads to the conclusion that the existing market structure is a substantial departure from pure competition even where there are no resale price regulations. It is doubtful that curtailment of the California milk program will move the industry closer to the free enterprise ideal.

It might be helpful to apply the concept of "workable competiton" borrowed from the industrial organizationalists. Basically, it states that when an existing market structure departs significantly from some acceptable norm, that structure should not be condemned until its performance is evaluated. If the results of the industry's performance are not significantly different from that expected under the acceptable norm, then workable competition exists.

For some, the fact that government establishes milk prices is an unacceptable norm. But, applying the concept of workable competition to the California Milk Marketing Program, its performance should be evaluated in terms of pricing results. All the price comparisons made in this report show that the California consumer has some of the lowest available milk prices in the nation.

APPENDIX - EXHIBITS

STANDARD MILK PRODUCTION COSTS AVERAGING TOTAL COSTS FOR NORTH AND SOUTH SAN JOAQUIN VALLEY, MARKET AND MANUFACTURING MILK FOR YEARS 1955 THROUGH 1973; AND DIFFERENTIALS

YEARS		NORTH AND SOUTH SAN JOAQUIN VALLEY ANNUAL AVERAGE TOTAL COSTS		DIFFERENTIAL
		MARKET	MANUFACTURING	
1955	3.8% MILK	$5.31	$4.09	- 1.22
1956		5.12	4.14	- 0.98
1957		5.15	4.16	- 0.99
1958		5.19	4.21	- 0.98
1959		5.42	4.40	- 1.02
1960		5.42	4.56	- 0.86
1961		5.18	4.25	- 0.93
1962		5.05	4.31	- 0.74
1963		5.36	4.75	- 0.61
1964		5.21	4.58	- 0.63
1965		5.24	4.63	- 0.61
1966		5.34	4.57	- 0.77
1967		5.50	5.41	- 0.09
1968	3.5% MILK	5.11	5.05	- 0.06
1969		5.20	5.23	+ 0.03
1970		5.04	4.98	- 0.06
1971		5.36	4.81	- 0.55
1972		5.50	5.11	- 0.39
1973		6.63	7.66	+ 1.03

COMPARISON OF MINNESOTA-WISCONSIN PRICE TO
SAN JOAQUIN VALLEY MANUFACTURING PRICE
3.5% MILK F.O.B. PLANT
SIMPLE AVERAGE FOR 1955-1973

Year	Minnesota-Wisconsin Price	San Joaquin Valley Manufacturing Price	Difference from Minnesota-Wisconsin
1955	$2.99	$3.17	$+.18
1956	3.06	3.26	+.20
1957	3.10	3.33	+.23
1958	3.00	3.17	+.17
1959	3.02	3.26	+.24
1960	3.13	3.18	+.05
1961	3.26	3.29	+.03
1962	3.11	3.11	None
1963	3.11	3.08	-.03
1964	3.18	3.19	+.01
1965	3.27	3.26	-.01
1966	3.92	3.87	-.05
1967	3.98	3.99	+.01
1968	4.17	4.08	-.09
1969	4.42	4.17	-.25
1970	4.66	4.42	-.24
1971	4.81	4.71	-.10
1972	5.08	4.86	-.22
1973	6.30	5.54	-.76

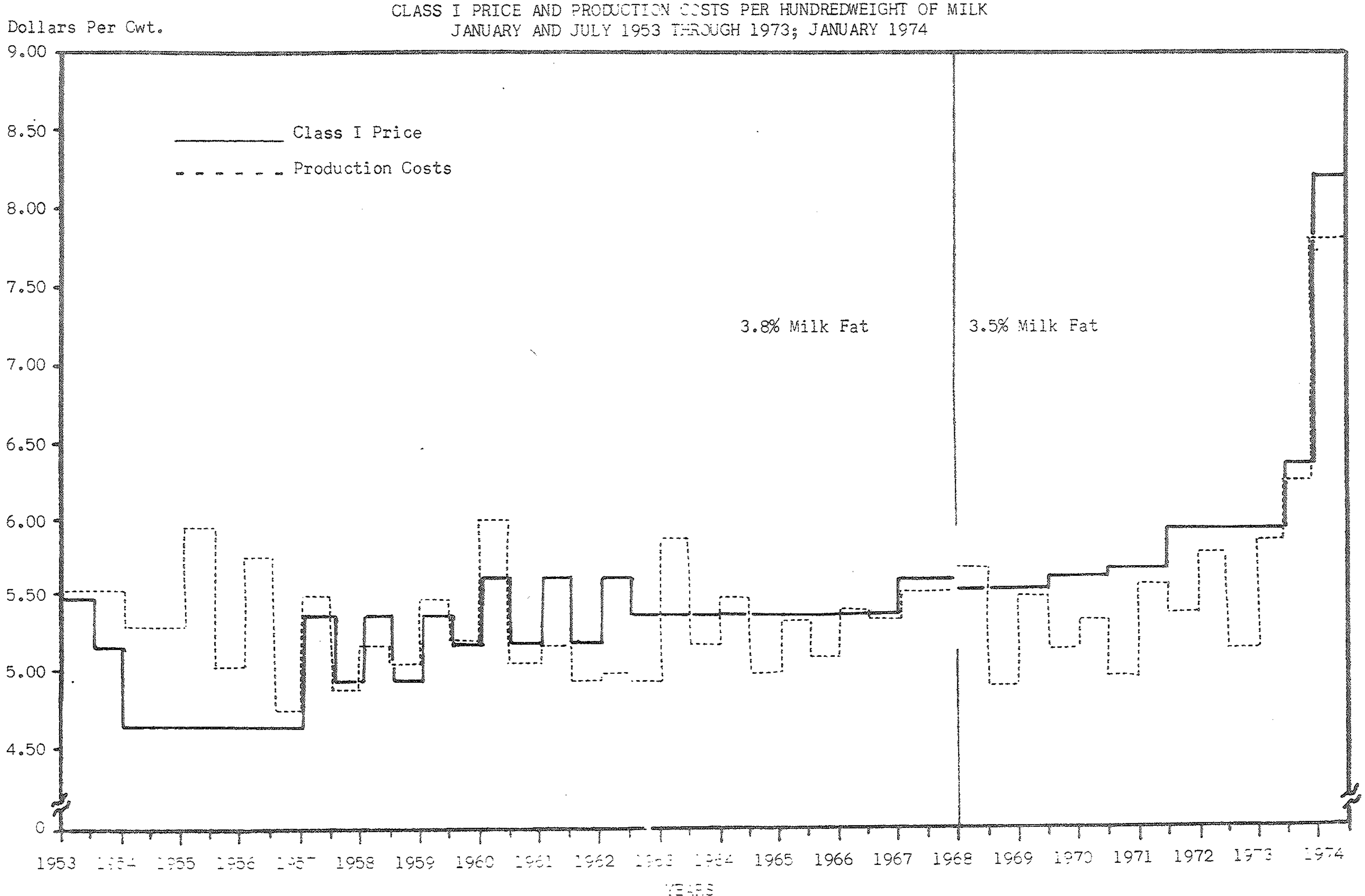
COST-PRICE COMPARISON
CENTRAL VALLEY MARKETING AREA
1953-1974

Year	Price Per Cwt. January $	Price Per Cwt. July $	Cost Per Cwt. January $	Cost Per Cwt. July $	Percent Milk Fat Test
1953	5.48	5.14	5.53	5.53	3.8%
1954	4.68	4.68	5.30	5.30	
1955	4.68	4.68	5.96	5.02	
1956	4.68	4.68	5.73	4.74	
1957	5.37	4.91	5.47	4.84	
1958	5.37	4.91	5.16	5.03	
1959	5.37	5.14	5.44	5.19	
1960	5.60	5.14	5.98	5.03	
1961	5.60	5.14	5.15	4.80	
1962	5.60	5.37	4.97	4.80	
1963	5.37	5.34	5.87	5.21	
1964	5.34	5.34	5.45	4.97	
1965	5.34	5.34	5.32	5.08	
1966	5.34	5.34	5.36	5.32	
1967	5.57	5.57	5.48	5.50	
1968	5.50	5.50	5.68	4.89	3.5%
1969	5.50	5.60	5.46	5.12	
1970	5.60	5.65	5.30	4.93	
1971	5.65	5.90	5.55	5.34	
1972	5.90	5.90	5.73	5.14	
1973	5.90	6.36	5.81	6.25	
1974	8.20		7.79		

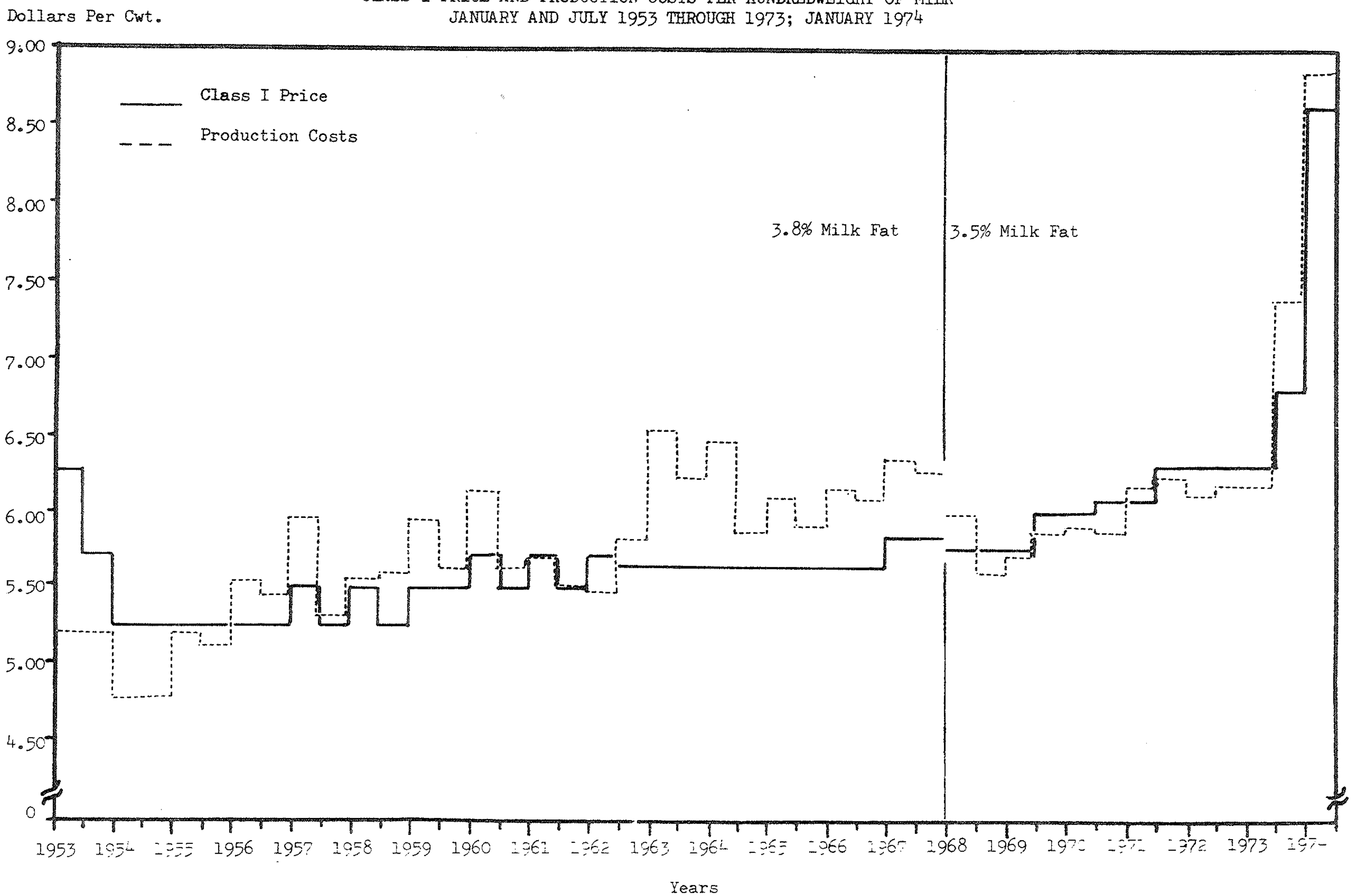
SOUTHERN METROPOLITAN MARKETING AREA
COST-PRICE COMPARISON
(JANUARY & JULY 1953-1974)

Year	Price Per Cwt. January $	Price Per Cwt. July $	Cost Per Cwt. January $	Cost Per Cwt. July $	Percent Milk Fat Test
1953	6.28	5.71	5.20	5.20	3.8%
1954	5.25	5.25	4.76	4.76	
1955	5.25	5.25	5.21	5.13	
1956	5.25	5.25	5.52	5.44	
1957	5.48	5.25	5.95	5.31	
1958	5.48	5.25	5.54	5.58	
1959	5.48	5.48	5.96	5.63	
1960	5.71	5.48	6.17	5.62	
1961	5.71	5.48	5.69	5.50	
1962	5.71	5.62	5.47	5.84	
1963	5.62	5.62	6.53	6.22	
1964	5.62	5.62	6.47	5.86	
1965	5.62	5.62	6.09	5.94	
1966	5.62	5.62	6.14	6.09	
1967	5.85	5.85	6.35	6.27	
1968	5.77	5.77	5.99	5.60	3.5%
1969	5.77	6.00	5.76	5.87	
1970	6.00	6.08	5.90	5.88	
1971	6.08	6.31	6.18	6.23	
1972	6.31	6.31	6.11	6.18	
1973	6.31	6.77	6.17	7.41	
1974	8.61		8.80		

CENTRAL VALLEY MARKETING AREA
CLASS I PRICE AND PRODUCTION COSTS PER HUNDREDWEIGHT OF MILK
JANUARY AND JULY 1953 THROUGH 1973; JANUARY 1974



SOUTHERN METROPOLITAN MARKETING AREA
CLASS I PRICE AND PRODUCTION COSTS PER HUNDREDWEIGHT OF MILK
JANUARY AND JULY 1953 THROUGH 1973; JANUARY 1974



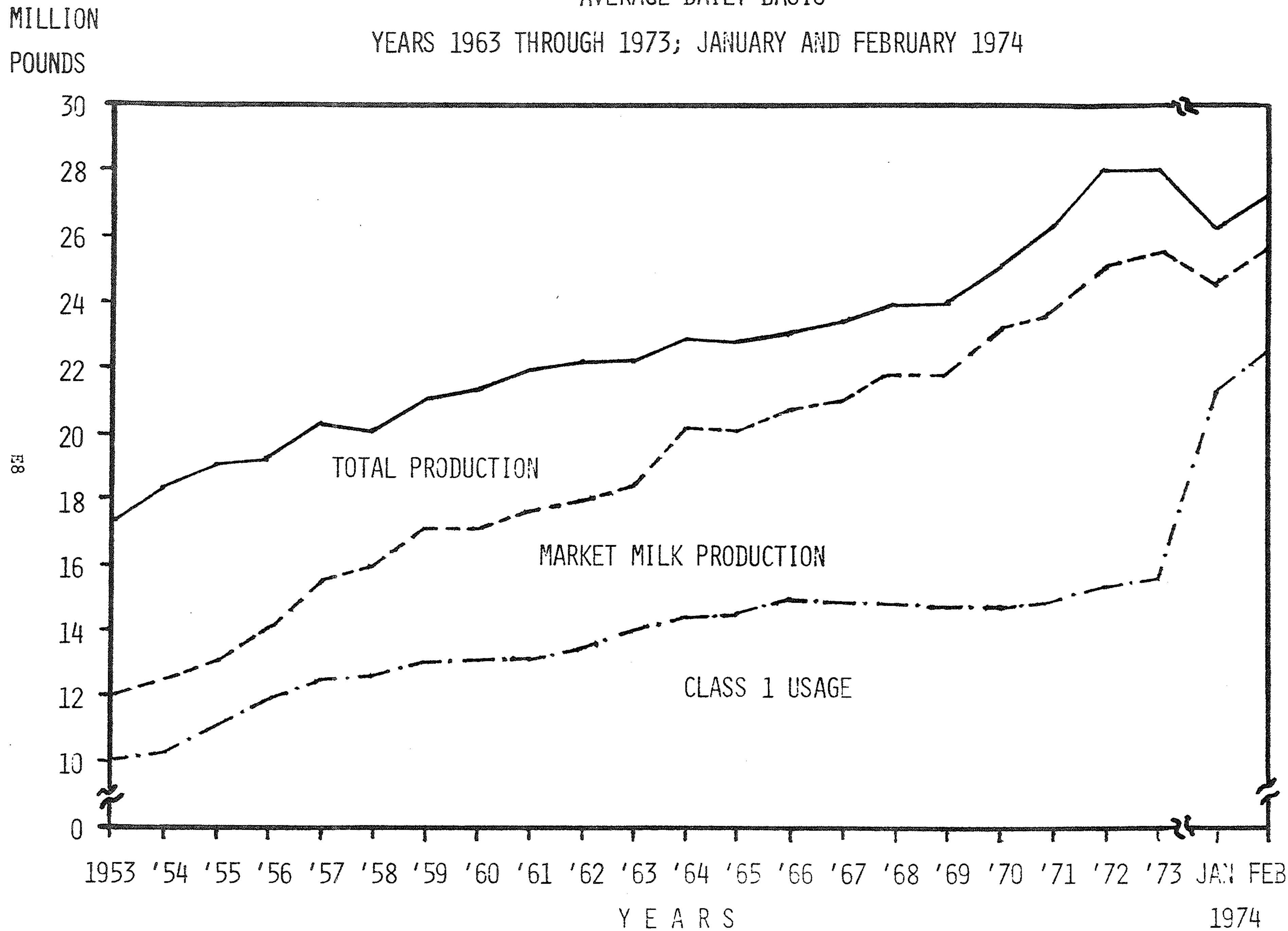
AVERAGE DAILY COMMERCIAL PRODUCTION AND CLASS I USAGE OF MILK
CALIFORNIA, 1953-1973, JANUARY AND FEBRUARY 1974
(Thousand Pounds)

Year	Total Production	Market Production	Class I Usage
1953	17,286	12,045	10,085
1954	18,366	12,549	10,323
1955	19,007	13,154	11,039
1956	19,251	14,081	11,897
1957	20,289	15,588	12,465
1958	20,034	15,974	12,667
1959	21,057	17,194	13,034
1960	21,397	17,155	13,125
1961	21,918	17,688	13,193
1962	22,229	17,998	13,475
1963	22,243	18,568	14,055
1964	22,894	20,202	14,515
1965	22,847	20,185	14,59[illegible]
1966	23,170	20,799	14,968
1967	23,458	21,057	14,940
1968	24,091	21,864	14,868
1969	24,028	21,837	14,809
1970	25,607	23,237	14,79[illegible]
1971	26,285	23,601	14,813
1972	28,141	25,037	15,429
1973	28,037	25,628	15,671
January 1974	26,298	24,775	21,444
February	27,305	25,650	22,687

TOTAL PRODUCTION, MARKET MILK PRODUCTION AND CLASS 1 USAGE

AVERAGE DAILY BASIS

YEARS 1963 THROUGH 1973; JANUARY AND FEBRUARY 1974



1/ INCLUDES CLASS 2 USAGE REQUIRED TO BE MADE FROM MARKET MILK BEGINNING JANUARY 1974.

CLASS 1 PRICES PAID BY DEALERS FOR MILK USED IN FLUID PRODUCTS
3.5% FAT MONTH OF OCTOBER 1/ IN OREGON AND THE SOUTHERN METROPOLITAN MARKETING AREA

YEAR		OREGON	SO. METRO. MARKETING AREA	DIFFERENTIAL SO. METRO. FROM OREGON
1952		6.05	5.75	- .30
1953		5.82	5.41	- .41
1954		5.34	4.95	- .39
1955		5.24	4.95	- .29
1956		5.50	5.18	- .32
1957		5.71	5.18	- .53
1958		5.50	5.18	- .32
1959		5.60	5.40	- .20
1960		5.60	5.40	- .20
1961		5.44	5.40	- .04
1962		5.50	5.33	- .17
1963		5.30	5.33	+ .03
1964		5.40	5.33	- .07
1965		5.40	5.33	- .07
1966		5.90	5.54	- .36
1967		6.10	5.54	- .56
1968		6.10	5.77	- .33
1969		6.40	6.00	- .40
1970		6.61	6.08	- .53
1971		6.78	6.31	- .47
1972		7.02	6.31	- .71
1973		8.33	7.46	- .59
1974	JANUARY	9.59	8.61	- .98
	FEBRUARY	9.89	8.61	- 1.28
	MARCH	10.05	8.61	- 1.44
	APRIL	10.09	9.81	- .28

1/ SOURCE: FLUID MILK & CREAM REPORT U.S.D.A. AND FEDERAL MILK ORDER STATISTICS.

