Order # 30

FINDINGS AND CONCLUSIONS OF THE DIRECTOR OF THE CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE UPON THE POOLING PLAN, AS AMENDED, FOR MARKET MILK FOR THE CENTRAL COAST COUNTIES, DEL NORTE-HUMBOLDT, NORTH VALLEY, REDWOOD, SISKIYOU, SOUTH VALLEY, AND SOUTHERN CALIFORNIA MARKETING AREAS

WHEREAS, a public hearing for the purpose of considering amending the existing Pooling Plan for Market Milk for the Central Coast Counties, Del Norte-Humboldt, North Valley, Redwood, Siskiyou, South Valley, and Southern California Marketing Areas was duly and regularly called and held in Sacramento, California, on June 12, 1979; and

WHEREAS, pursuant to the provisions of Chapter 3, Part 3, Division 21 of the Food and Agricultural Code, full and proper notice of said hearing was regularly given by mail in accordance with the provisions of Section 61994 of said Code, to all producers, producer-distributors, and distributors of record with the California Department of Food and Agriculture, who may be subject to the provisions of the Pooling Plan for Market Milk for said Marketing Areas; and

WHEREAS, said hearing was called by the Director in response to requests from representatives of the dairy industry; and

WHEREAS, at said hearing, all persons were afforded an opportunity to be heard and testimony and evidence, both oral and documentary, were offered and received; and

WHEREAS, current location differentials between the surplus production areas and the deficit processing areas do not tend to offer sufficient incentive for effective movement of market milk to certain regions where needed; and

WHEREAS, as set forth with more particularity in the administrative record of the proceedings herein, evidence at said hearing, and as supplemented in the record thereafter, disclosed that, and it is hereby found and concluded that:

1. The location differential between the production area of the Northern San Joaquin Valley and the Southern Sacramento Valley region and the San Francisco Bay consuming region be increased from 27.5 cents to 31.5 cents.

2. The location differential between the Willows production areas and the processing area in Redding be increased from 20 cents to 25 cents.

3. The location differential in the Northern San Joaquin Valley and the Sacramento processing areas be increased from 13 cents to 17 cents.

4. The location differential between the South Valley Marketing Area and the coastal area of Los Angeles County be increased from 30 cents to 32 cents.

WHEREAS, the Director hereby adopts the concurrent Economic Basis for Findings and Conclusions on Material Issues;

NOW, THEREFORE, after due deliberation upon the full consideration of the facts and evidence adduced, the Director of the California Department of Food and Agriculture hereby finds that the Pooling Plan now in effect in said Marketing Areas is no longer in conformity with the standards prescribed in said Chapter 3, and that the same will not tend to effectuate the purposes of said Chapter 3 without amending said Plan, and that amendments to said Pooling Plan for Market Milk for said Marketing Areas are proper and necessary in order that said Plan shall continue to conform with the standards prescribed in, and shall continue to tend to effectuate the purposes of said Chapter 3; and

The Director of the California Department of Food and Agriculture hereby finds that amendments to the Pooling Plan for Market Milk for said Marketing Areas, and each and every part of said amendments to said Plan, identified as Pooling Plan Order Number Thirty (30) is necessary to accomplish the purposes of Chapter 3 and hereby determines that said Plan, as Amended, will tend to accomplish the purposes of Chapter 3 within the standards therein prescribed.

All testimony and items of evidence submitted by all parties to these proceedings, whether or not specifically mentioned herein, have been considered in rendering these findings and conclusions.

R. E. Rominger
Director of Food and Agriculture

By Robert A. Abbott

R. A. Abbott, Senior Agricultural Economist
Bureau of Milk Stabilization

E. A. Carpenter

E. A. Carpenter, Staff Supervisor
Bureau of Milk Pooling

Date 9/11/79

ECONOMIC BASIS FOR FINDINGS AND CONCLUSIONS ON MATERIAL ISSUES PRESENTED FOR CONSIDERATION FOR AMENDMENT OF THE POOLING PLAN, AS AMENDED, FOR THE CENTRAL COAST COUNTIES, DEL NORTE-HUMBOLDT, NORTH VALLEY, REDWOOD, SISKIYOU, SOUTH VALLEY, AND SOUTHERN CALIFORNIA MARKETING AREAS

The following basis for findings and conclusions are based on material issues raised at a public hearing held in Sacramento on June 12, 1979.

The hearing was called by the Director in order to receive testimony and evidence for the purpose of amending the currently effective Pooling Plan for all milk marketing areas of the State.

At issue was the effectiveness of the current location differentials in assuring the movement of an adequate supply of market milk from ranch locations for Class 1 uses to processing plants located in the Bay Area, in Sacramento, in Redding and in Southern California.