CLASS 1 BLEND PRICE COMPARISON BETWEEN CALIFORNIA
(SOUTHERN METROPOLITAN MARKETING AREA) AND THE
AVERAGE OF ALL FEDERAL MILK MARKETING AREAS
3.5 PERCENT TEST MILK F.O.B. PLANT

Year	California	Federal Marketing Areas	Differential
	$	$	$
1957	5.12	4.90	-0.22
1958	5.12	4.85	-0.27
1959	5.28	4.86	-0.42
1960	5.34	4.92	-0.42
1961	5.34	4.92	-0.42
1962	5.36	4.80	-0.56
1963	5.33	4.80	-0.53
1964	5.34	4.84	-0.50
1965	5.33	4.93	-0.40
1966	5.40	5.63	+0.23
1967	5.57	5.94	+0.37
1968	5.77	6.25	+0.48
1969	5.77	6.67	+0.90
1970	5.89	6.76	+0.87
1971	6.05	6.90	+0.85
1972	6.31	7.10	+0.79
1973	7.21	8.03	+0.81
1974			
Jan.	8.61	9.73	+1.12
Feb.	8.61	10.04	+1.43
Mar.	8.61	10.20*	+1.59
Apr.	9.81	10.24*	+0.43
May	9.81	10.25*	+0.44

* Estimated

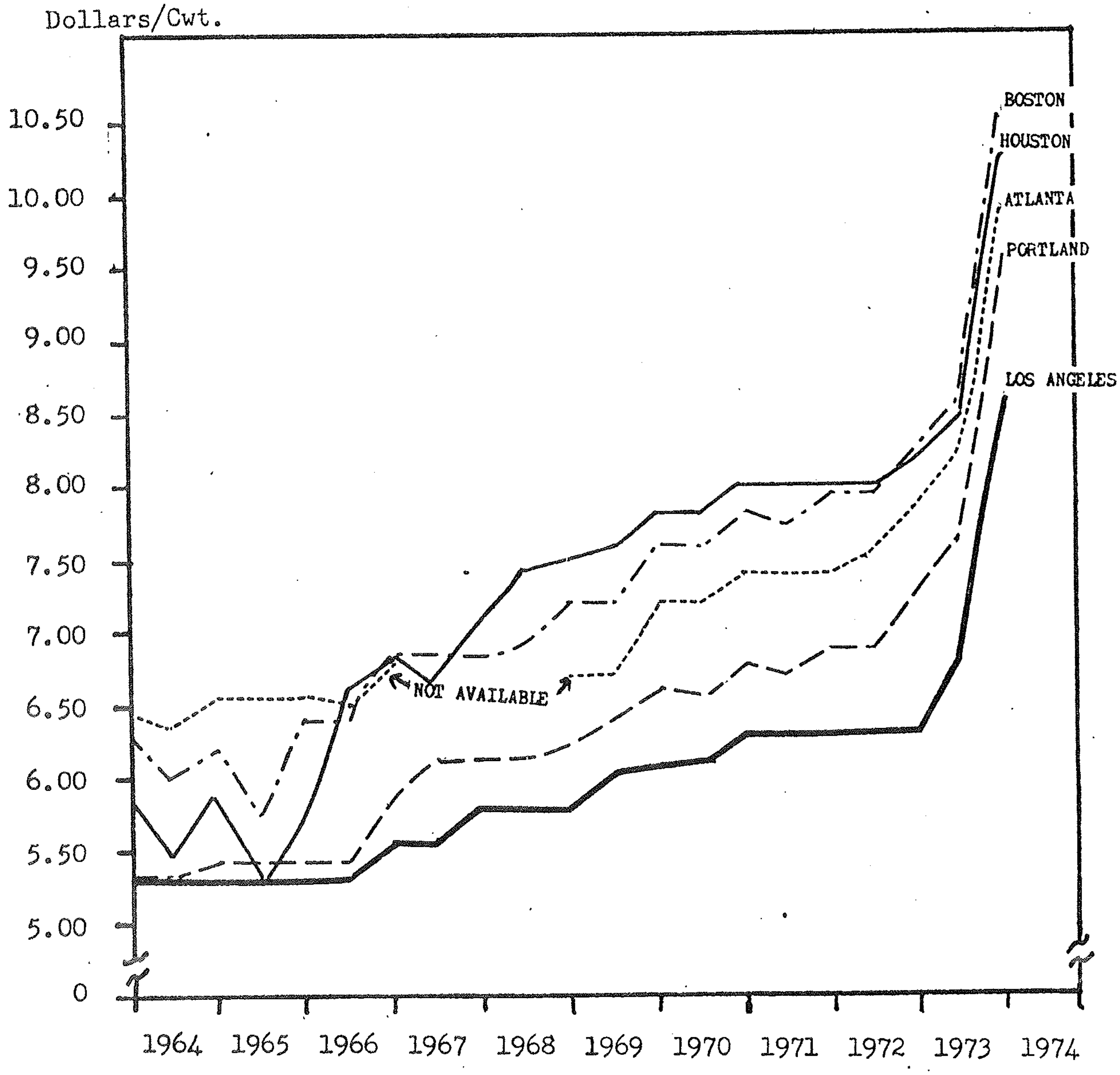
CLASS I PRICES PER HUNDREDWEIGHT - 3.5% MILK FAT
JANUARY AND JULY 1964 TO 1973; JANUARY THROUGH APRIL 1974

	Los Angeles	Portland	Seattle	Salt Lake City	Houston	Chicago	Cleveland	Atlantic City	Boston	Hartford	Atlanta	Miami
Jan. 1964	$5.30	$5.30	$5.03	$5.16	$5.85	$4.29	$4.55	$5.85	$6.25	$6.25	$6.46	$6.36
July	5.30	5.30	5.25	5.16	5.45	4.29	4.21	5.80	6.03	6.03	6.35	6.36
Jan. 1965	5.30	5.40	5.25	5.34	5.90	4.29	5.14	6.00	6.18	6.18	6.55	6.50
July	5.30	5.40	5.25	5.20	5.27	4.32	4.40	6.00	5.74	5.74	6.55	6.52
Jan. 1966	5.30	5.40	5.25	5.53	5.70	4.32	5.27	6.00	6.40	6.40	6.55	6.40
July	5.30	5.40	5.75	6.05	6.62	4.62	5.37	6.40	6.40	6.40	6.50	7.20
Jan. 1967	5.54	5.90	5.91	6.31	6.81	5.22	6.10	6.40	6.84	6.84	6.78	7.25
July	5.54	6.10	5.90	6.14	6.67	5.10	6.10	6.65	6.82	6.82	6.78	7.25
Jan. 1968	5.77	6.10	6.25	6.22	7.17	5.40	6.40	6.65	6.79	6.79	1/	7.24
July	5.77	6.10	6.25	6.55	7.45	5.70	6.40	6.93	7.07	7.07	1/	7.43
Jan. 1969	5.77	6.25	6.25	6.58	7.51	5.70	6.40	7.17	7.31	7.31	1/	7.43
July	6.00	6.40	6.47	6.64	7.57	5.79	6.40	7.17	7.31	7.31	6.69	7.49
Jan. 1970	6.00	6.58	6.48	6.88	7.81	6.10	6.66	7.47	7.61	7.61	7.20	7.73
July	6.08	6.56	6.46	6.86	7.81	6.12	6.66	7.45	7.59	7.59	7.20	7.56
Jan. 1971	6.08	6.78	6.68	7.05	8.00	6.46	6.75	7.67	7.81	7.81	7.40	7.98
July	6.31	6.71	6.61	6.98	8.00	6.46	6.91	7.60	7.74	7.74	7.40	7.91
Jan. 1972	6.31	6.88	6.78	6.83	8.00	6.46	6.90	7.71	7.91	7.91	7.40	8.08
July	6.31	6.89	6.79	6.84	8.00	6.61	7.05	7.78	7.92	7.92	7.53	8.09
Jan. 1973	6.31	7.27	7.17	7.22	8.13	6.69	7.25	8.16	8.30	8.30	7.83	8.47
July	6.77	7.61	7.51	7.56	8.47	7.17	7.61	8.44	8.64	8.64	8.16	8.81
Jan. 1974	8.61	9.59	9.49	9.54	10.32	8.90	9.49	10.42	10.62	10.62	9.94	10.79
Feb.	8.61	9.89	9.79	9.84	10.62	9.20	9.79	10.72	10.92	10.92	10.24	11.09
March	8.61	10.05	9.95	10.00	10.78	9.36	9.95	10.88	11.08	11.08	10.40	11.25
April	9.81	10.09	9.99	10.04	10.82	9.40	9.99	10.92	11.12	11.12	10.44	11.29

Source: Fluid Milk and Cream Report January 1964 to June 1973. Federal Milk Order Statistics July 1973 to April 1974.

1/ Prices not available because of interim period between change from State Marketing Order to Federal Marketing Order.

CLASS I PRICE PER CWT 3.5% MILK
JANUARY AND JULY 1964 TO JANUARY 1974



EXTENT OF FEDERAL AND STATE REGULATION OF PRODUCER PRICES OF FLUID GRADE MILK, 1945-72

Year	Federal Orders 1/	Markets Under Federal Regulation 2/	States Regulating Producer Prices of Milk 3/	Percentage of Total Fluid Grade Milk Sold to Plants and Dealers Under-- Federal Orders	State Regulation 3/
	---Number---			---Percent---	
1945 4/	28	28	16	34.6	23.5
1946 4/	30	30	16	35.6	23.4
1947 4/	31	31	16	36.6	24.2
1948	30	31	16	33.8	22.3
1949	33	34	16	39.2	24.5
1950	39	40	16	41.4	24.2
1951	46	47	16	43.3	24.1
1952	49	52	16	47.1	24.1
1953	50	53	16	48.8	23.8
1954	53	57	16	48.7	23.3
1955	63	67	16	50.0	24.1
1956	68	72	16	51.3	24.0
1957	71	75	16	53.6	23.7
1958	74	81	16	56.2	22.4
1959	79	86	16	60.3	21.7
1960	80	89	16	64.6	21.1
1961	83	93	18	67.5	21.2
1962	85	96	18	70.3	21.5
1963	83	96	19	70.5	21.3
1964	82	96	18	70.8	22.0
1965	76	96	19	70.0	22.4
1966	74	97	19	69.6	22.5
1967	74	100	19	70.7	22.1
1968	76	101	18	74.0	20.2
1969	68	104	18	76.9	18.8
1970	69	105	17	79.1	17.9
1971	62	105	16	79.5	17.6
1972	62	105	16	5/ 78.0	5/ 13.0

1/ Federal Orders and Agreements effective during any part of the year.
2/ This series counts markets, not Orders. It ignors mergers.
3/ Excludes any joint or concurrent regulation with Federal Orders.
4/ Total fluid grade milk sold to plants and dealers estimated.
5/ Preliminary.

States Controlling Producer and Resale Prices for Milk, 1933-72 1/

Year	Number of States Controlling--		Year	Number of States Controlling--	
	Resale Prices	Producer Prices		Resale Prices	Producer Prices
1933	7	9	1953	13	16
1934	13	16	1954	13	17
1935	21	18	1955	12	16
1936	16	20	1956	11	16
1937	18	21	1957	11	16
1938	16	20	1958	12	16
1939	17	20	1959	14	15
1940	17	20	1960	13	16
1941	15	19	1961	14	19
1942	14	16	1962	13	19
1943	14	16	1963	14	20
1944	14	16	1964	15	20
1945	14	16	1965	14	21
1946	14	16	1966	15	21
1947	14	16	1967	15	21
1948	13	16	1968	15	19
1949	12	16	1969	15	19
1950	12	16	1970	15	18
1951	12	16	1971	14	17
1952	12	16	1972	14	17

1/ Excludes Puerto Rico. Includes concurrent regulation of producer prices with Federal orders.

SALES ANALYSIS

GALLONAGE OF FLUID MILK AND FLUID LOW FAT MILK SOLD DURING OCTOBER 1973 1/ IN SELECTED AREAS AND STATEWIDE, BY CONVENTIONAL AND BY INTEGRATED PROCESSING PLANTS.

	CENTRAL COAST COUNTIES	SOUTHERN METRO.	SAN DIEGO IMPERIAL	NORTH CENTRAL VALLEY	4 AREA TOTALS	OTHER 10 AREAS	STATE TOTAL
WHOLESALE SALES	8,279,912	20,376,160	2,453,139	2,912,813	34,022,024	4,009,989	38,032,013
RETAIL ROUTE SALES	634,203	748,635	69,977	339,999	1,792,814	295,101	2,087,915
CASH & CARRY RETAIL	213,996	1,309,788	120,028	48,153	1,691,965	154,456	1,846,421
SALES TO SUBDISTRIBUTORS	1,127,056	3,226,836	829,826	1,425,031	6,608,749	2,143,479	8,752,228
SALES TO FEDERAL GVT.	534,407	702,111	800,932	208,609	2,246,059	361,935	2,607,994
INSTITUTIONS	10,645	77,307	---	11,180	99,132	5,790	104,922
TOTAL	10,800,219	26,440,837	4,273,902	4,945,785	46,460,743	6,970,750	53,431,493
OFF-PREMISE WHOLESALE 2/	7,037,925	17,319,736	2,085,168	2,475,891	28,918,720	3,408,491	32,327,211
SALES BY INTEGRATED PLANTS 3/	3,435,953	9,102,046	937,517	899,496	14,375,012	1,141,800	15,516,812
INTEGRATED % OF TOTAL	31.8	34.4	21.9	18.2	30.9	16.4	29.0
INTEGRATED % OF WHSLE. ROUTES	41.5	44.7	38.2	30.9	42.3	28.5	40.8
INTEGRATED % OF O.P.-WHSLE.	48.8	52.6	45.0	36.3	49.7	33.5	48.0

FOOTNOTES:

1/ Based on revised October 1973 report.

2/ Off-premise wholesale estimated at 85% of sales reported in wholesale category. Computed from statewide container sales normally associated with off-premise distribution.

3/ Sales by fully integrated distributors only.

SOUTHERN CALIFORNIA MARKETING AREAS
RETAIL STORE SURVEY
YEAR ENDING DECEMBER 31, 1972 OR FISCAL YEAR ENDING IN 1973

Type of Store		Net Sales $	Operating Expenses			Expenses To Sales %
			Salaries & Wages $	Other Expenses $	Total $	
Groupe A (31 Stores)	Annual Sales Under $300,000	4,260,290	416,055	390,663	806,718	18.94
Group B (58 Stores)	Annual Sales Over $300,000	73,693,465	9,219,484	5,884,995	15,104,479	20.50
Groupe C (48 Stores)	Chain Stores With 4-14 Stores	122,500,448	15,192,902	13,421,565	28,614,473	23.36
Groupe D (134 Stores)	Chain Stores With More Than 14 Stores	509,680,405	60,346,054	41,557,136	101,903,190	19.99

EXHIBIT NO. 16

NUMBER OF COMMERCIAL FLUID MILK BOTTLING PLANTS UNITED STATES AND CALIFORNIA WITH PERCENT CHANGE

Year	United States 1/	Percent Change	California 2/	Percent Change
1950	8195		693	
1951	7867	- 4.0	613	-11.5
1952	7508	- 4.6	582	- 5.1
1953	7238	- 3.6	535	- 8.1
1954	6979	- 3.6	531	- 0.7
1955	6726	- 3.6	516	- 2.8
1956	6472	- 3.8	517	+ 0.2
1957	6187	- 4.4	515	- 0.4
1958	5888	- 4.8	520	+ 1.0
1959	5571	- 5.4	555	+ 6.7
1960	5328	- 4.4	581	+ 4.7
1961	4959	- 6.9	608	+ 4.6
1962	4683	- 5.6	598	- 1.6
1963	4442	- 5.1	590	- 1.3
1964	4103	- 7.6	581	- 1.5
1965	3743	- 8.8	561	- 3.4
1966	3379	- 9.7	537	- 4.3
1967	2978	-11.9	509	- 5.2
1968	2656	-10.8	473	- 7.1
1969	2473	- 6.9	443	- 6.3
1970	2216	-10.4	394	-11.1
1971	2080	- 6.1	348	-11.7
1972	Not Available		317	- 8.9
Percent change from 1950		-74.6		-49.8
Percent annual average change		- 3.39		- 2.3

1/ U.S.D.A. Economic Report No. 248
2/ California Crop and Livestock Reporting Service

CONCENTRATION IN CALIFORNIA FLUID MILK MARKETS

Share of the 4 and 8 largest fluid milk distributors in
2 California Marketing Areas 1/

YEAR	SOUTHERN METROPOLITAN MARKETING AREA		CENTRAL COAST COUNTIES MARKETING AREA	
	4 LARGEST FIRMS	8 LARGEST FIRMS	4 LARGEST FIRMS	8 LARGEST FIRMS
	%	%	%	%
1955	43	61	53	72
1956	42	59	54	71
1966	34	54	47	68
1970	34	53	48	67
1971	35	57	47	68
1972	35	56	49	72
1973	37	58	48	72

1/ Reports of the California Crop & Livestock Reporting Service.

STATEWIDE SALES OF FLUID MILK & FLUID LOW FAT MILK BY 12 LARGEST PLANTS BASED ON OCTOBER SALES DURING 1969 - 1971 AND 1973

	1969		1971		1973	
	Rank	% of Sales	Rank	% of Sales	Rank	% of Sales
Plant A	1	14.39	1	10.73	2	9.46
B	2	7.61	3	8.18	4	7.58
C	3	6.85	5	6.94	5	6.68
D	4	6.40	2	8.63	1	9.79
E	5	6.37	4	7.85	3	8.61
F	6	4.80	9	3.77	9	3.96
G	7	4.31	7	4.82	7	5.23
H	8	4.25	8	4.65	8	5.11
I	9	4.17	-	-	-	-
J	10	2.48	10	3.32	11	3.17
K	11	2.36	11	3.28	10	3.80
L	12	1.70	12	2.12	12	2.08
M	-	-	6	4.88	6	5.54
Total Gallons Sold - State	50,856,911		50,392,412		53,431,493	

	1969	1971	1973
Sales by 4 Largest Plants	35.3%	35.4%	35.4%
Sales by 8 Largest Plants	55.0%	56.7%	58.0%
Sales by 12 Largest Plants	65.7%	69.2%	71.0%

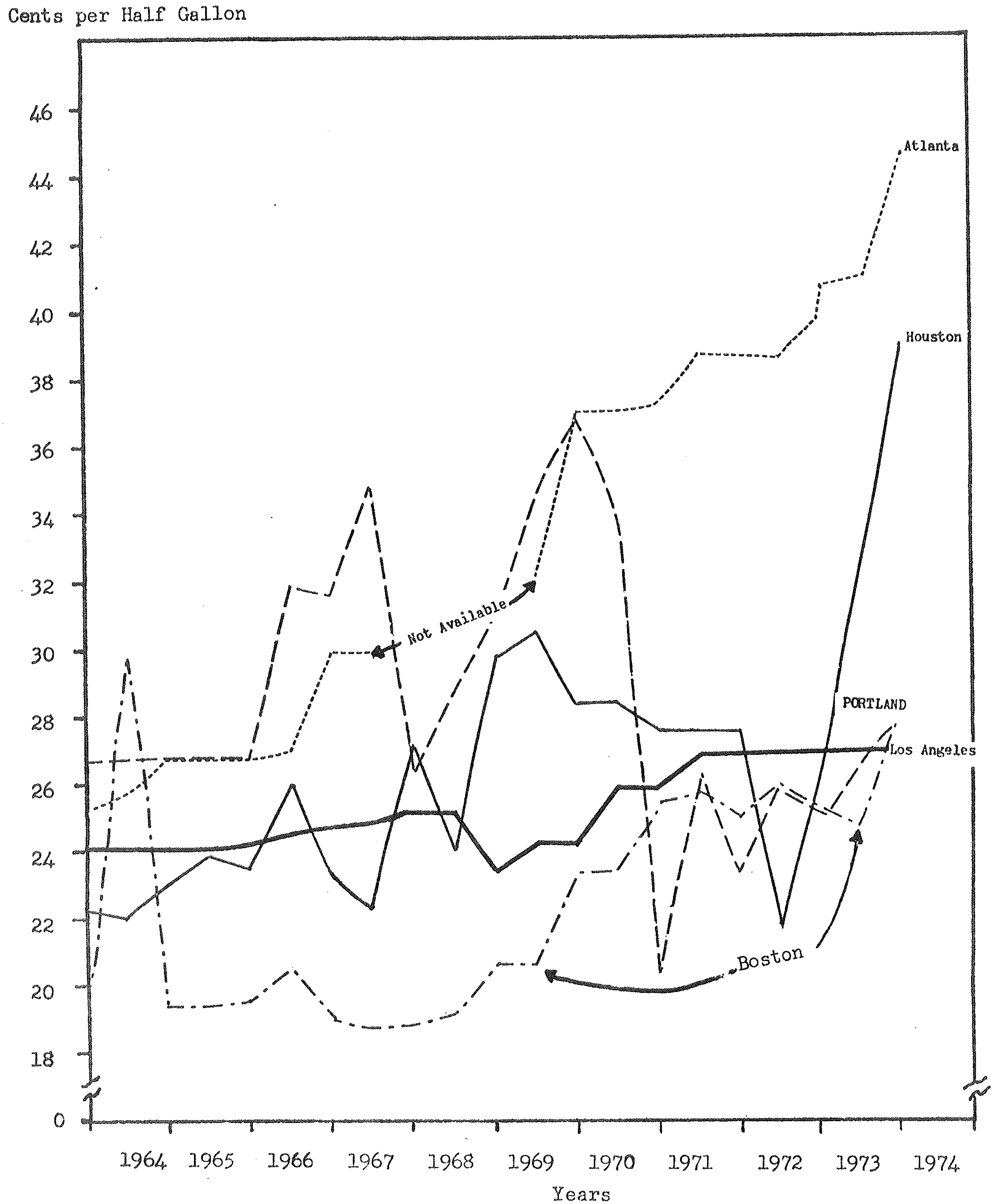
GROSS SPREAD BETWEEN RAW PRODUCT COST AND RETAIL STORE PRICE - HALF GALLON FLUID MILK
JANUARY AND JULY 1964 TO 1972; JANUARY AND JUNE 1973; JANUARY TO APRIL 1974

	Los Angeles	Portland 1/	Seattle	Salt Lake City 1/	Houston	Chicago	Cleveland	Atlantic City 1/	Boston	Hartford 1/	Atlanta	Miami 1/
	¢	¢	¢	¢	¢	¢	¢	¢	¢	¢	¢	¢
January 1964	24.21	26.71	26.87	26.81	22.34	28.55	18.93	29.84	18.12	22.12	25.22	33.65
July	24.21	26.71	27.92	26.81	22.06	28.55	19.4	24.06	30.07	19.07	25.69	33.65
January 1965	24.21	26.78	27.92	26.04	23.13	28.55	16.9	24.2	19.43	19.93	26.83	33.05
July	24.21	26.78	24.92	26.64	23.84	28.42	14.08	20.2	19.32	22.82	26.83	32.96
January 1966	24.	26.78	24.92	25.22	23.49	28.42	16.64	20.2	19.48	23.48	26.83	33.48
July	24.58	31.78	24.77	26.98	26.03	29.13	18.41	20.98	20.48	19.98	27.05	30.04
January 1967	24.68	31.63	24.09	25.87	23.22	30.55	21.27	18.48	19.09	20.59	29.85	34.82
July	24.68	34.77	26.13	26.6	22.32	33.07	21.27	21.9	18.67	20.67	29.85	29.82
January 1968	25.19	26.27	25.62	26.25	27.17	33.78	20.98	21.9	18.8	20.8	2/	30.87
July	25.19	28.77	26.12	26.83	23.96	35.49	23.48	24.2	19.1	22.6	2/	32.05
January 1969	23.19	31.	26.12	26.71	29.71	35.49	23.98	24.17	20.57	18.57	2/	36.05
July	24.20	34.48	27.68	26.45	30.45	37.1	23.98	22.17	20.57	22.57	32.23	33.79
January 1970	24.20	36.71	27.64	29.42	28.42	31.27	21.36	20.88	23.28	23.78	37.04	32.76
July	25.86	33.79	30.72	29.5	28.42	30.18	26.36	19.96	23.36	23.86	37.04	33.99
January 1971	25.86	20.35	29.78	30.68	27.60	28.22	23.47	21.52	25.42	25.42	37.18	32.19
July	26.87	26.15	30.08	28.99	27.60	32.22	22.29	24.32	25.72	23.72	38.68	35.49
January 1972	26.87	23.42	29.35	29.63	27.6	32.22	22.33	23.59	24.99	24.99	38.68	24.26
July	26.87	25.87	29.3	25.59	21.6	31.58	24.18	23.55	25.94	26.44	38.62	26.21
January 1973	26.87	25.24	32.67	23.95	26.04	32.23	25.32	21.91	25.31	24.81	39.83	27.58
June	26.89	25.41	32.34	30.62	26.71	32.3	23.56	20.58	25.98	21.98	41.54	3[illegible].08
January 1974	26.98	27.76	33.59		39.12	38.73	27.79		27.93		44.66	
February	26.98	26.47	32.7		42.73	39.74	28.5		28.64		43.37	
March	26.98	29.78										
April	26.82	29.61										

Source: Fluid Milk and Cream Report January 1964 to June 1973. Federal Milk Order Statistics July 1973 to February 1974.

1/ Not determined after June 1973 on a regular basis because the retail store price was not available.
2/ Not determined because raw product cost was not available.

GROSS SPREAD BETWEEN RAW PRODUCT COST AND RETAIL STORE PRICE
Five Cities January and July 1964 to January 1974
Half Gallon - Fluid Milk



COMPARISON OF GROSS SPREAD BETWEEN RAW PRODUCT COST
AND OUT-OF-STORE PRICE FOR SAN FRANCISCO, LOS ANGELES, SACRAMENTO
AND AVERAGE OF 19 CITIES IN THE UNITED STATES
HALF GALLON FLUID MILK

February, 1974

San Francisco

Out-of-Store Price	$0.7200
Raw Product Cost	$0.4162
Gross Spread	$0.3038

Los Angeles

Out-of-Store Price	$0.6900
Raw Product Cost	$0.4218
Gross Spread	$0.2682

Sacramento

Out-of-Store Price	$0.6800
Raw Product	$0.4055
Gross Spread	$0.2745

19 Cities Average 1/

Out-of-Store Price	$0.7864
Raw Product	$0.4309
Gross Spread	$0.3555

1/ Simple average of 23 cities, except Los Angeles, San Francisco, San Diego, and Honolulu, as published in Federal Milk Order Statistics.

SUMMARY OF FLUID MILK RESALE PRICE SHARE
LOS ANGELES AREA
HALF GALLONS

	Share of Resale Price					Percentage of Resale Price			
	Producer Price	Distributor	Store Margin at		Resale			Store at	
Year	(3.55% Milk)	Spread (1)	$200 (1)	Maximum	Price (2)	Producer	Distributor	$200	Maximum
1964	$.2332	$.1408	$.0960	$.1028	$.47	49.6%	30.0%	20.4%	21.9%
1965	.2332	.1370	.0998	.1064	.47	49.6	29.2	21.2	22.6
1966	.2300	.1438	.1012	.1081	.475	48.4	30.3	21.3	22.8
1967	.2403	.1428	.1019	.1089	.485	49.5	29.4	21.1	22.5
1968	.2503	.1333	.1114	.1193	.495	50.6	26.9	22.5	24.1
1969	.2602	.1151	.1247	.1425	.50	52.0	23.0	25.0	28.5
1970	.2636	.1334	.1180	.1396	.515	51.2	25.9	22.9	27.1
1971	.2762	.1494	.1144	.1410	.54	51.1	27.7	21.2	26.1
1972	.2762	.1494	.1144	.1410	.54	51.1	27.7	21.2	26.1
1973	.2964	.1492	.1144	.1422	.56	52.9	26.7	20.4	25.4
April 1, 1974	.4290	.1621	.0989	.1557	.69	62.2	23.5	14.3	22.6
May 5, 1974	.4290	.1800	.1010	.1538	.71	60.4	25.4	14.2	21.7

Note: Prices are those in effect as of July 1 of each year.

(1) Distributor Spread (Difference Between Class I Price and Net Wholesale Price at $200 Level) and Store Margins, Calculated at Wholesale Quantity Discount Earned on a $200 Order and Maximum on a $1,000 Order.
(2) Out-of-Store Price per Half Gallon.

EXHIBIT NO. 24

PREVAILING RETAIL OUT-OF-STORE PRICES - HALF GALLON FLUID MILK
JANUARY & JULY 1964 TO 1972; JANUARY & JUNE 1973; JANUARY - APRIL 1974

	Los Angeles	1/ Portland	Seattle	1/ Salt Lake City	Houston	Chicago	Cleveland	1/ Atlantic City	Boston	1/ Hartford	Atlanta	1/ Miami
JAN 1964	47	49.5	48.5	49	47.5	47	38.5	55	45	49	53	61
JULY	47	49.5	50.5	49	45.5	47	37.5	49	56	45	53	61
JAN 1965	47	50	50.5	49	48.5	47	39	50	46	46.5	55	61
JULY	47	50	47.5	49	46.5	47	33	46	44	47.5	55	61
JAN 1966	47	50	47.5	49	48	47	39.3	46	47	51	55	61
JULY	47.5	55	49.5	53	54.5	49	41.5	48.5	48	47.5	55	61
JAN 1967	48.5	57	49.5	53	52.5	53	47.5	46	48.5	50	59	66
JULY	48.5	61	51.5	53	51	55	57.5	50.5	48	50	59 2/	61
JAN 1968	50	52.5	52.5	53	58	57	48.5	50.5	48	50	59	62
JULY	50	55	53	55	56	60	51	54	49.5	53	59	64
JAN 1969	48	58	53	55	62	60	51.5	55	52	50	62	68
JULY	50	62	55.5	55	63	62	51.5	53	52	54	61	66
JAN 1970	50	65	55.5	59	62	57.5	50	53	56	56.5	68	66
JULY	52	62	58.5	59	62	56.5	55	52	56	56.5	68	66.5
JAN 1971	52	49.5	58.5	61	62	56	52.5	54.5	59	59	69	66.5
JULY	54	55	58.5	59	62	60	52	57	59	57	70.5	69.5
JAN 1972	54	53	58.5	59	62	60	52	57	59	59	70.5	59
JULY	54	55.5	58.5	55	56	60	54.5	57	60	60.5	71	61
JAN 1973	54	56.5	63.5	55	61	61	56.5	57	61	60.5	73.5	64
JUNE	56	58	64.5	63	63	63	56.5	57	63	59	76.5	70
JAN 1974	64	69	74.4		83.5	77	68.6		73.6		87.4	
FEB	64	69	74.8		88.4	79.3	70.6		75.6		87.4	
MAR	64	73										
APR	69	78										

SOURCE: FLUID MILK AND CREAM REPORT JANUARY 1964 TO JUNE 1973; FEDERAL MILK ORDER STATISTICS JULY 1973 TO FEBRUARY 1974.

1/ NOT AVAILABLE ON A REGULAR BASIS AFTER JUNE 1973.
2/ STATE REGULATED PRICES TERMINATED.

INTERNATIONAL ASSOCIATION OF MILK CONTROL AGENCIES
SUPERMARKET MILK PRICE SURVEY
SUMMARY - APRIL 1-5, 1974

ONE HALF GALLONS OF WHOLE MILK

Market	Range	PP*
Alabama		
Montgomery	-	80
Auburn	-	80
Arizona		
Phoenix	-	66
Tucson	-	68
California		
Los Angeles	-	69
San Francisco	-	72
Fresno	-	69
Sacramento	-	68
Colorado		
Denver	78-80	80
Georgia		
Atlanta	84-92	86
Columbus	89-99	90
Macon	86-97	93
Hawaii		
Honolulu	88-89	89
Iowa		
(State Wide)	63-79	76
Kentucky		
Lexington	90-95	95
Owensboro	78-79	78
Ashland	82-85	85

Market	Range	PP*
Maine		
Portland-Augusta-Bangor	81-87	81
Massachusetts		
Boston	75-77	77
Worcester	73-83	75
Fall River	71-74	73
Minnesota		
Mpls-St. Paul	58-67	-
Missouri		
Kansas City	75-99	90
St. Louis	71-98	88
Springfield	91-97	91
Jefferson City	83-88	88
Cape Girardeau	71-92	88
Montana		
-	-	79
Nebraska		
Kearney	[illegible]-80	75
Grand Island	69-76	69
Lincoln	69-77	69
Beatrice	75-79	76
Nevada		
Elko	82-85	82
Reno	79-87	79
Las Vegas	81-89	81
New Hampshire		
Concord	72-75	75

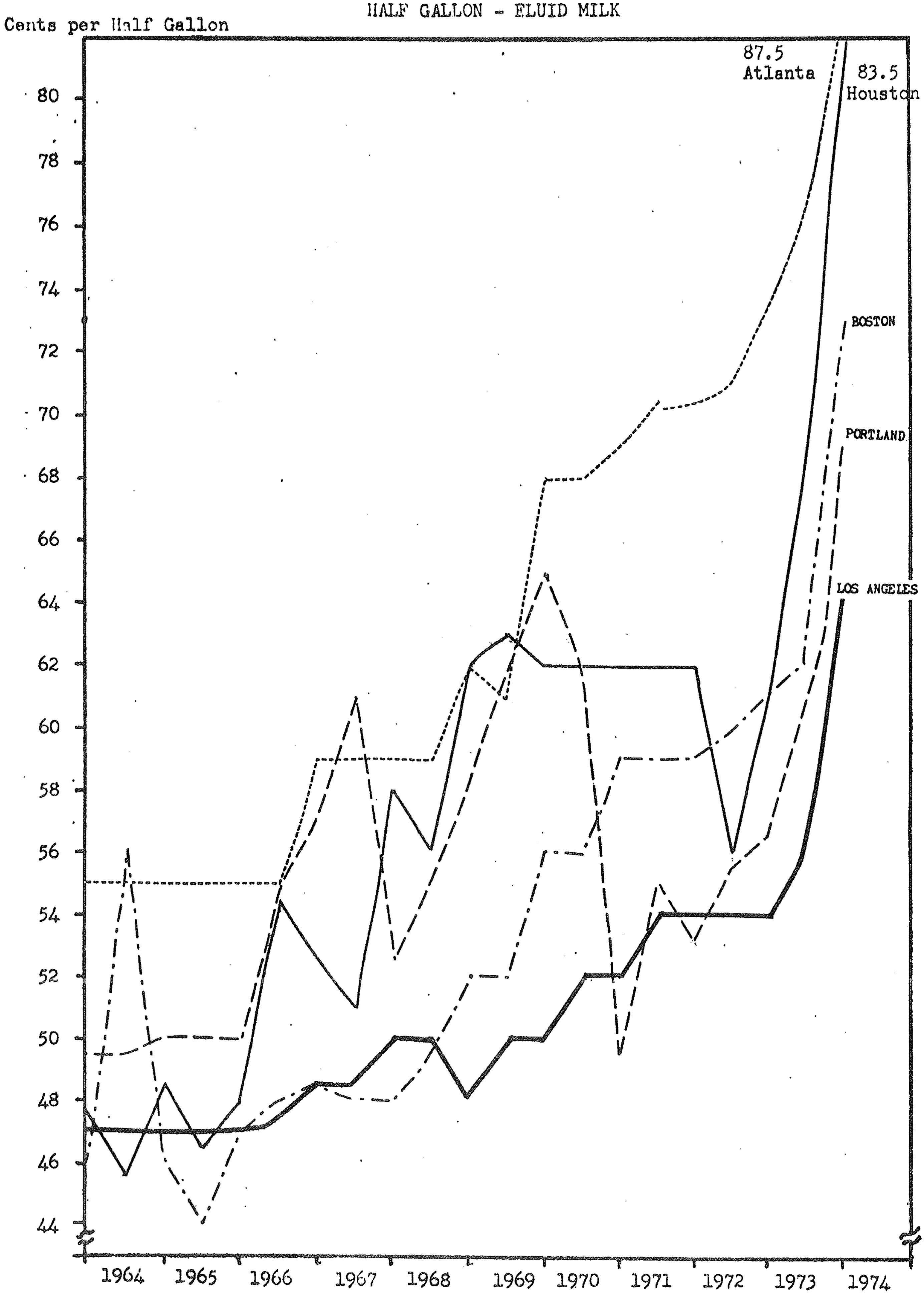
Market	Range	PP*
New Jersey		
North	81-84	82
South	74-86	75
New York		
New York City	75-97	85
Buffalo	79-84	82
Rochester	79-84	79
Syracuse	61-77	75
Albany	75-79	75
North Carolina		
Asheville	65-88	86
Charlotte	-	87
Greensboro	87-89	88
Raleigh	86-87	86
North Dakota		
Fargo	-	77
Bal. of State	79-81	79
Oklahoma		
Oklahoma City	66-85	79
Tulsa	75-79	78
Oregon		
Portland	75-80	78
Salem	70-85	78
Pennsylvania		
Philadelphia	82-83	82
Scranton	74-83	80
Harrisburg	76-77	76
Pittsburg	80-82	82

Market	Range	PP*
South Carolina		
(State Wide)	-	84
South Dakota		
Eastern	-	83
Central	-	85
Western	-	82
Texas		
Houston	80-1.03	86
Vermont		
Barre	69-72	70
Montpelier	70-72	71
Virginia		
South Western	81-93	83
Western	83-90	83
Eastern	83-87	83
Washington		
Payallup-Tacoma	67-89	-
Wisconsin		
Madison	67-70	70
Wyoming		
Sheridan	79-83	82
Casper	76-84	82
Cheyenne	75-84	82

*Prevailing Price

RETAIL OUT-OF-STORE PRICE
JANUARY AND JULY 1964 TO JANUARY 1974
HALF GALLON - FLUID MILK

EXHIBIT NO. 26



E26

ESTIMATED RETAIL FOOD PRICES BY CITIES 1/
(Fresh Milk - Half Gallons)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
U.S. Average												
1971	58.2	58.2	58.5	58.8	59.0	59.2	59.2	59.2	59.3	59.2	59.2	59.2
1972	59.5	59.8	60.1	60.1	60.0	59.8	59.6	59.4	59.4	59.5	59.8	60.1
1973	60.6	61.9	61.9	61.9	62.7	63.1	63.2	64.7	66.3	70.3	73.1	75.3
1974	75.9	77.6	78.9									
1975												
Atlanta												
1971	68.2	68.2	68.2	68.0	68.0	68.1	68.1	68.1	68.1	68.1	68.1	68.1
1972	68.1	69.0	69.1	69.2	69.2	69.2	69.2	69.2	69.2	69.2	71.0	70.8
1973	71.5	73.4	73.9	73.9	76.1	76.1	76.1	77.7	77.8	84.9	84.8	83.8
1974	87.4	87.4	91.1									
1975												
Baltimore												
1971	63.1	63.5	63.5	63.5	63.3	63.9	64.0	64.0	64.0	64.0	64.0	64.0
1972	63.9	63.6	65.7	65.8	65.8	65.8	65.3	65.3	65.3	65.3	65.3	65.5
1973	65.9	67.5	67.5	67.5	68.8	69.3	69.4	70.3	70.5	74.6	77.2	79.7
1974	81.2	82.5	82.7									
1975												
Boston												
1971	59.1	59.1	59.1	59.0	58.9	59.0	59.0	58.5	59.0	59.0	59.0	59.0
1972	59.0	59.9	59.8	59.7	59.8	59.8	59.8	59.8	59.8	59.6	59.6	60.2
1973	60.6	61.5	61.4	61.5	61.6	61.7	61.9	61.9	63.1	69.8	70.4	73.0
1974	73.6	75.6	75.9									
1975												
Buffalo												
1971	61.8	61.2	61.2	61.4	61.5	61.3	61.2	61.2	61.2	61.2	61.2	61.2
1972	61.2	61.2	61.0	61.0	61.0	61.1	61.1	61.1	61.1	61.1	61.1	61.0
1973	60.9	65.2	65.3	65.3	65.5	67.3	67.2	67.3	70.5	75.2	76.7	78.0
1974	78.8	79.8	80.1									
1975												
Chicago-N.W. Ind.												
1971	57.3	57.5	59.4	59.4	59.2	59.8	59.9	59.9	59.7	59.7	59.7	59.8
1972	59.4	60.7	60.7	59.9	59.8	59.8	59.6	59.6	59.6	60.2	60.5	60.6
1973	60.9	62.1	62.7	62.8	63.8	63.9	63.9	65.9	67.2	73.8	74.4	76.6
1974	77.2	79.3	80.2									
1975												
Cinncinnati												
1971	56.2	57.9	57.7	57.4	59.0	58.4	58.3	58.5	58.4	58.4	58.5	58.5
1972	58.4	60.8	60.6	59.6	59.4	59.7	59.4	56.1	57.5	58.5	60.8	61.0
1973	61.2	63.4	63.3	62.9	63.1	64.7	64.7	66.9	69.2	74.5	75.9	78.3
1974	77.8	81.2	85.0									
1975												
Cleveland												
1971	50.9	53.4	48.4	51.9	50.2	52.8	52.8	52.8	52.3	52.8	52.8	52.4
1972	50.9	53.9	55.0	55.1	55.3	55.3	53.2	53.2	53.1	52.9	52.5	52.1
1973	51.8	53.2	52.4	53.0	54.2	52.4	55.8	58.5	60.1	64.3	66.7	68.4
1974	68.6	70.6	73.6									
1975												
Dallas												
1971	59.1	60.2	61.1	61.1	62.0	61.1	61.5	61.5	61.5	61.5	61.4	61.4
1972	61.5	61.6	63.2	62.8	62.0	61.7	61.6	59.3	61.2	61.2	60.9	60.7
1973	62.8	63.7	62.5	63.7	64.3	64.3	64.0	67.9	70.6	73.1	78.5	78.6
1974	80.2	83.0	83.2									
1975												
Detroit												
1971	49.6	49.8	49.6	50.3	51.2	50.6	49.9	50.0	52.5	52.5	52.4	52.4
1972	53.2	53.7	54.4	54.2	54.0	50.6	49.4	49.4	48.1	48.1	49.1	49.8
1973	49.9	53.4	53.5	53.4	55.0	55.0	55.3	57.3	60.2	60.6	65.8	65.7
1974	67.7	69.8	73.1									
1975												
Honolulu												
1971	68.0	68.4	71.5	71.7	71.7	71.3	71.4	71.4	71.3	71.3	71.2	71.2
1972	73.4	73.6	74.8	74.7	74.9	75.0	75.0	75.0	75.0	75.0	75.0	75.1
1973	75.2	80.2	80.2	80.2	80.2	83.0	83.0	82.8	82.8	83.0	87.3	87.5
1974	87.7	87.5	89.8									
1975												
Houston												
1971	63.1	62.9	62.9	63.0	63.1	62.9	63.0	63.1	63.0	63.1	63.0	63.0
1972	63.0	62.8	64.9	65.1	64.7	64.8	64.7	64.3	64.5	64.6	64.7	64.7
1973	67.1	67.2	67.3	66.6	67.3	68.1	68.5	72.6	76.2	80.6	81.4	83.1
1974	83.6	88.4	88.7									
1975												

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Kansas City												
1971	59.5	59.9	59.9	59.9	60.0	61.1	61.7	61.7	61.7	61.7	61.7	61.7
1972	61.6	63.1	63.5	63.4	63.4	63.3	63.2	63.1	63.2	63.2	63.5	63.5
1973	63.2	65.4	65.4	65.3	65.5	66.7	66.7	68.5	69.8	78.4	78.6	80.5
1974	80.6	84.3	87.1									
1975												
L.A.-Long Beach												
1971	52.2	52.2	53.2	53.2	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3
1972	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3
1973	54.3	56.2	56.2	56.2	56.2	56.2	56.2	57.1	59.3	59.3	64.4	64.4
1974	64.4	64.4	64.4									
1975												
Milwaukee												
1971	47.7	47.7	48.8	49.5	49.5	50.2	51.0	50.9	50.9	50.9	50.9	50.9
1972	50.9	51.9	51.9	51.9	51.9	51.1	51.0	50.7	50.5	50.9	51.9	51.2
1973	51.2	53.6	53.8	53.8	53.9	54.8	54.8	56.9	59.1	63.8	64.0	66.2
1974	66.9	69.0	71.0									
1975												
Minn. - St. Paul												
1971	48.9	42.5	41.5	45.3	45.7	48.7	48.8	48.8	48.5	48.0	47.5	47.1
1972	47.0	47.0	47.0	47.0	47.6	49.4	49.2	49.2	49.2	49.2	49.2	50.7
1973	50.8	51.8	51.9	51.7	52.4	52.7	52.9	53.9	55.6	59.7	60.1	61.9
1974	62.4	66.4	67.4									
1975												
N.Y. - N.E. New Jersey												
1971	61.8	61.7	61.8	61.8	61.9	61.9	62.0	61.9	61.9	61.9	61.8	61.6
1972	63.4	63.3	63.2	63.4	63.4	63.2	63.1	63.1	63.1	63.1	63.2	64.9
1973	65.1	65.9	66.0	65.7	66.2	67.7	67.9	68.1	68.2	72.2	76.4	82.1
1974	82.1	84.3	84.9									
1975												
Philadelphia												
1971	66.0	66.1	66.1	66.0	66.1	64.7	64.7	65.7	65.7	65.7	65.7	65.7
1972	66.2	66.4	66.4	66.0	66.0	66.1	66.1	66.1	66.1	66.2	66.2	66.2
1973	66.4	66.7	66.7	66.7	66.7	66.7	67.1	67.1	68.7	70.5	75.5	78.2
1974	79.7	81.8	83.0									
1975												
Pittsburgh												
1971	65.3	65.4	65.4	65.4	65.4	65.4	65.4	65.4	65.4	65.4	65.4	65.4
1972	65.4	65.4	65.4	65.4	65.4	61.1	60.2	60.2	58.6	60.2	60.2	60.2
1973	60.4	60.2	60.2	60.2	64.3	64.4	64.4	64.3	68.0	70.6	71.5	73.1
1974	75.4	77.6	79.8									
1975												
St. Louis												
1971	58.6	58.6	60.2	60.7	61.1	59.4	58.4	60.0	60.2	60.1	60.2	60.2
1972	60.2	60.1	60.0	60.0	60.1	59.9	59.9	60.1	60.3	60.4	59.9	60.0
1973	60.4	60.9	60.8	60.8	61.1	62.1	61.0	65.5	66.5	72.5	72.8	75.0
1974	75.5	77.6	79.8									
1975												
San Diego												
1971	53.2	53.2	53.2	53.2	54.1	54.2	54.1	54.1	54.1	54.2	54.2	54.0
1972	54.0	54.0	54.0	55.1	55.0	55.0	55.0	55.0	55.1	55.1	55.1	55.1
1973	55.1	57.0	57.0	57.0	57.1	57.1	57.1	58.4	60.2	60.4	65.6	65.6
1974	65.6	66.3	66.3									
S.F. - Oakland												
1971	53.8	53.8	53.8	53.8	54.9	55.0	56.2	56.2	56.2	56.2	56.2	56.2
1972	56.2	56.3	56.2	56.2	56.2	56.2	56.2	56.2	56.2	56.2	56.2	56.2
1973	56.2	58.3	58.3	58.3	58.3	58.3	58.3	59.8	61.5	61.5	66.7	**
1974	66.8	66.7	67.5									
1975												
Seattle												
1971	55.8	55.8	56.3	57.5	59.9	60.2	59.4	59.2	59.2	59.2	59.1	58.9
1972	59.0	59.5	59.6	59.3	59.3	59.4	59.3	59.3	59.2	59.2	59.2	59.2
1973	59.3	62.1	62.0	62.2	63.6	63.3	63.3	63.8	64.0	67.4	70.3	72.1
1974	74.4	74.8	76.6									
1975												
Washington												
1971	62.1	62.2	62.2	62.2	62.2	62.2	62.3	62.3	62.2	62.4	62.4	62.4
1972	62.4	62.5	62.6	64.0	64.0	64.1	64.1	64.2	64.2	64.2	64.1	64.1
1973	64.3	65.8	66.0	65.9	66.4	68.6	67.8	69.5	69.6	75.2	76.3	77.1
1974	79.0	80.8	81.9									
1975												

1/ Compiled from U. S. Department of Labor Statistics.
** Insufficient quotations to publish an average price.

COMPARISON OF AVERAGE RETAIL PRICES OF FLUID MILK
IN PORTLAND, OREGON AND LOS ANGELES, CALIFORNIA 1/
SOLD AT STORES PER HALF-GALLON

Year		Portland	Los Angeles	Differential Los Angeles from Portland
1956		42.3	39.6	- 2.7
1957		44.8	41.2	- 3.6
1958		45.0	42.4	- 2.6
1959		46.0	43.5	- 2.5
1960		47.3	44.6	- 3.7
1961		47.1	45.1	- 2.0
1962		48.2	46.0	- 2.2
1963		49.5	47.0	- 2.5
1964		50.4	47.0	- 3.4
1965		50.0	47.0	- 3.0
1966		54.4	47.9	- 6.5
1967		55.8	48.6	- 7.2
1968		55.5	49.3	- 6.2
1969		58.0	49.0	- 9.0
1970		61.3	51.3	-10.0
1971		55.0	53.6	- 1.4
1972		55.3	54.0	- 1.3
1973		60.3 2/	57.8	- 2.5
1974	January	69.0	64.0	- 5.0
	February	69.0	64.0	- 5.0
	March	73.0	64.0	- 9.0
	April	78.0	69.0	- 9.0

1/ Agricultural statistics: U.S.D.A.
2/ Prices for the months of August, September, November, and December were estimated.

NUMBER OF PLANTS LOCATED IN CALIFORNIA
CLASSIFIED ACCORDING TO ESTIMATED AVERAGE DAILY SALES OF
FLUID MILK (WHOLE & LOW FAT) - GALLONS 1/

Average Daily Sales of Fluid Milk (Gallons)	1958	1968	1969	1970	1971	1972	1973
Less than 50	35	7	9	9	10	9	5
50 - 149	68	36	39	31	21	25	23
150 - 249	69	46	50	41	39	26	32
250 - 499	95	113	111	96	80	69	55
500 - 999	89	84	70	61	54	51	45
1,000 - 2,999	74	67	62	51	50	49	44
3,000 - 4,999	23	23	18	18	13	10	11
5,000 - 6,999	7	10	15	9	9	11	10
7,000 - 9,999	20	19	11	14	9	12	8
10,000 - 14,999	12	11	9	13	11	9	9
15,000 - 19,999	8	7	10	6	8	6	9
20,000 - 24,999	3	1	-	2	6	5	4
25,000 - 29,999	4	7	5	2	1	2	2
30,000 - 39,999	3	5	7	5	5	2	4
40,000 +	3	7	8	11	12	15	14
Total	513	443	424	369	328	301	275

1/ Totals are understated by reason of a few companies filing combined reports.

NUMBER OF PLANTS LOCATED IN LOS ANGELES COUNTY
CLASSIFIED ACCORDING TO ESTIMATED AVERAGE DAILY SALES OF
FLUID MILK (WHOLE & LOW FAT) - GALLONS 1/

Average Daily Sales of Fluid Milk (Gallons)	1958	1968	1969	1970	1971	1972	1973
Less than 50	4	3	1	1	2	3	3
50 - 149	9	7	4	4	2	5	4
150 - 249	18	14	15	12	10	10	7
250 - 499	28	30	35	36	25	21	22
500 - 999	41	33	28	24	23	22	15
1,000 - 2,999	21	13	13	11	10	9	8
3,000 - 4,999	3	4	4	2	2	3	4
5,000 - 6,999	1	1	2	1	-	-	-
7,000 - 9,999	6	4	2	2	2	2	2
10,000 - 14,999	5	6	5	4	2	2	4
15,000 - 19,999	2	2	4	4	3	2	1
20,000 - 24,999	-	-	-	-	3	3	1
25,000 - 29,999	2	2	1	1	-	1	2
30,000 - 39,999	3	1	2	1	1	1	-
40,000 +	3	6	6	7	7	7	8
Total	146	126	122	110	92	91	81

1/ Totals are understated by reason of a few companies filing combined reports.

COMPARISON OF WHOLESALE PRICE DIFFERENTIALS OF FLUID MILK AND FLUID NONFAT MILK HALF-GALLON CONTAINERS

UNREGULATED NONFAT MILK

Plant Code 1/	NORTH CENTRAL VALLEY List Price $	NORTH CENTRAL VALLEY Low Net Price $	CENTRAL VALLEY List Price $	CENTRAL VALLEY Low Net Price $	SHASTA-TEHAMA List Price $	SHASTA-TEHAMA Low Net Price $
Plant A	-0.075	+0.0025	-0.178	-0.0505	-0.104	-0.0467
Plant B	- .04	+ .002	- .068	- .0015	- .061	- .0405
Plant C	- .03	+ .0104	- .048	+ .0165	- .061	- .0405
Plant D	- .03	+ .0104	- .041	+ .0228		
Plant E	- .025	- .0173	- .041	+ .0228		

REGULATED NONFAT MILK

	2/ SOUTHERN METRO.		CENTRAL COAST		SAN LUIS OBISPO	
Minimum Price	-$0.10	-$0.079	-$0.088	-$0.0702	-$0.10	-$0.0805

1/ Plant code does not necessarily apply to the same plant in each Marketing Area.
2/ Order effective May 5, 1974

COMPARISON OF RETAIL STORE PRICES OF FLUID MILK AND FLUID NONFAT MILK HALF-GALLON CONTAINERS

UNREGULATED NONFAT MILK

	NORTH CENTRAL VALLEY Fluid Milk	NORTH CENTRAL VALLEY Nonfat Milk	CENTRAL VALLEY Fluid Milk	CENTRAL VALLEY Nonfat Milk
State Minimum	$0.68	none	$0.69	none
Convenience stores 1/	.71-.90	0.73	.69-.91	.69-.77
Liquor Stores 1/	.69-.79	none	.72-.74	.69-.72
Mini-Super Stores	.69-.72	0.72	0.69	.60-.71 2/
Super & Chain Stores	0.68	.61-.68 2/	0.69	.60-.71 2/

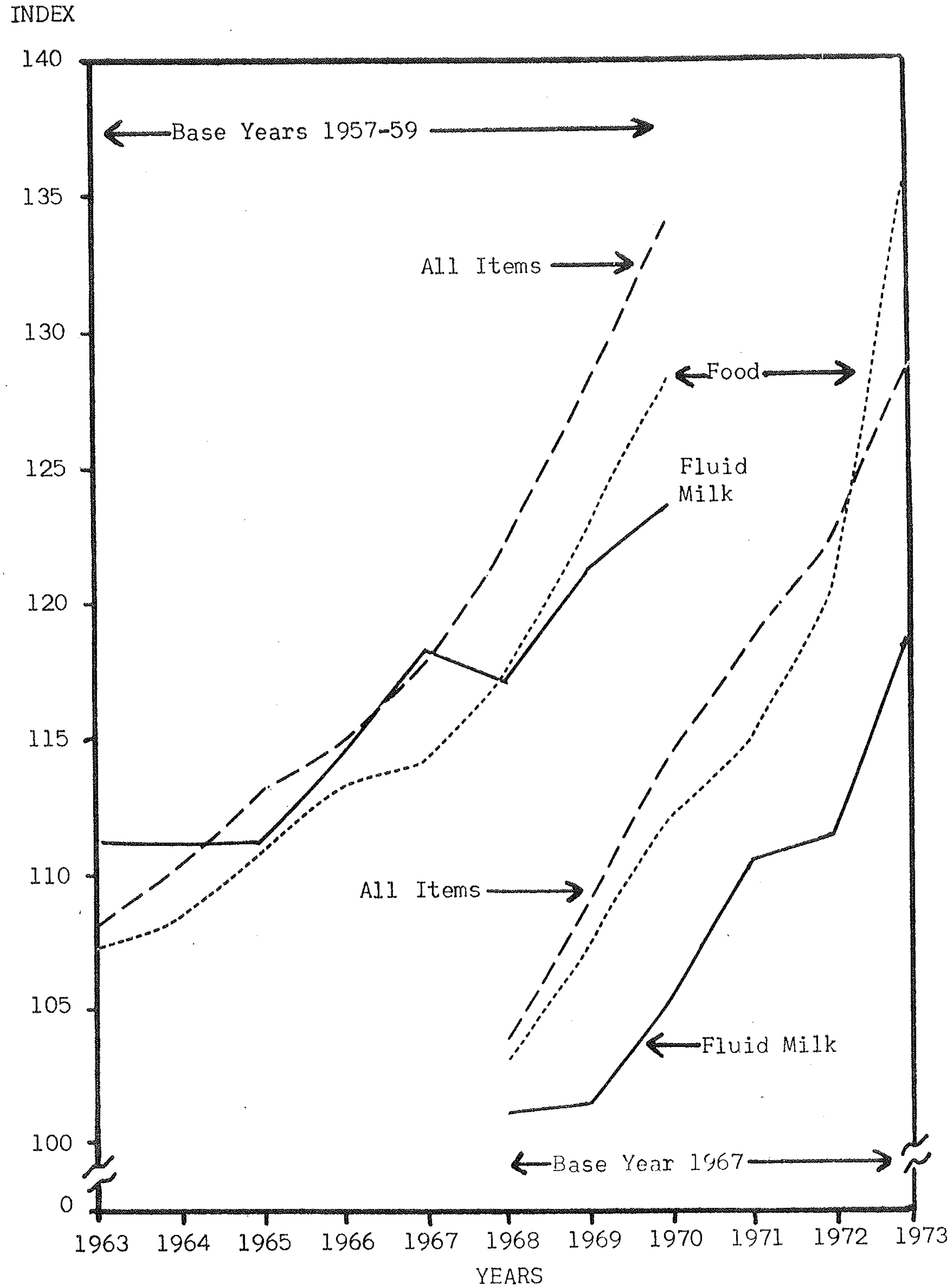
REGULATED NONFAT MILK

	SOUTHERN METRO. Fluid Milk	SOUTHERN METRO. Nonfat Milk	CENTRAL COAST Fluid Milk	CENTRAL COAST Nonfat Milk
State Minimum	$0.69	$0.59	$0.72	$0.63
Convenience Stores 1/	.72-.76	.65-.67	.72-.94	.63-.79
Liquor Stores 1/	.69-.79	.59-.70	.73-.91	0.71
Mini-Super Stores	.69-.73	.59-.65	0.72	0.63
Super & Chain Stores	0.69	0.59	0.72	0.63

1/ Convenience and Liquor Stores - majority at or above mid-range; exceptional cases at State minimum.

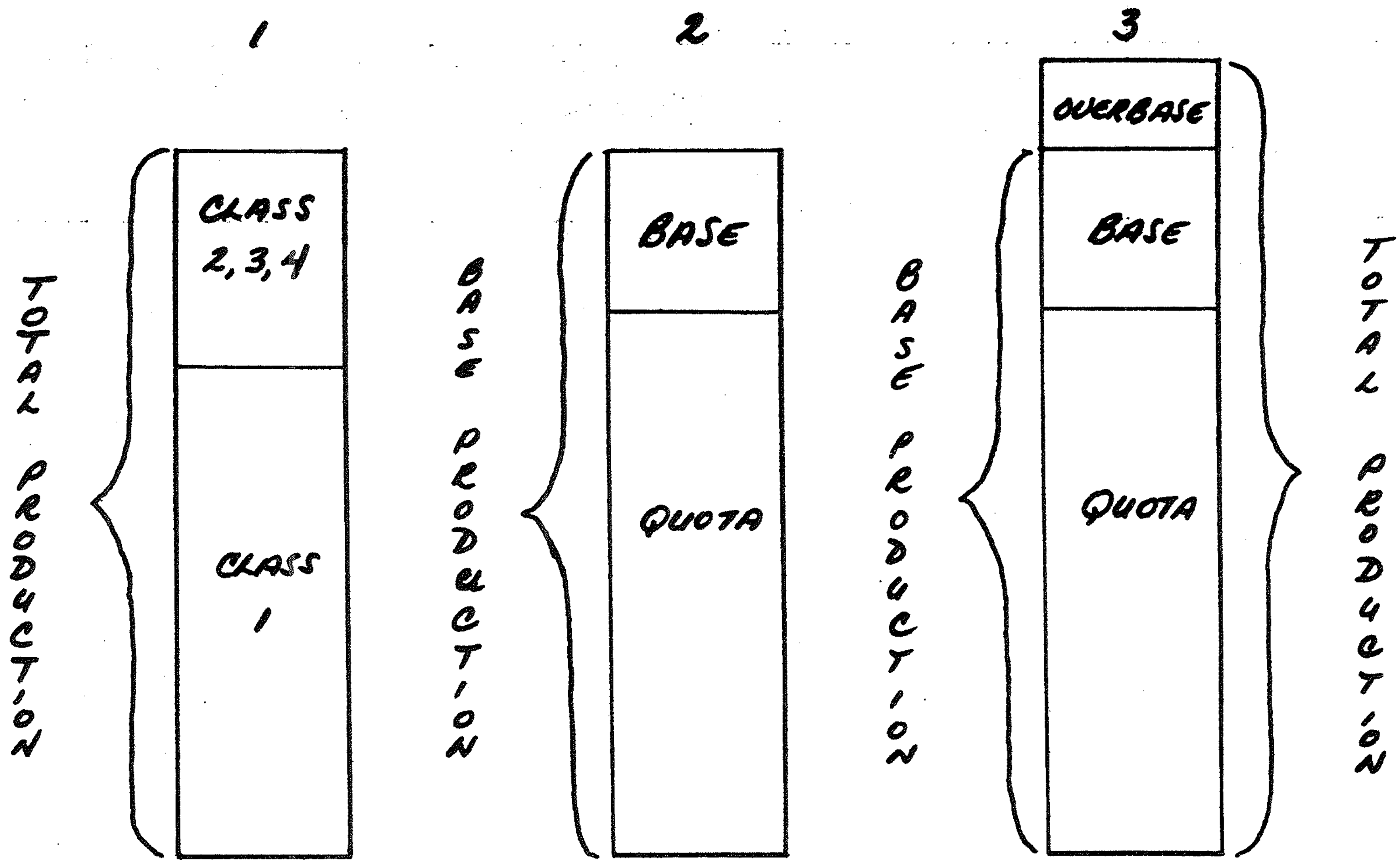
2/ Supers and Chain Stores - at minimum, except where nonfat prices are not set - majority of chains at mid-range.

CONSUMER PRICE INDEX
LOS ANGELES-LONG BEACH
1963 THROUGH 1973 1/



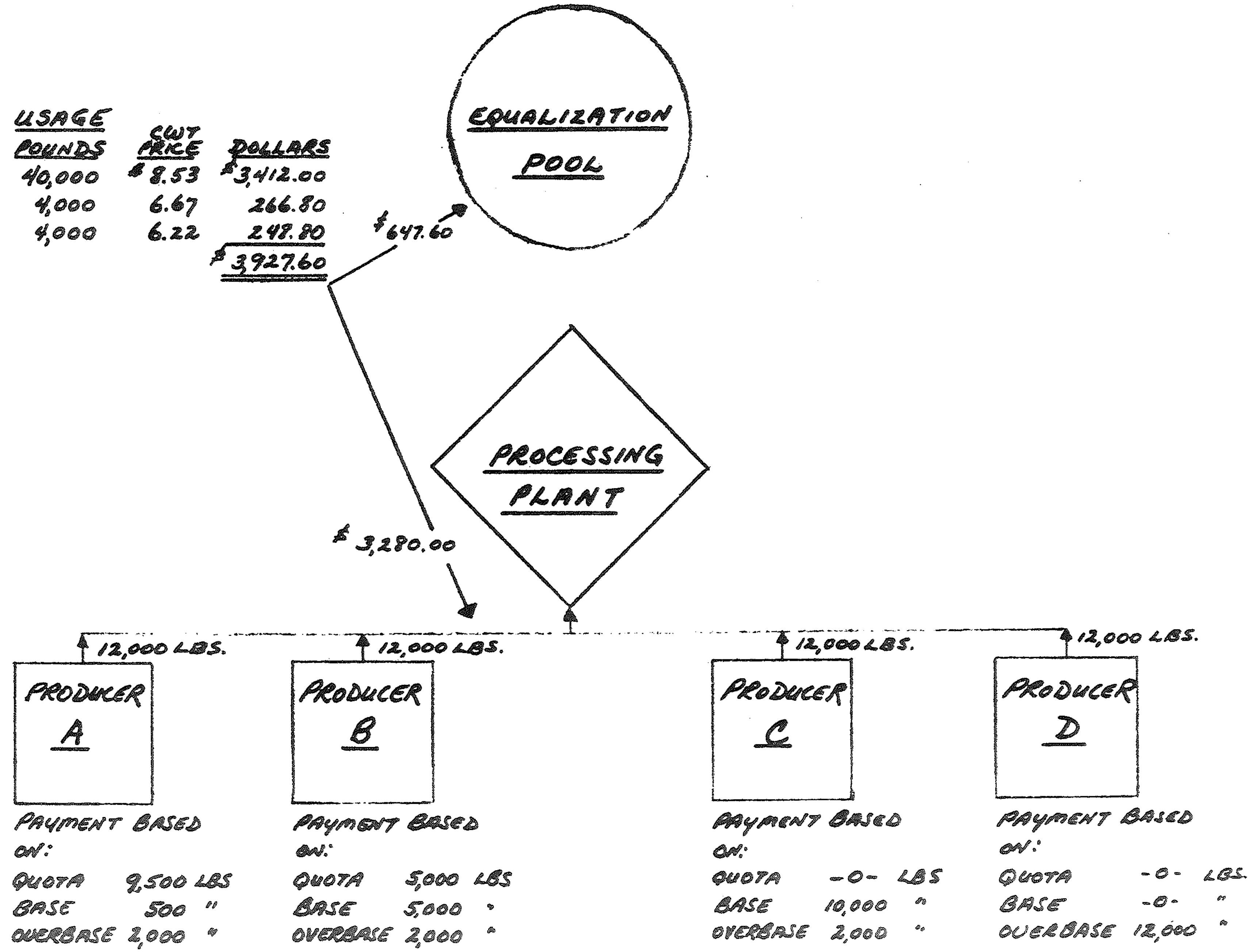
1/ Years 1968, 1969 and 1970 indexed on both base periods.

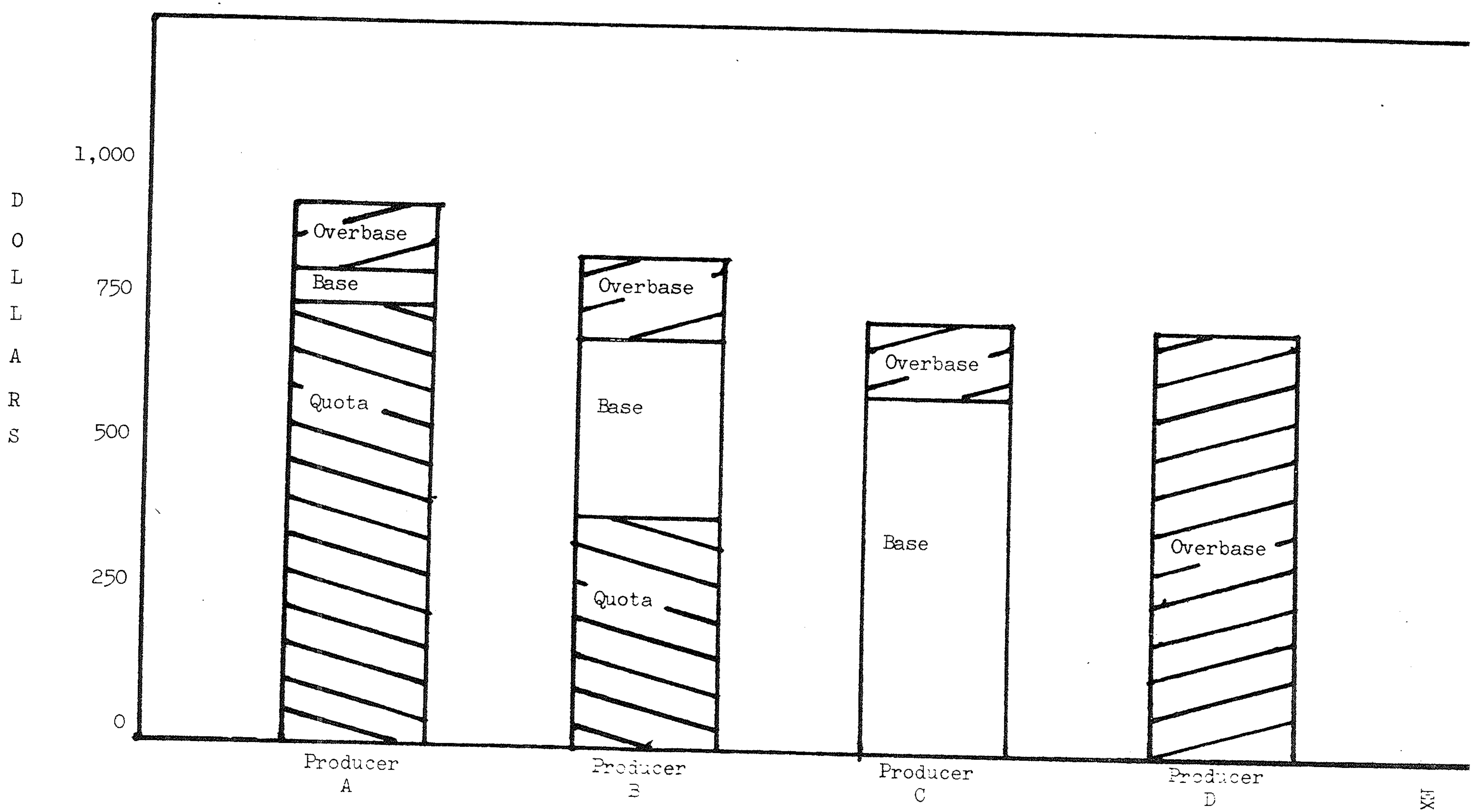
CALCULATION OF BASE AND QUOTA



STATE EQUALIZATION POOL

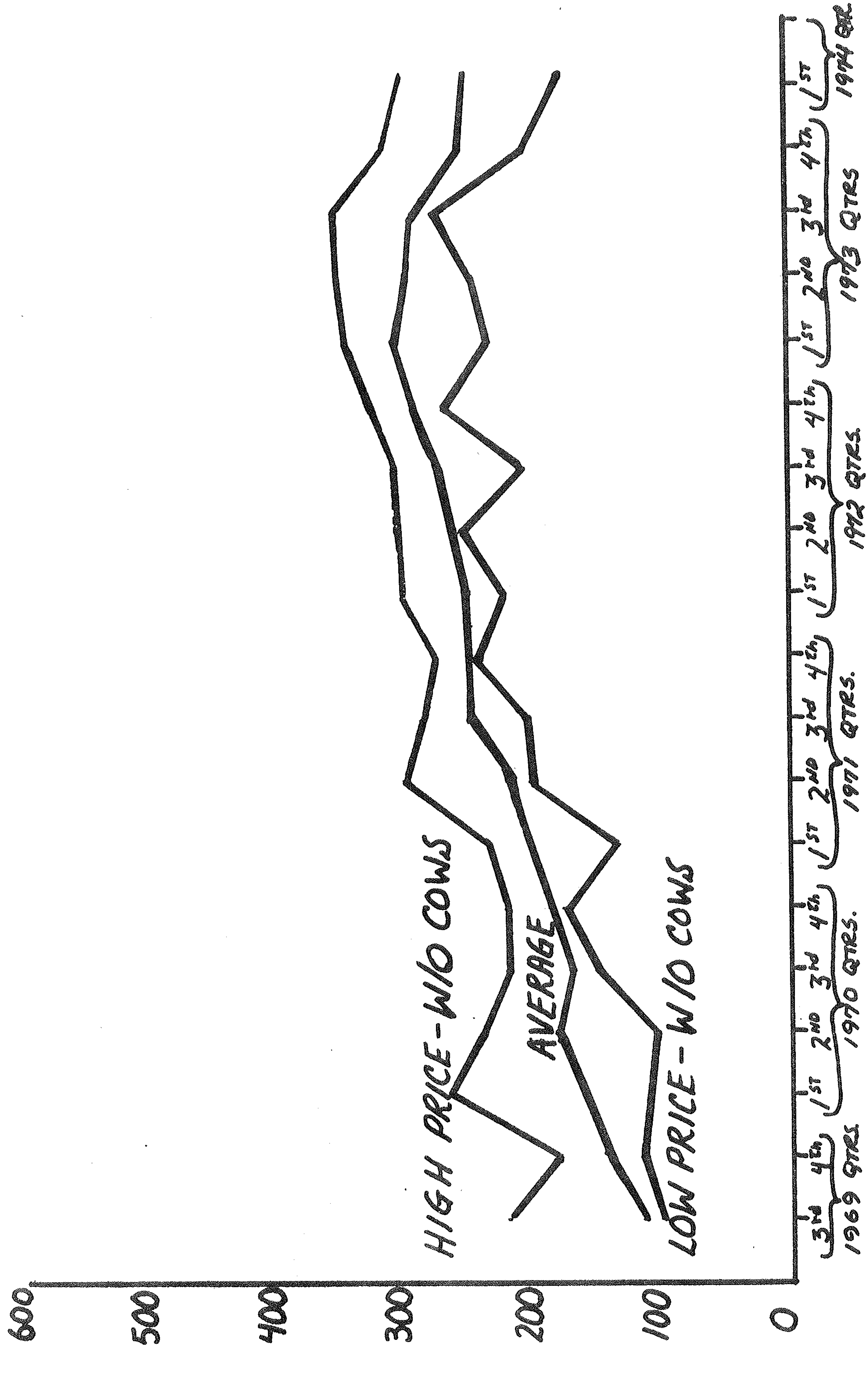
	USAGE POUNDS	CWT PRICE	DOLLARS
CLASS I	40,000	$ 8.53	$ 3,412.00
CLASS II	4,000	6.67	266.80
CLASS IV	4,000	6.22	248.80
			$ 3,927.60





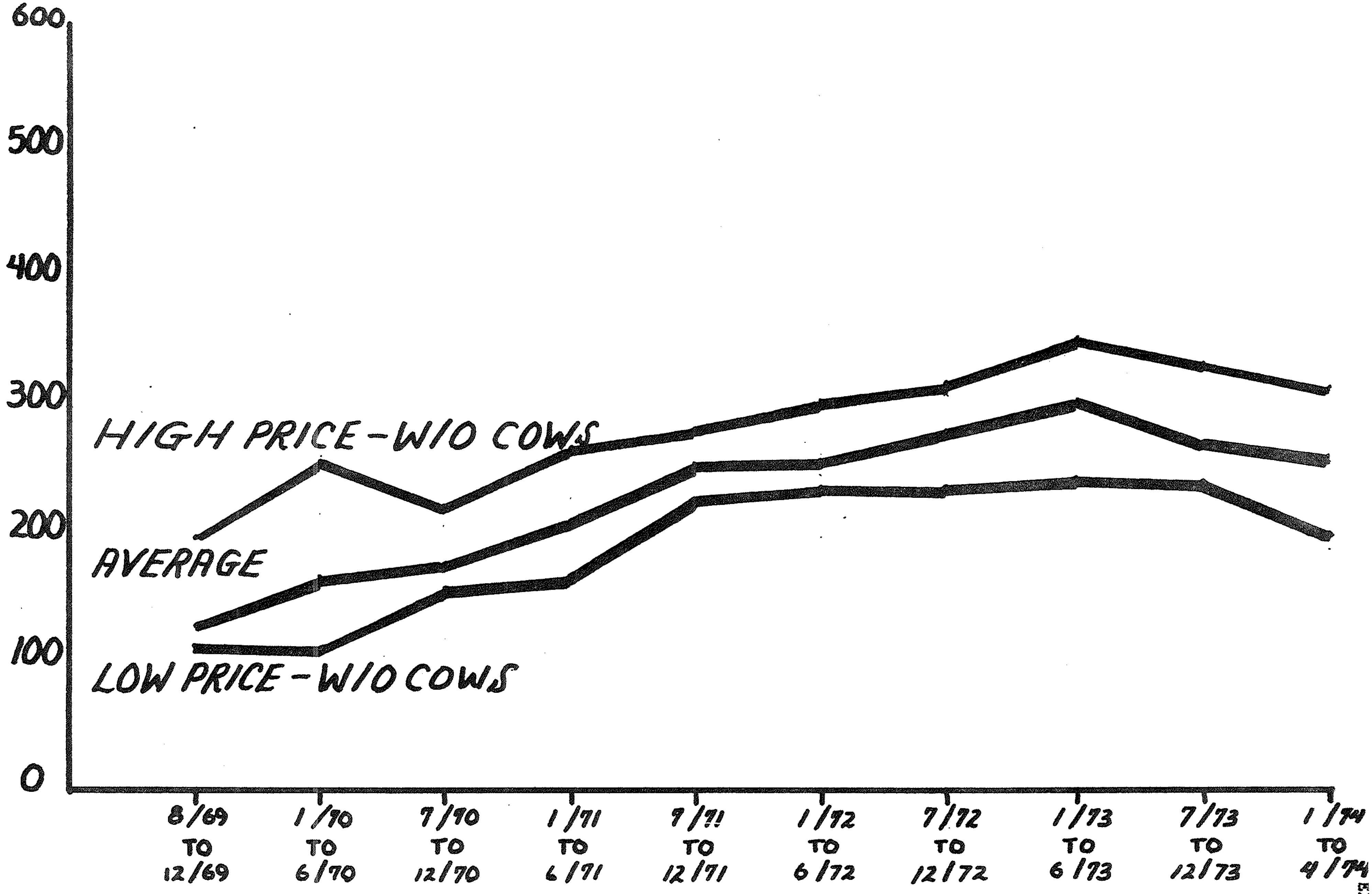
COMPARISON OF PRODUCER RETURNS

EXHIBIT NO. 35

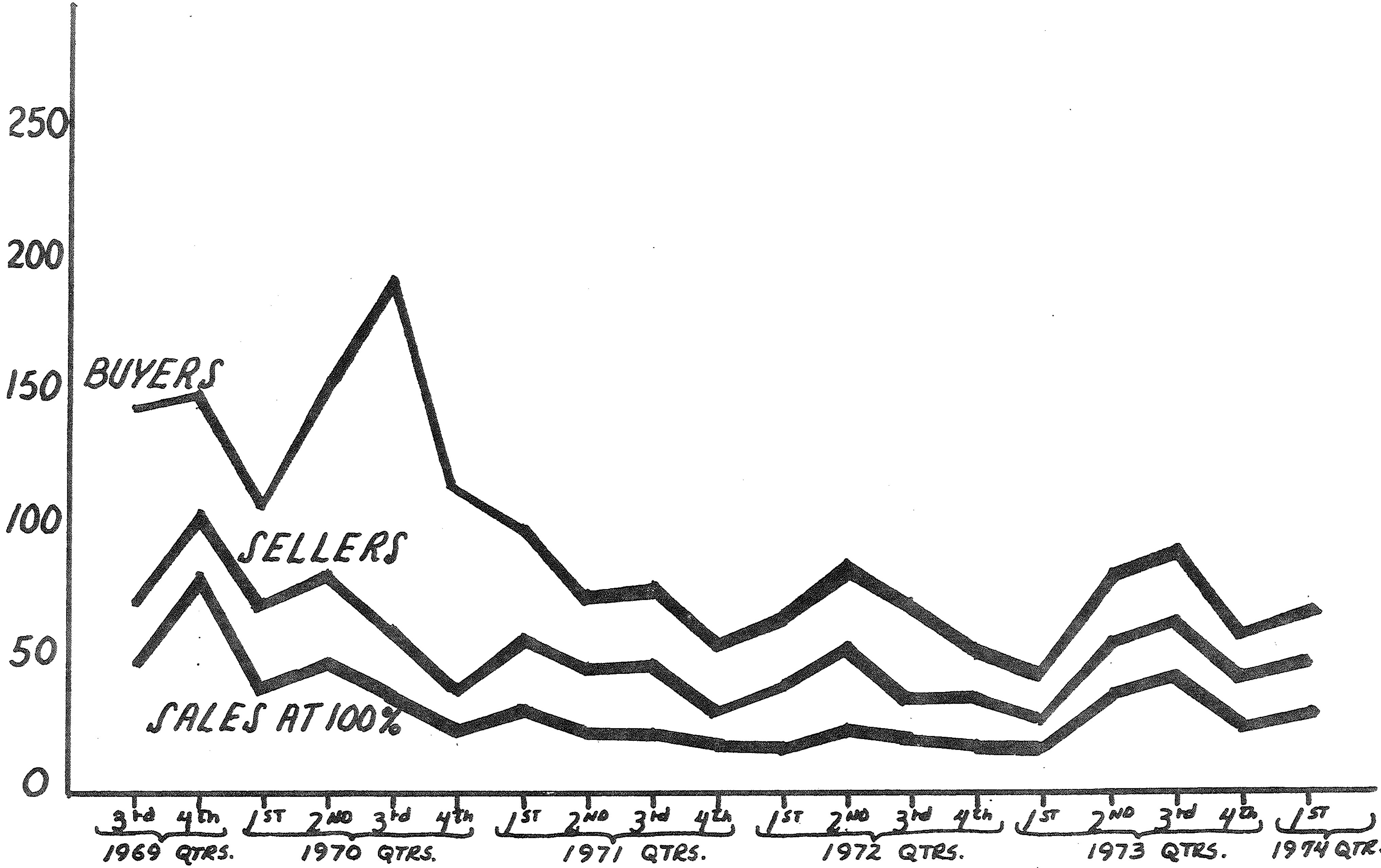


VALUE AVERAGES OF QUOTA
SOLID POUNDS TRANSFERRED

EXHIBIT NO. 37

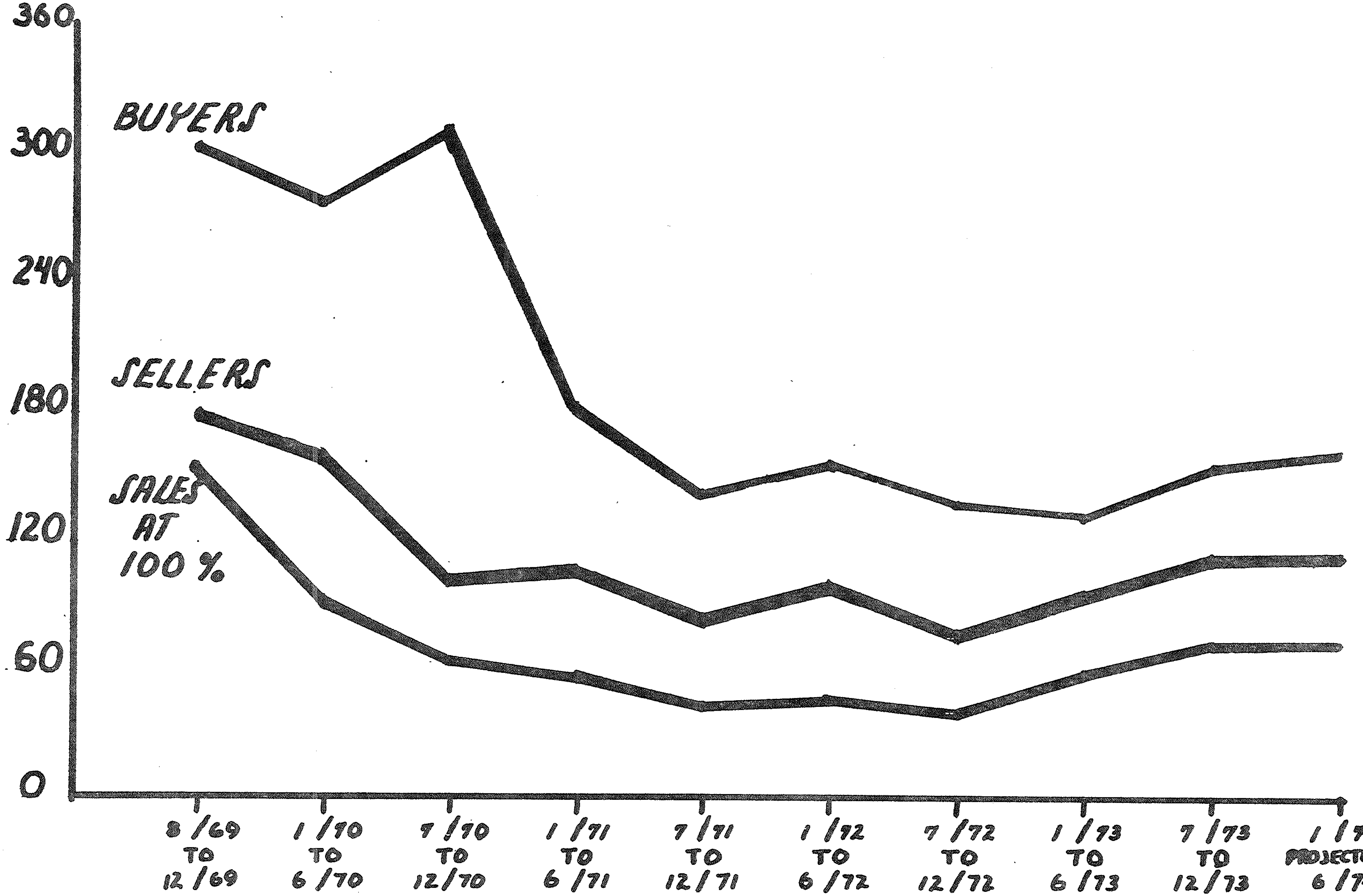


VALUE AVERAGES OF QUOTA
SOLID POUNDS TRANSFERRED



NUMBER OF BASE AND QUOTA TRANSACTIONS BY QUARTERS

EXHIBIT NO. 39



NR OF BASE AND QUOTA TRANSACTIONS FOR SIX-MONTH PERIODS

SUMMARY OF SNF QUOTA TRANSFERS
FOR THE PERIOD AUGUST 1969 THROUGH APRIL 1974

							Three Month Average			Six Month Average		
Month	No. of Sellers (1)	No. of Buyers (2)	No. of Sales at 100% (3)	Lowest SNF Price W/O Cows (4)	Overall Avg. Price Per # SNF (5)	Highest SNF Price W/O Cows (6)	Lowest SNF Price W/O Cows (7)	Overall Avg. Price Per # SNF (8)	Highest SNF Price W/O Cows (9)	Lowest SNF Price W/O Cows (10)	Overall Avg. Price Per # SNF (11)	Highest SNF Price W/O Cows (12)
Aug 1969	25	44	19	107	109	295						
Sept 1969	47	104	31	98	124	160						
	72	148	50				103	117	228			
Oct 1969	51	62	41	120	136	171						
Nov 1969	26	47	18	146	148	184						
Dec 1969	32	44	28	99	151	197						
	109	153	87				122	145	184	114	134	201
Jan 1970	24	39	17	130	152	360						
Feb 1970	22	33	6	106	159	209						
Mar 1970	30	45	18	108	177	263						
	76	117	41				115	163	277			
Apr 1970	34	62	18	95	181	266						
May 1970	32	61	23	157	198	242						
Jun 1970	19	35	11	78	178	230						
	85	158	52				110	186	246	112	174	262
Jul 1970	19	66	12	139	174	223						
Aug 1970	19	28	11	159	182	228						
Sept 1970	27	104	16	171	175	226						
	65	198	39				156	177	226			
Oct 1970	11	73	8	155	176	224						
Nov 1970	11	18	7	205	188	222						
Dec 1970	19	27	12	174	200	236						
	41	118	27				178	188	227	167	183	227
Jan 1971	24	27	13	146	205	232						
Feb 1971	19	36	13	105	190	248						
Mar 1971	20	41	9	168	224	245						
	63	104	35				140	206	242			

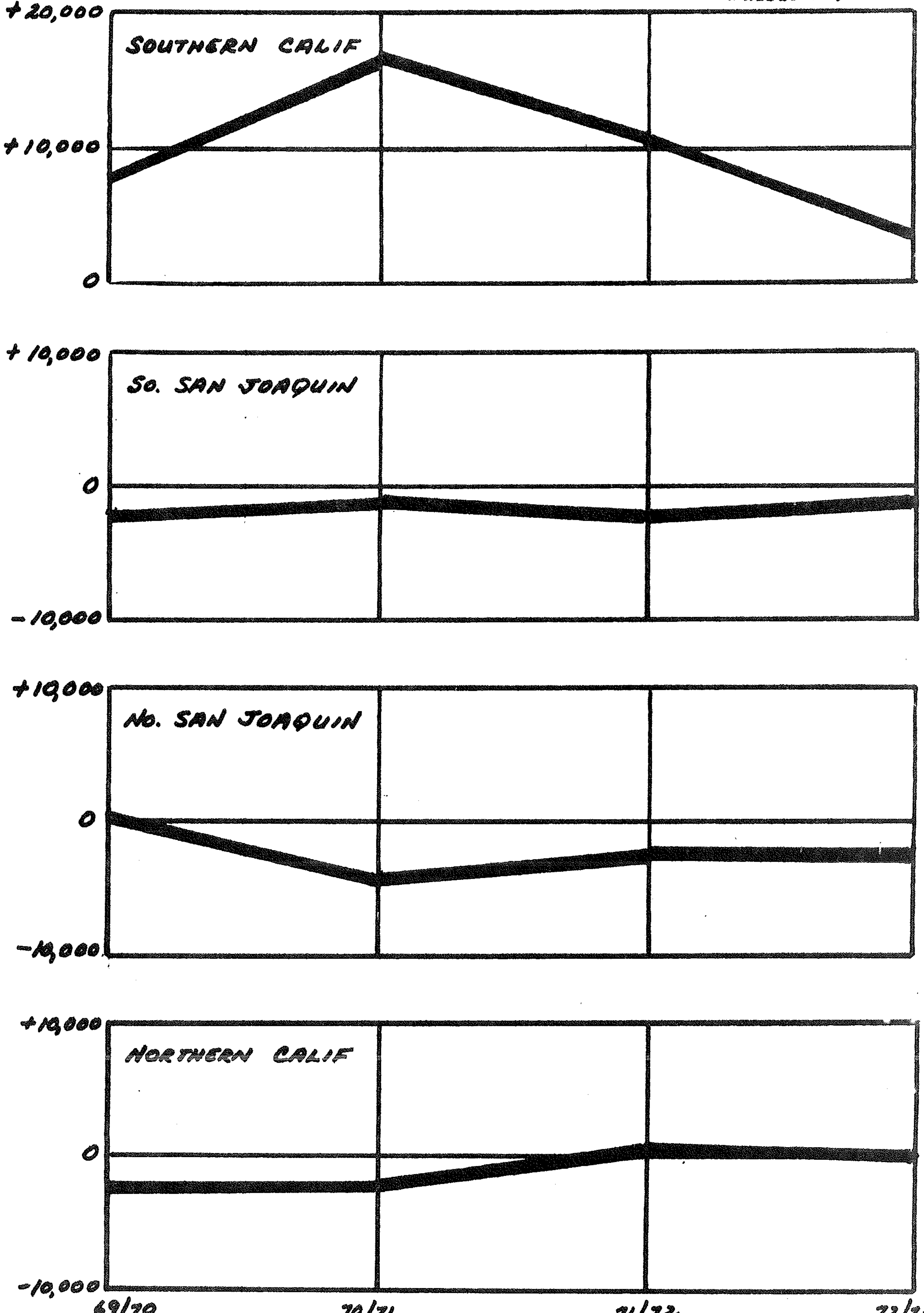
Month	No. of Sellers (1)	No. of Buyers (2)	No. of Sales at 100% (3)	Lowest SNF Price W/O Cows (4)	Overall Avg. Price Per # SNF (5)	Highest SNF Price W/O Cows (6)	Three Month Average: Lowest SNF Price W/O Cows (7)	Three Month Average: Overall Avg. Price Per # SNF (8)	Three Month Average: Highest SNF Price W/O Cows (9)	Six Month Average: Lowest SNF Price W/O Cows (10)	Six Month Average: Overall Avg. Price Per # SNF (11)	Six Month Average: Highest SNF Price W/O Cows (12)
Apr 1971	15	17	11	204	200	358						
May 1971	19	33	8	197	223	269						
Jun 1971	16	29	7	218	243	275						
	50	79	26				206	222	301	173	214	271
Jul 1971	23	47	7	216	254	294						
Aug 1971	16	16	12	181	254	281						
Sept 1971	14	20	6	231	257	301						
	53	83	25				209	255	292			
Oct 1971	14	30	6	259	256	288						
Nov 1971	13	16	8	248	254	296						
Dec 1971	7	13	5	247	265	273						
	34	59	19				251	258	286	230	257	289
Jan 1972	15	23	9	255	259	296						
Feb 1972	13	23	5	247	257	324						
Mar 1972	15	24	6	168	248	291						
	43	70	20				223	255	304			
Apr 1972	20	28	12	226	274	309						
May 1972	21	30	10	272	262	301						
Jun 1972	17	29	5	284	262	307						
	58	87	27				261	266	306	242	260	304
Jul 1972	11	22	7	291	282	300						
Aug 1972	14	22	10	120	265	315						
Sept 1972	14	34	5	222	282	314						
	39	78	22				211	276	310			
Oct 1972	13	16	9	303	293	316						
Nov 1972	12	16	7	250	293	338						
Dec 1972	14	25	5	267	296	335						
	39	57	21				273	294	330	242	285	320
Jan 1973	7	8	4	0	347	0						
Feb 1973	12	21	7	270	292	347						
Mar 1973	13	20	8	205	290	354						
	32	49	19				238	310	351			

Month	No. of Sellers (1)	No. of Buyers (2)	No. of Sales at 100% (3)	Lowest SNF Price W/O Cows (4)	Overall Avg. Price Per # SNF (5)	Highest SNF Price W/O Cows (6)	Three Month Average: Lowest SNF Price W/O Cows (7)	Three Month Average: Overall Avg. Price Per # SNF (8)	Three Month Average: Highest SNF Price W/O Cows (9)	Six Month Average: Lowest SNF Price W/O Cows (10)	Six Month Average: Overall Avg. Price Per # SNF (11)	Six Month Average: Highest SNF Price W/O Cows (12)
Apr 1973	19	29	16	290	306	337						
May 1973	20	30	11	183	291	339						
Jun 1973	21	26	14	286	304	395						
	60	85	41				253	300	357	247	305	354
Jul 1973	26	28	22	289	305	390						
Aug 1973	18	39	9	279	279	309						
Sept 1973	23	27	16	274	296	370						
	67	94	47				281	293	356			
Oct 1973	15	21	11	227	290	366						
Nov 1973	11	13	7	219	240	289						
Dec 1973	21	29	9	181	248	299						
	47	63	27				209	259	318	245	276	337
Jan 1974	16	22	9	137	232	295						
Feb 1974	12	22	7	233	265	302						
Mar 1974	23	28	16	192	271	313						
	51	72	32				187	256	303			
Apr 1974	24	37	14	244	286	359				202	264	317

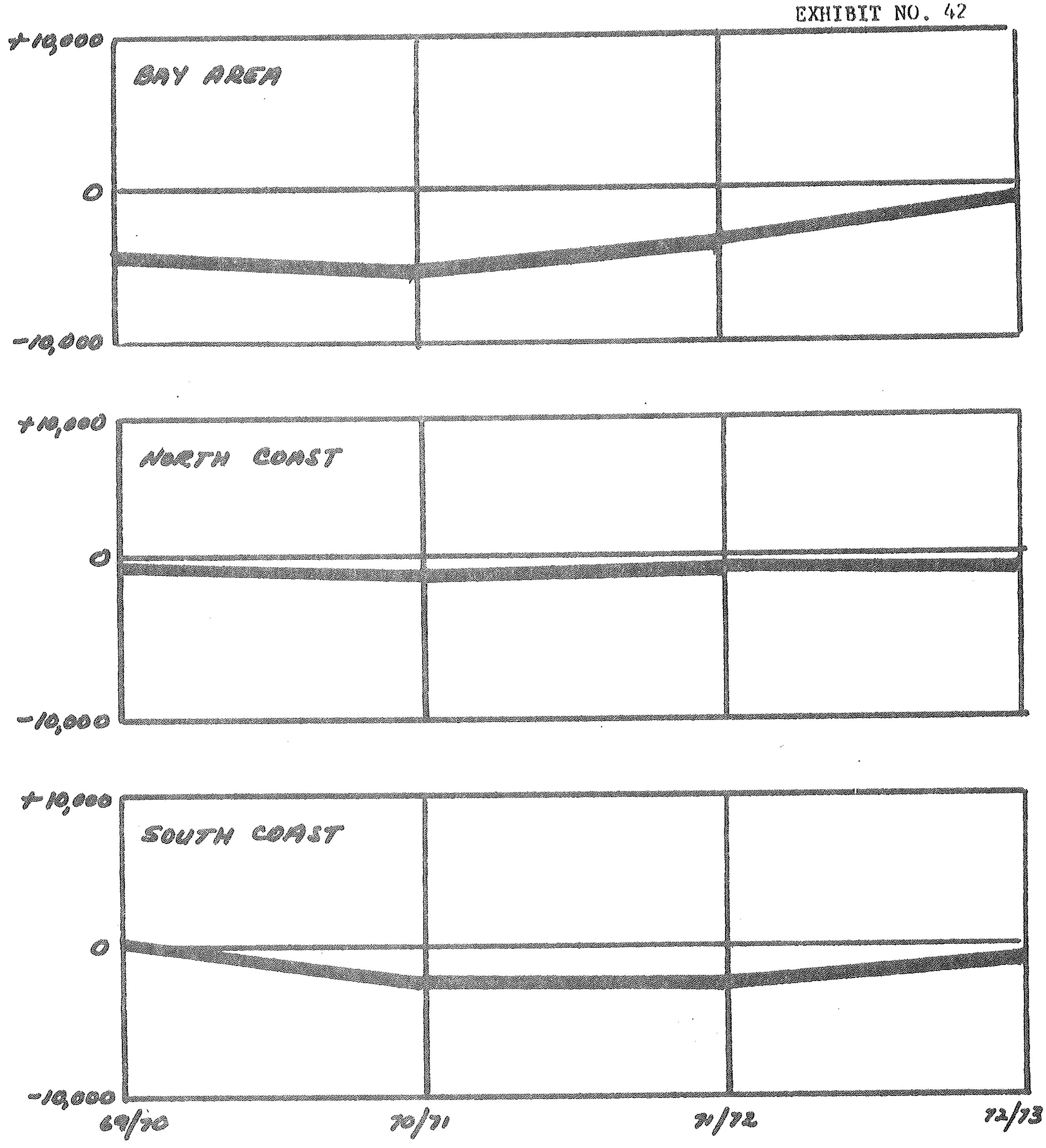
Footnotes

Column 1 - Total number of quota sellers by month
Column 2 - Total number of quota buyers by month
Column 3 - Total number of quota sold at 100% of holdings
Column 4 - Lowest SNF price per pound without cows
Column 5 - Overall average price per pound of SNF
Column 6 - Highest SNF price per pound without cows

Column 7 - Average lowest SNF price per pound without cows for each 3 month perio
Column 8 - Overall average SNF price per pound for each 3 month period
Column 9 - Average highest SNF price per pound without cows for each 3 month peri
Column 10 - Average lowest SNF price per pound without cows for each 6 month peri
Column 11 - Overall average SNF price per pound for each 6 month period
Column 12 - Average highest SNF price per pound without cows for each 6 month per



GEOGRAPHICAL MOVEMENT OF QUOTA EXPRESSED IN SOLIDS POUNDS



GEOGRAPHICAL MOVEMENT OF QUOTA
EXPRESSED IN SOLIDS POUNDS

GEOGRAPHICAL MOVEMENT OF QUOTA
EXPRESSED IN SOLIDS POUNDS

	69/70	70/71	71/72	72/73
So. Calif.	+ 8897	+17375	+11046	+ 4336
So. San Joaquin	- 2445	- 1144	- 2749	- 1036
N. San Joaquin	+ 603	- 4650	- 2961	- 2329
N. Calif.	- 2922	- 2337	+ 1228	+ 32
Bay Area	- 4458	- 5445	- 3376	- 428
N. Coast	- 76	- 968	- 314	- 362
So. Coast	+ 401	- 2831	- 2874	- 213

PERCENTAGE OF STATEWIDE QUOTA, BASE AND OVERBASE
IN EACH MARKETING AREA

Marketing Area		March 1971 %	April 1972 %	March 1973 %	March 1974 %
Central Coast Counties	Quota	3.43	3.19	2.75	2.48
	Base	.19	1.11	.64	.68
	Overbase	1.85	2.24	1.89	.93
Del Norte-Humboldt	Quota	.69	.67	.67	.66
	Base	.89	.98	1.06	1.29
	Overbase	.45	.65	.83	.56
Central Coast	Quota	7.53	7.46	7.73	8.12
	Base	16.29	16.26	17.36	16.09
	Overbase	15.06	14.13	14.20	13.38
Kern	Quota	2.75	3.06	3.00	2.48
	Base	2.19	2.32	1.64	1.29
	Overbase	1.47	1.48	2.66	1.88
North Central Valley	Quota	17.09	16.55	16.93	17.71
	Base	31.29	31.50	37.69	39.80
	Overbase	26.43	24.60	28.26	28.38
Northern Sierra	Quota	.05	.06	.05	.04
	Base	0	.01	0	0
	Overbase	0	0	.01	.04
Redwood	Quota	10.45	10.78	11.32	11.16
	Base	9.99	10.77	10.34	9.35
	Overbase	9.74	9.36	8.64	6.40
San Diego-Imperial	Quota	3.36	3.33	3.21	2.92
	Base	.12	.13	.14	.31
	Overbase	2.36	1.77	1.11	1.43
San Luis Obispo	Quota	1.08	.99	.98	.85
	Base	1.46	1.33	.72	.46
	Overbase	.85	.88	.83	.57
Shasta-Tehama	Quota	.27	.26	.25	.24
	Base	.13	.17	.20	.31
	Overbase	.19	.20	.19	.25
Siskiyou	Quota	.02	.02	.02	.10
	Base	.03	.03	.03	.12
	Overbase	.05	.04	.03	.11
Southern Metropolitan	Quota	40.18	40.26	38.95	38.27
	Base	7.43	7.35	2.60	2.93
	Overbase	21.56	20.47	15.65	20.65
Tulare-Kings	Quota	13.10	13.37	14.14	14.97
	Base	29.27	28.04	27.58	27.37
	Overbase	19.99	24.24	25.70	25.42

PERCENTAGE OF PRODUCTION IN EACH MARKETING AREA THAT IS QUOTA, BASE AND OVERBASE

Marketing Area		March 1971 %	April 1972 %	March 1973 %	March 1974 %
Central Coast Counties	Quota	90	83	87	90
	Base	5	6	4	4
	Overbase	5	11	9	6
Del Norte-Humboldt	Quota	76	67	67	68
	Base	19	20	19	21
	Overbase	5	13	14	11
Central Coast	Quota	61	56	58	62
	Base	26	24	24	19
	Overbase	13	20	18	19
Kern	Quota	83	80	80	82
	Base	13	12	8	7
	Overbase	4	8	12	11
North Central Valley	Quota	66	60	60	60
	Base	23	23	24	22
	Overbase	11	17	16	18
Northern Sierra	Quota	100	97	98	86
	Base	0	0	0	0
	Overbase	0	3	2	14
Redwood	Quota	78	73	77	81
	Base	14	15	13	11
	Overbase	8	12	10	8
San Diego-Imperial	Quota	92	90	94	90
	Base	1	1	1	2
	Overbase	7	9	5	8
San Luis Obispo	Quota	74	69	79	83
	Base	20	19	10	7
	Overbase	6	12	11	10
Shasta-Tehama	Quota	86	78	79	71
	Base	8	10	11	15
	Overbase	6	12	10	14
Siskiyou	Quota	59	54	63	72
	Base	22	21	20	14
	Overbase	19	25	17	14
Southern Metropolitan	Quota	92	88	93	90
	Base	3	3	1	1
	Overbase	5	9	6	9
Tulare-Kings	Quota	63	56	61	62
	Base	27	24	21	18
	Overbase	10	20	18	20

EXAMPLE OF ALLOCATION OF NEW QUOTA

Producer Identification	FAT PB	FAT Q	SOLIDS PB	SOLIDS Q
A	100	95	260	262
B	100	80	260	208
C	100	30	260	105
D	100	63	260	258

Producer A does not qualify to participate in the allocation since he is already at equalization (Quota is equal to or greater than 95 percent of production base in both components.)

Application of Formula, $\frac{1}{2}PB + 4(PB - Q)$

FAT		Factor Basis	Percent	New Quota Allocated
Producer B	$50 + 4(100 - 80) =$	130	19.76	9.88
Producer C	$50 + 4(100 - 30) =$	330	50.15	25.08
Producer D	$50 + 4(100 - 63) =$	198	30.09	15.04
Total		658	100.00	50.00

SOLIDS		Factor Basis	Percent	New Quota Allocated
Producer B	$130 + 4(260 - 208) =$	338	31.07	38.84
Producer C	$130 + 4(260 - 105) =$	750	68.93	86.16
Producer D		-	-	-
Total		1088	100.00	125.00

Note that Producer D did not participate in the solids allocation since he was already at equalization in that component. Because he is at solids equalization, he will be granted 16.96 pounds fat in addition to the 15.04 allocated pounds to bring that component to equalization also.

PRIORITY SEQUENCE OF NEW PRODUCERS

(a) First priority shall be given to producers of fluid milk whose marketing contracts were canceled prior to the base period established for the determination of production and Class I usage bases, and who have had an uninterrupted history of commercial production since such contracts were canceled.

(b) Second priority shall be given to producers who converted from manufacturing grade to market milk production between December 31, 1967, and July 1, 1969.

(c) The third priority shall be given to all other producers who were in commercial production prior to December 31, 1967.

(d) Fourth priority shall be given to producers who entered milk production business after December 31, 1967.

(e) All other new producer applications shall have no priority except as pursuant to Paragraph (f) hereof.

(f) Applications of new producers qualified under Paragraphs (a), (b), (c), (d), and (e) hereof shall be processed in sequence of priority beginning with the person who has been continuously in commercial production for the longest period of time as documented in such applications.

NEW QUOTA ALLOCATION
PERIOD ENDING IN 1972

Total New Quota Available for Allocation:

24,000 #Fat
60,000 #Solids

Allocation Made:	Existing Producers		New Producers	
	Fat	Solids	Fat	Solids
Earmarked for Allocation	19,200	48,000	4,800	12,000
Additional grant to reach equalization	6,481	671		
Removal allocation in excess of equalization point	(81)	(441)		
Net allocated existing producers	25,600	48,230		
Allocated new producers			3,044	8,994
*Quota unallocated to new producers			1,756	3,006

Results and Impact of Allocation:

Producers at equalization at outset	419
Producers brought to equalization through allocation process	325
Total producers at equalization after allocation	744
Existing producers receiving allocation without reaching equalization	1,518
New producers receiving allocation	232
Total producers having production base and pool quota after allocation	2,494
Percentage of producers with P/B and Q who are at equalization	29.83%

*To be added to following year's allocation

NEW QUOTA ALLOCATION
PERIOD ENDING IN 1973

Total New Quota Available for Allocation:

30,000 #Fat
75,000 #Solids

Allocation Made:

	Existing Producers Fat	Existing Producers Solids	New Producers Fat	New Producers Solids
*Earmarked for allocation	24,000	60,000	6,000	15,000
Allocated to new producers			2,437	6,426
Unallocable to new producers, added to existing producers	3,563	8,574	3,563	8,574
Additional granted to bring to equalization	3,611	823		
Removal allocation in excess of equalization point	(124)	(876)		
	31,050	68,521		

Results and Impact of Allocation:

Producers at equalization at outset	657
Producers brought to equalization through allocation process	206
Total producers at equalization after allocation	863
Existing producers receiving allocation without reaching equalization	1,469
New producers receiving allocation	102
Total producers having production base and pool quota after allocation	2,434
Percentage of producers with P/B and Q who are at equalization	35.46%

*Reflects prior year's unallocated quota to new producers

NOVEMBER 1972 CLASS USAGE COMPOSITION OF QUOTA, BASE AND OVERBASE REFLECTING NEW QUOTA IN THE POOL AND THE RESULTANT POOL PRICES

	FAT			SOLIDS		
	Pounds	$Value	Pool Price	Pounds	$Value	Pool Price
Class 1 in Quota	15,246,115	11,869,100.53		43,101,177	17,016,344.68	
Class 2 in Quota	3,212,941	2,450,831.39		3,092,880	942,091.25	
Location Differential		15,753.68			435,156.10	
Total Quota in Pool & Computed Quota Price	18,459,056	14,335,685.60	.7766	46,194,057	18,393,592.03	.3982
Class 2 in Base	592,262	451,777.45		3,822,816	1,164,429.75	
Class 3 in Base	479,694	365,519.86		2,381,094	680,783.93	
Class 4 in Base	2,506,719	1,872,519.09		482,126	128,727.64	
Total Base in Pool & Computed Base Price	3,578,675	2,689,816.40	.7516	6,686,036	1,973,941.32	.2952
Class 4 in Overbase	3,468,571	2,591,022.54		7,129,789	1,903,653.66	
Total Overbase in Pool & Computed Overbase Price	3,468,571	2,591,022.54	.7470	7,129,789	1,903,653.66	.2670

NOVEMBER 1972 CLASS USAGE COMPOSITION AND RESULTANT POOL PRICES HAD THERE BEEN NO NEW QUOTA IN THE POOL

	FAT			SOLIDS		
	Pounds	$Value	Pool Price	Pounds	$Value	Pool Price
Class 1 in Quota	15,246,115	11,869,100.53		43,101,177	17,016,344.68	
Class 2 in Quota	2,499,937	1,906,951.94		1,863,624	567,659.87	
Location Differential		14,764.72			415,429.80	
Total Quota in Pool & Computed Quota Price	17,746,052	13,790,817.19	.7771	44,964,801	17,999,434.35	.4003
Class 2 in Base	1,305,266	995,656.90		5,052,072	1,538,861.13	
Class 3 in Base	479,694	365,519.86		2,381,094	680,783.93	
Class 4 in Base	2,470,979	1,845,821.31		809,984	216,265.73	
Total Base in Pool & Computed Base Price	4,255,939	3,206,998.07	.7535	8,243,150	2,435,910.79	.2955
Class 4 in Overbase	3,504,311	2,617,720.32		6,801,931	1,816,115.58	
Total Overbase in Pool & Computed Overbase Price	3,504,311	2,617,720.32	.7470	6,801,931	1,816,115.58	.2670

JANUARY 1974 CLASS USAGE COMPOSITION OF QUOTA, BASE AND OVERBASE REFLECTING NEW QUOTA IN THE POOL AND THE RESULTANT POOL PRICES

	FAT			SOLIDS		
	Pounds	$Value	Pool Price	Pounds	$Value	Pool Price
Class 1 in Quota	14,531,392	10,879,653.19		43,882,322	29,155,414.74	
Class 2 in Quota	2,095,598	1,679,621.80		6,275,075	2,902,222.19	
Class 3 in Quota	2,593,672	2,079,606.21		-0-	-0-	
Class 4 in Quota	994,926	698,438.05		-0-	-0-	
Location Differential		19,490.74			532,542.97	
Total Quota in Pool & Computed Quota Price	20,215,588	15,356,809.99	.7597	50,157,397	32,590,179.90	.6498
Class 2 in Base	-0-	-0-		1,140,362	527,417.43	
Class 3 in Base	-0-	-0-		1,978,541	887,097.58	
Class 4 in Base	3,976,030	2,791,173.06		4,373,101	1,889,179.63	
Total Base in Pool & Computed Base Price	3,976,030	2,791,173.06	.7020	7,492,004	3,303,694.64	.4410
Class 4 in Overbase	3,839,147	2,695,081.19		6,556,258	2,832,303.46	
Total Overbase in Pool & Computed Overbase Price	3,839,147	2,695,081.19	.7020	6,556,258	2,832,303.46	.4320

JANUARY 1974 CLASS USAGE COMPOSITION AND RESULTANT POOL PRICES HAD THERE BEEN NO NEW QUOTA IN THE POOL

	FAT			SOLIDS		
	Pounds	$Value	Pool Price	Pounds	$Value	Pool Price
Class 1 in Quota	14,531,392	10,879,653.19		43,882,322	29,155,414.74	
Class 2 in Quota	2,095,598	1,679,621.80		4,033,274	1,865,389.22	
Class 3 in Quota	2,540,753	2,037,175.76				
Class 4 in Quota	-0-	-0-				
Location Differential		18,477.70			508,719.88	
Total Quota in Pool & Computed Quota Price	19,167,743	14,614,928.45	.7625	47,915,596	31,529,523.84	.6580
Class 2 in Base	-0-	-0-		3,382,163	1,564,250.39	
Class 3 in Base	52,919	42,430.45		1,978,541	887,097.58	
Class 4 in Base	4,464,614	3,134,159.03		3,349,403	1,446,942.10	
Total Base in Pool & Computed Base Price	4,517,533	3,176,589.48	.7032	8,710,107	3,898,290.07	.4476
Class 4 in Overbase	4,345,489	3,050,533.28		7,579,956	3,274,540.99	
Total Overbase in Pool & Computed Overbase Price	4,345,489	3,050,533.28	.7020	7,579,956	3,274,540.99	.4320

RECAP: IMPACT THAT NEW QUOTA IN POOL HAD ON POOL PRICES

Allocation, Period Ending 1972:

	Price Without New Quota	Price Reflecting New Quota	Price Difference Caused by New Quota
Quota Fat	.7771	.7766	(.0005)
Base Fat	.7535	.7516	(.0019)
Overbase Fat	.7470	.7470	-0-
Quota Solids	.4003	.3982	(.0021)
Base Solids	.2955	.2952	(.0003)
Overbase Solids	.2670	.2670	-0-

Allocation, Period Ending 1973:

	Price Without New Quota	Price Reflecting New Quota	Price Difference Caused by New Quota
Quota Fat	.7625	.7597	(.0028)
Base Fat	.7032	.7020	(.0012)
Overbase Fat	.7020	.7020	-0-
Quota Solids	.6580	.6498	(.0082)
Base Solids	.4476	.4410	(.0066)
Overbase Solids	.4320	.4320	-0-

EXHIBIT NO. 53

MONTHLY POOL PRICE STATISTICAL INFORMATION

		QUOTA			BASE			OVERBASE		
		FAT	SNF	CWT	FAT	SNF	CWT	FAT	SNF	CWT
1974	JANUARY	$.756	$.651	$8.31	$.702	$.442	$6.30	$.702	$.432	$6.22
	FEBRUARY	.738	.650	8.24	.660	.464	6.35	.660	.464	6.35
	MARCH	.734	.655	8.27	.692	.513	6.89	.692	.526	7.00

CWT PRICES BASED ON 3.5 PERCENT FAT AND 8.7 PERCENT SOLIDS

MONTHLY POOL PRICE STATISTICAL INFORMATION

		QUOTA			BASE			OVERBASE		
		FAT	SNF	CWT	FAT	SNF	CWT	FAT	SNF	CWT
1972	JULY	$.807	$.382	$6.15	$.747	$.278	$5.03	$.747	$.268	$4.95
	AUGUST	.810	.382	6.16	.758	.285	5.13	.754	.268	4.97
	SEPTEMBER	.778	.400	6.20	.749	.292	5.16	.747	.267	4.94
	OCTOBER	.778	.402	6.22	.750	.292	5.17	.747	.267	4.94
	NOVEMBER	.776	.399	6.19	.751	.293	5.18	.747	.267	4.94
	DECEMBER	.776	.397	6.17	.750	.286	5.11	.747	.267	4.94
1973	JANUARY	.776	.399	6.19	.747	.317	5.37	.747	.291	5.15
	FEBRUARY	.776	.449	6.62	.747	.331	5.49	.747	.306	5.28
	MARCH	.765	.451	6.60	.702	.344	5.45	.702	.318	5.22
	APRIL	.758	.451	6.58	.666	.366	5.52	.666	.345	5.33
	MAY	.697	.480	6.62	.667	.371	5.56	.666	.363	5.49
	JUNE	.696	.478	6.59	.666	.381	5.65	.666	.371	5.56
	JULY	.695	.478	6.59	.666	.385	5.68	.666	.372	5.57
	AUGUST	.696	.533	7.07	.668	.391	5.74	.666	.382	5.65
	SEPTEMBER	.733	.552	7.37	.920	.407	6.76	.920	.405	6.74
	OCTOBER	.741	.559	7.46	.871	.431	6.80	.868	.416	6.66
	NOVEMBER	.773	.661	8.46	.786	.446	6.63	.778	.423	6.40
	DECEMBER	.757	.649	8.30	.775	.441	6.55	.774	.428	6.43

CWT PRICES BASED ON 3.5 PERCENT FAT AND 8.7 PERCENT SOLIDS

MONTHLY POOL PRICE STATISTICAL INFORMATION

		QUOTA			BASE			OVERBASE		
		FAT	SNF	CWT	FAT	SNF	CWT	FAT	SNF	CWT
1971	JANUARY	$.831	$.344	$5.90	$.771	$.240	$4.79	$.770	$.223	$4.64
	FEBRUARY	.831	.342	5.88	.771	.241	4.80	.769	.223	4.63
	MARCH	.836	.346	5.94	.774	.244	4.83	.771	.223	4.64
	APRIL	.827	.352	5.96	.755	.280	5.08	.753	.266	4.95
	MAY	.812	.381	6.16	.749	.278	5.04	.748	.265	4.92
	JUNE	.805	.377	6.10	.747	.267	4.94	.747	.265	4.92
	JULY	.804	.378	6.10	.747	.270	4.96	.747	.265	4.92
	AUGUST	.806	.379	6.12	.747	.274	5.00	.747	.267	4.94
	SEPTEMBER	.809	.382	6.15	.750	.286	5.11	.747	.268	4.95
	OCTOBER	.809	.382	6.15	.750	.286	5.11	.748	.268	4.95
	NOVEMBER	.810	.385	6.18	.750	.289	5.14	.747	.268	4.95
	DECEMBER	.810	.383	6.17	.751	.286	5.12	.747	.268	4.95
1972	JANUARY	.809	.383	6.16	.747	.286	5.10	.747	.268	4.95
	FEBRUARY	.809	.385	6.18	.749	.289	5.14	.747	.268	4.95
	MARCH	.809	.385	6.18	.750	.292	5.17	.747	.268	4.95
	APRIL	.808	.384	6.17	.748	.284	5.09	.747	.268	4.95
	MAY	.808	.383	6.16	.749	.285	5.10	.747	.268	4.95
	JUNE	.808	.384	6.17	.749	.286	5.11	.747	.269	4.95

CWT PRICES BASED ON 3.5 PERCENT FAT AND 8.7 PERCENT SOLIDS

MONTHLY POOL PRICE STATISTICAL INFORMATION

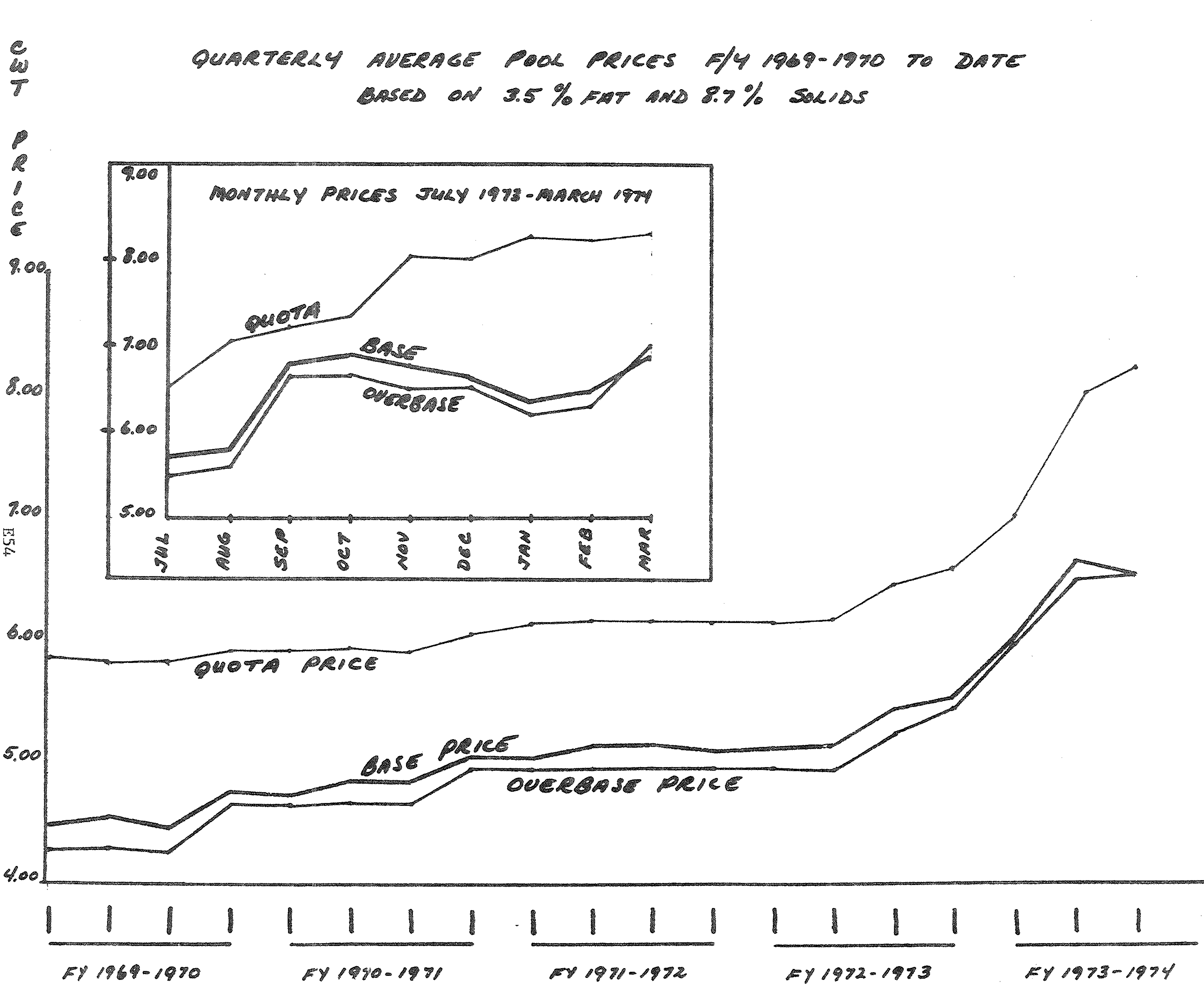
		QUOTA			BASE			OVERBASE		
		FAT	SNF	CWT	FAT	SNF	CWT	FAT	SNF	CWT
1969	JULY	$.81	$.33	$5.71	$.75	$.20	$4.37	$.74	$.18	$4.1
	AUGUST	.83	.345	5.91	.76	.215	4.53	.75	.192	4.3
	SEPTEMBER	.84	.345	5.94	.78	.210	4.56	.77	.186	4.3
	OCTOBER	.84	.345	5.94	.78	.210	4.56	.77	.186	4.3
	NOVEMBER	.83	.342	5.88	.76	.210	4.49	.75	.187	4.2
	DECEMBER	.83	.340	5.86	.78	.203	4.50	.77	.186	4.3
1970	JANUARY	.83	.340	5.86	.76	.204	4.43	.75	.186	4.2
	FEBRUARY	.83	.340	5.86	.76	.204	4.43	.75	.186	4.2
	MARCH	.83	.339	5.85	.76	.204	4.43	.75	.186	4.2
	APRIL	.84	.340	5.90	.78	.235	4.77	.77	.218	4.5
	MAY	.84	.342	5.92	.77	.239	4.77	.77	.224	4.6
	JUNE	.83	.345	5.91	.78	.233	4.76	.77	.224	4.6
	JULY	.832	.345	5.91	.774	.224	4.66	.774	.224	4.6
	AUGUST	.833	.345	5.92	.774	.228	4.69	.774	.223	4.6
	SEPTEMBER	.836	.347	5.94	.781	.235	4.78	.778	.223	4.6
	OCTOBER	.838	.349	5.97	.782	.244	4.86	.779	.223	4.[illegible]
	NOVEMBER	.836	.347	5.94	.777	.243	4.83	.773	.223	4.[illegible]
	DECEMBER	.835	.346	5.93	.781	.233	4.76	.777	.223	4.[illegible]

CWT PRICES BASED ON 3.5 PERCENT FAT AND 8.7 PERCENT SOLIDS

E53c

EXHIBIT NO. 54

QUARTERLY AVERAGE POOL PRICES F/Y 1969-1970 TO DATE
BASED ON 3.5% FAT AND 8.7% SOLIDS



MARKETING and MANUFACTURING MILK PRODUCTION IN CALIFORNIA
by GEOGRAPHICAL AREA as of
DECEMBER 31, 1973

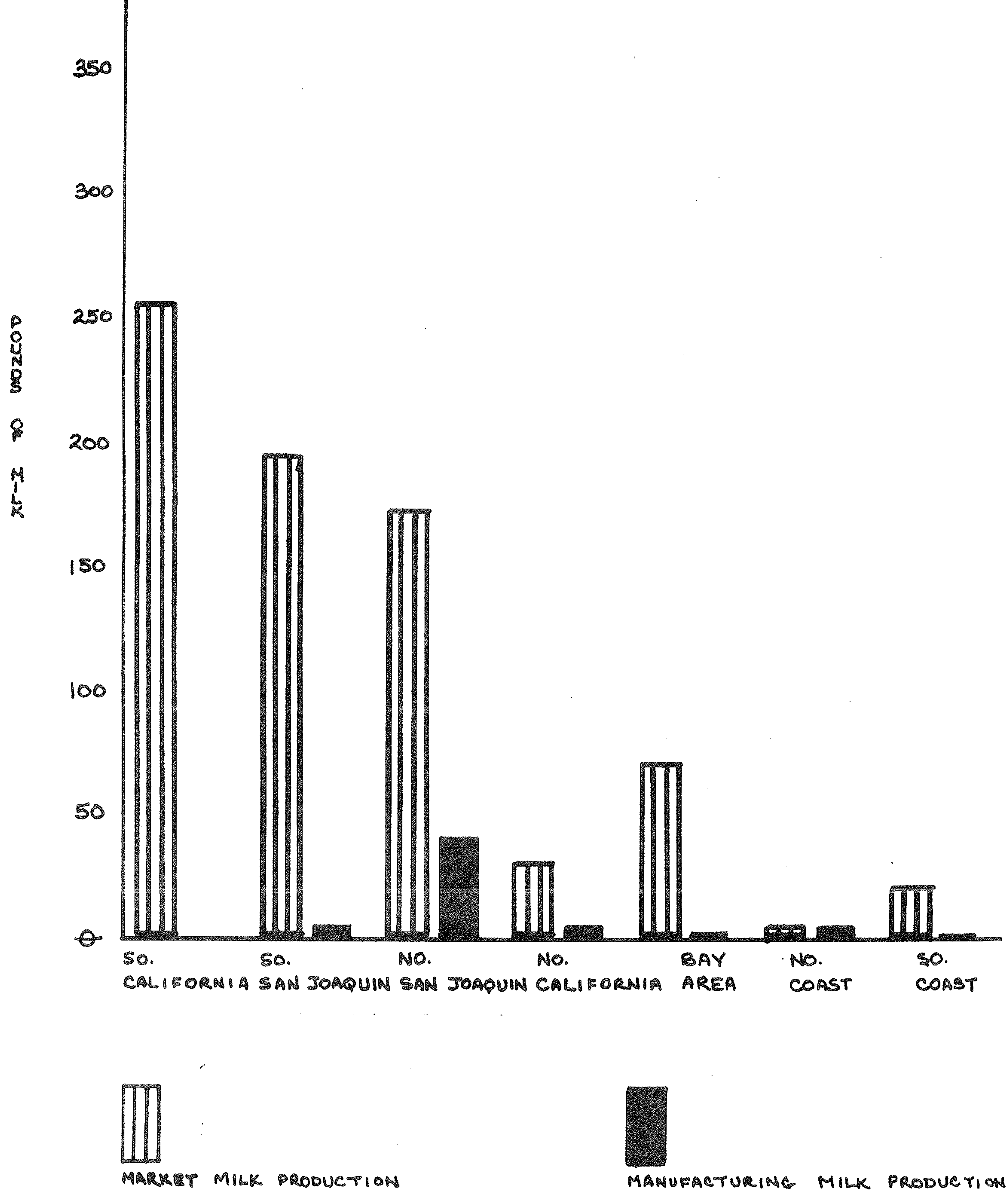
	Geographical Area	Mkt. Milk Lbs. 1/	Percent Mkt. Milk	Mfg. Milk Lbs. 1/	Percent Mfg. Milk Production	Total Prod. Lbs. 1/	Ratio Percent Mkt.	Ratio Percent Mfg.
1	Southern California Counties	255,758,857	33.96	- 0 -	- 0 -	255,758,857	100.00	- 0 -
2	Southern San Joaquin Valley Counties	196,829,919	26.14	7,109,452	12.54	203,939,371	96.51	3.49
3	Northern San Joaquin Valley Counties	172,900,224	22.96	38,269,978	67.51	211,170,202	81.88	18.12
4	Northern California Counties	29,412,659	3.91	6,465,890	11.41	35,878,549	81.98	18.02
5	Bay Area Counties	71,827,543	9.54	1,000,322	1.76	72,827,865	98.63	1.37
6	North Coast Counties	5,496,479	.73	3,529,642	6.23	9,026,121	60.90	39.10
7	South Coast Counties	20,732,764	2.75	309,128	.55	21,041,892	98.53	1.47
8	Misc. Counties Out of Area (Inyo)	42,243	.01	- 0 -	- 0 -	42,243	100.00	- 0 -
	Total Pound Produced	753,000,688	100.00	56,684,412	100.00	809,685,100		

1/ California Crop and Livestock Reporting Service Statistics

MILK PRODUCTION BY MAJOR GEOGRAPHICAL AREA

[MILLIONS OF POUNDS]

AS OF DECEMBER 31, 1973

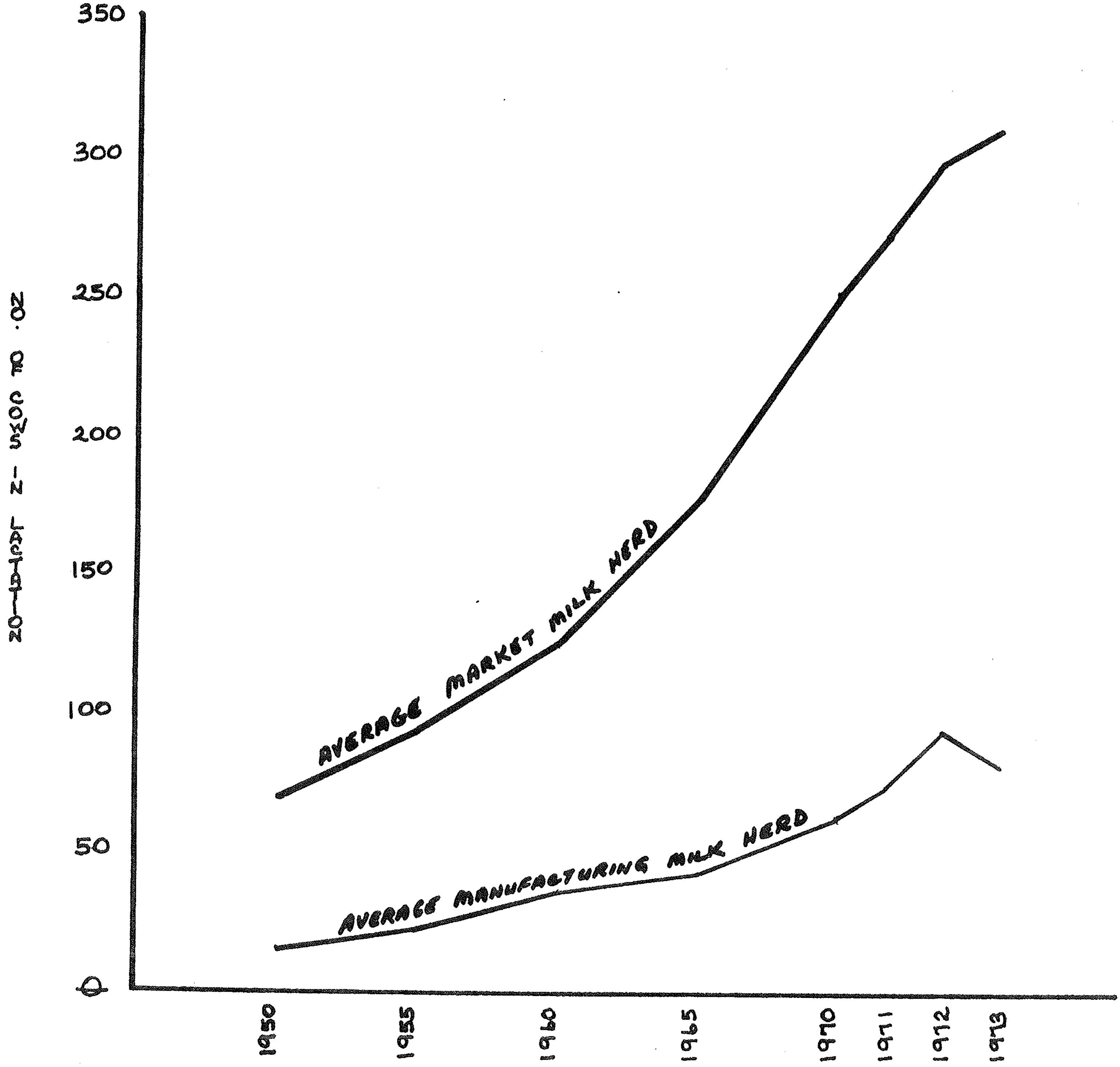


NUMBER OF PRODUCERS IN CALIFORNIA
1950 - 1973

Year	Market Producers 1/	% Decrease In Producers	Mfg. Producers 1/	% Decrease In Producers	Total Producers	Ratio % Mkt.	Ratio % Mfg.	Ratio %'s Inc. or (Dec.) Mkt.	Ratio %'s Inc. or (Dec.) Mfg.	Avg. Herd Size Mkt. 2/ 3/ 4/	Increase Percentage	Avg. Herd Size Mfg. 2/ 3/ 5/	Increase Percentage
1950	4,240	—	15,188	—	19,428	21.82	78.18	—	—	69.6	—	16.0	--
1955	4,158	1.93	13,066	13.97	17,224	24.14	75.86	2.32	(2.97)	92.0	32.18	21.1	29.45
1960	4,000	3.80	5,764	55.89	9,764	40.97	59.03	69.72	(22.19)	125.0	35.87	34.3	62.56
1965	3,283	17.93	2,900	49.69	6,183	53.10	46.90	29.61	(20.55)	178.7	42.96	42.7	24.49
1970	2,709	17.49	1,764	39.17	4,473	60.56	39.44	14.04	(15.91)	249.4	39.56	62.49	46.35
1971	2,550	5.87	1,715	2.78	4,265	59.79	40.21	(1.27)	1.95	269.1	7.90	72.8	16.48
1972	2,481	2.71	1,569	8.51	4,050	61.26	38.74	2.46	(3.66)	294.3	9.36	92.3	26.79
1973 (July 1, 1973)	2,417	2.58	1,413	9.94	3,830	63.11	36.89	3.02	(4.78)	307.9	4.62	79.7	(13.65)
Decrease in Producers (1950-1973)	1,823		13,775		15,598								
Increase in Herd Size (1950-1973)										238.3		63.4	

1/ Bureau of Milk and Dairy Foods Control Statistics
2/ Bureau of Milk Stabilization - Producer Costs Survey Statistics
3/ California Crop and Livestock Reporting Service Statistics
4/ (((Yearly Market Milk Pounds Production ÷ 8.6 Pounds Per Gallon) ÷ 365 Days Per Year) ÷ 4 Gallons Per Day) ÷ Number of Market Producers)
5/ (((Yearly Manufacturing Milk Pounds Production ÷ 8.6 Pounds Per Gallon) ÷ 365 Days Per Year) ÷ 2.5 Gallons Per Day) ÷ Number of Manufacturing Producers)

AVERAGE HERD SIZES 1950 - 1973
STATEWIDE



AVERAGE HERD SIZE - WESTERN
AREAS AND MAJOR EASTERN PRODUCTION AREAS

State	Average Dairy 1/ Herd Size May 1, 1972- April 30, 1973	Average Dairy 2/ Herd Size October 24, 1973	Total No. 2/ of Cows in D.H.I.A. Reports
Arizona	312	333	28,681
California	263	268	308,037
Washington	91	93	74,840
Oregon	88	76	35,587
Michigan	64	59	133,250
New York	59	53	279,692
Wisconsin	51	41	559,773
Pennsylvania	50	47	240,559
Minnesota	41	38	215,750

1/ Data Source:

Dairy herd improvement letter, Volume 49, No. 5, Published by A.R.S., U.S.D.A.

2/ Unpublished data:

D.H.I.A. Computer Centers - Preliminary Print-Outs

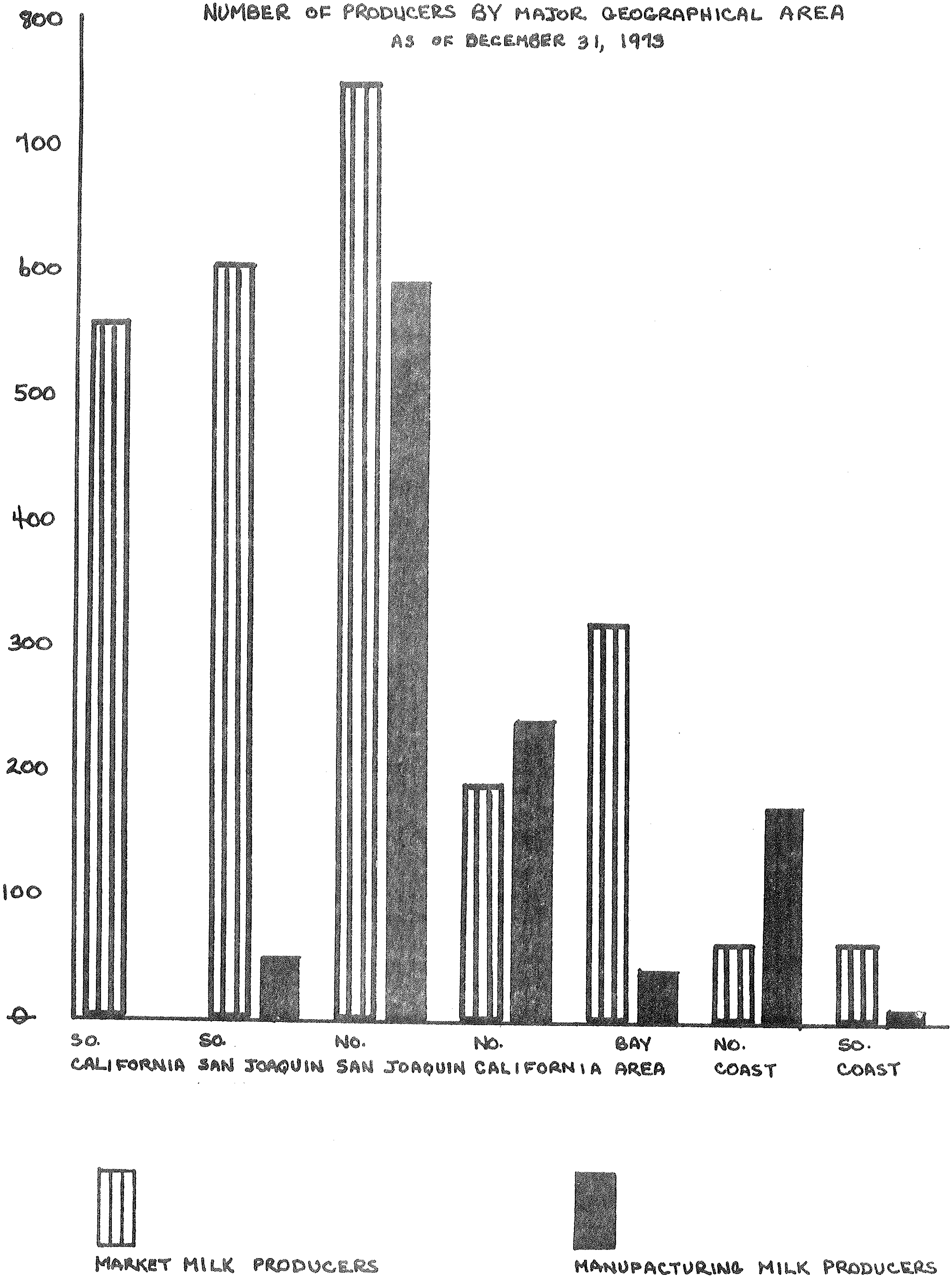
NUMBER OF PRODUCERS IN CALIFORNIA
BY GEOGRAPHICAL AREA
AS OF DECEMBER 31, 1973

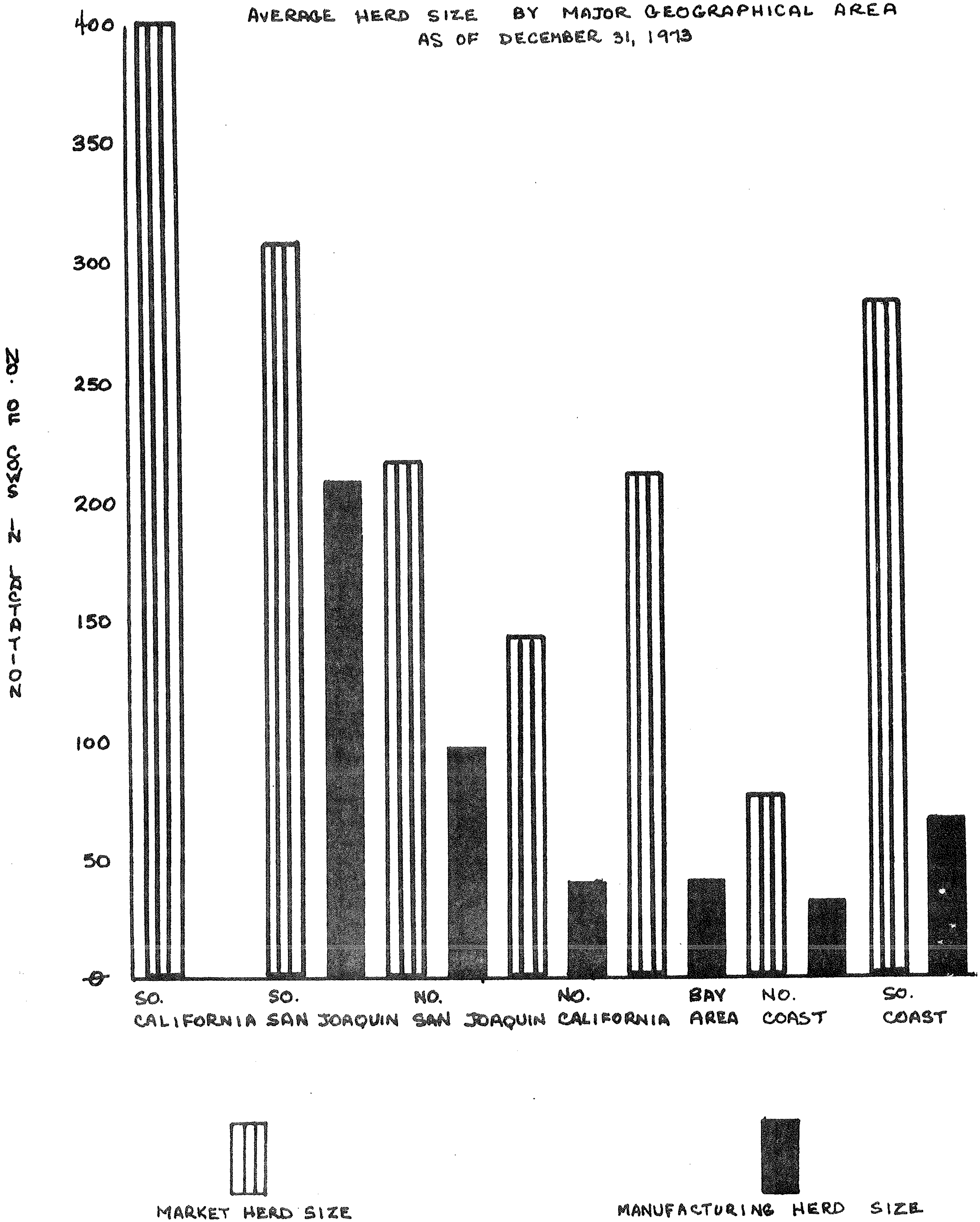
Area	Market Producers 1/	% of Mkt. Producers	Mfg. Producers 1/	% of Mfg. Producers	Total Producers	Ratio %'s Mkt.	Ratio %'s Mfg.	Average Herd Size Mkt. 2/	Average Her Size Mfg. 2/
Southern California Counties	562	21.90	—	—	562	100.00	--	427	—
Southern San Joaquin Valley Counties	602	23.46	51	4.64	653	92.19	7.81	307	209
Northern San Joaquin Valley Counties	752	29.31	595	54.09	1,347	55.83	44.17	216	97
Northern California Counties	193	7.52	243	22.09	436	44.27	55.73	143	40
Bay Area Counties	319	12.43	37	3.36	356	89.61	10.39	211	41
North Coast Counties	68	2.65	167	15.18	235	28.94	71.06	76	32
South Coast Counties	69	2.69	7	.64	76	90.79	9.21	282	66
Misc. o/area (Mkt.-Inyo) (Mfg.-Modoc)	1	.04	—	—	1	100.00	—	40	0
	2,566	100.00	1,100	100.00	3,666				

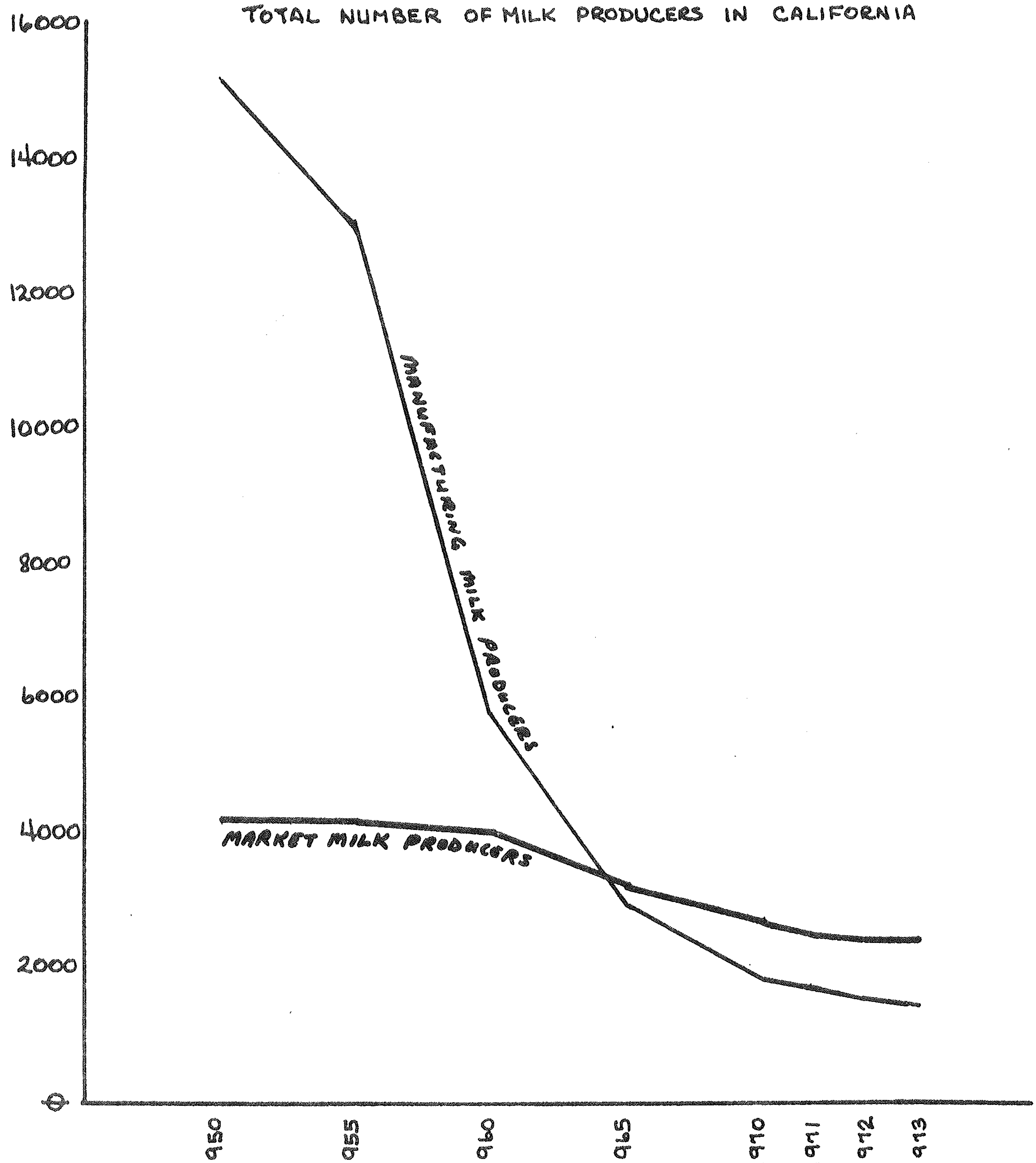
1/ Bureau of Milk and Dairy Foods Control Statistics

2/ Bureau of Milk Stabilization-Producer Costs Survey Statistics

NUMBER OF PRODUCERS BY MAJOR GEOGRAPHICAL AREA
AS OF DECEMBER 31, 1979




AVERAGE HERD SIZE BY MAJOR GEOGRAPHICAL AREA
AS OF DECEMBER 31, 1973
NO. OF COWS IN LACTATION
400
350
300
250
200
150
100
50
0
SO. CALIFORNIA
SO. SAN JOAQUIN
NO. SAN JOAQUIN
NO. CALIFORNIA
BAY AREA
NO. COAST
SO. COAST
MARKET HERD SIZE
MANUFACTURING HERD SIZE


TOTAL NUMBER OF MILK PRODUCERS IN CALIFORNIA
16000
14000
12000
10000
8000
6000
4000
2000
0
MANUFACTURING MILK PRODUCERS
MARKET MILK PRODUCERS
1950
1955
1960
1965
1970
1971
1972
1973