With the advent of milk pooling in California, the incentive for producers to seek a Class 1 use for their milk was dramatically reduced. After pooling became effective, producers were free to seek a market which would supply the greatest return. Often the highest return was achieved by selling to the pool plant closest to the dairy location. In order to facilitate the movement of milk from areas of surplus production to areas of deficit production in the urban centers, a system of location differentials was devised. Location differentials are a part of a system by which producers are either compensated for moving their quota milk into Class 1 bottling plants in the consuming areas or are slightly penalized for moving their quota into local plants. The magnitude of the location differential assigned to each handler's plant added to the cost of transportation to each plant determines the cost to the producer for selling his milk to any given plant. Since transportation costs change periodically and the ratio of pool quota to total production also varies, it is necessary to review location differentials on a periodic basis.

The hearing was such a review and was triggered by allegations that plants located in the metropolitan areas were unable to attract sufficient milk into their plants. It was particularly important to undertake this review in light of the large supply of milk being produced at the farm level.

Location differentials are applicable only to a producer's quota milk. The difference in location differentials must be great enough to draw supplies to the city from producers who hold less than 100% quota. The lower the percent of assigned quota compared to total production, the greater the difference between location differentials must be in order to draw milk.

The State can basically be divided into two geographical areas where it is necessary that bulk milk must be moved from ranch-to-plant directly. One region is from Fresno County south and the other is north of Fresno County.

NORTHERN REGION

In the northern region, the key milk bottling areas are the San Francisco greater metropolitan area, the Sacramento area and the Redding area in the extreme north of the valley. The predominant system of milk supply to these bottling areas is by ranch-to-plant movement of milk. Since location differentials are essential in establishing the incentive to move milk directly from ranches to bottling plants, an overall review was necessary to determine if the current location differentials supply sufficient incentive to move milk. Testimony regarding location differential changes in the north were generally opposed by producer representatives and supported by handler representatives on a case by case basis.

A review of evidence shows that there is need to adjust the location differentials between the valley surplus area and the consuming Bay area and Sacramento area. Location differentials in these areas were adjusted a year ago. There has been sufficient erosion of incentives to indicate a need for immediate change.

Producers located in the North San Joaquin Valley whose supply is essential to local valley plants as well as plants in the Bay area and the Sacramento area have an average marketing cost of $.321 per hundredweight if they ship to local valley plants and a $.336 per hundredweight cost if they ship to the Bay area (-$.015/cwt disincentive).

The milk supply from the valley available to be moved into the Bay area will not move when a producer receives $.015 per hundredweight less for shipping to the Bay instead of shipping to local valley plants. The average ratio of quota to overbase milk for valley producers currently shipping to local valley plants is 55% quota. Since location differentials apply only to the quota milk shipped, consideration must be given to this ratio in determining the magnitude of any given location differential. In order that the disincentive of -$.015 be removed and that a positive incentive be applied an increase of $.04 in the location differential is necessary. The following shows the current situation and the correction made by the 4-cent location differential increase.

	Valley Plants	Bay Area Plants	
	Valley Producers		
	Current	Current	With +$.04 Loc. Diff. Inc.
Average Haul Rate	$ .194	$ .361	$ .361
Ave. Location Diff. at 55%	.127	(.025)	(.047)
Total Marketing Cost	$ .321	$ .336	$ .314
Incentive		- .015	+ .007

Since the processing plants located in the Sacramento area must also draw a supply from the same production area as those plants located in the Bay area it will be necessary to increase the location differential for these plants by $.04 per hundredweight as well.

The evidence shows that an adjustment in the location differential for bottling plants located in the Redding area is necessary in order to attract milk from production areas south of Redding. There is an insufficient milk supply available from producers located in the Redding area or areas to the north. Competition for available supply comes from manufacturing plants located in the Willows area.

Producers located in the Glenn County area have about an average 8-cent per hundredweight incentive to ship milk to Redding over shipping it to local plants. However, studies conducted by the Department indicate that transportation costs for milk shipped ranch-to-plant from the Willows area into Redding are $.28 per hundredweight, while the rate charged is $.233 per hundredweight, or a subsidization of such hauling by $.047 per hundredweight.

If the hauling charge to Redding for Glenn County producers were increased $.047 per hundredweight from $.233 to $.28/cwt., producers would have a $.03 per hundredweight incentive to ship quota milk to Redding. (The $.03 incentive is the difference between the cost of serving the lowest quota plant at Willows at $.31 and serving Redding at $.28.) A $.03 incentive is not sufficient to attract milk from Glenn County to Redding considering the low quota ratio of the producers involved.

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The current location differential in the Redding area should be increased to +$.05 in order to offset the $.047 per hundredweight increase in hauling charges necessary to avoid subsidization and to encourage ranch-to-plant movement into Redding. Producers holding the lowest average quota ratio in relation to total production (53% quota) would have an incentive of 5.6 cents per hundredweight to ship to a bottling plant in Redding over shipping to one of the butter-powder plants in Willows.

SOUTHERN REGION

Location differentials in the southern region of the State present a more complex problem. Unlike the San Francisco metropolitan area, the Southern California metropolitan area has sizable milk production already located within the metropolitan area representing approximately one-third of the State's total production. This production is almost totally sold in the Southern California Marketing Area and does not need additional location differential incentive to continue to serve the southern metropolitan market.

Traditionally, the additional supplies of milk available to the Southern California market are drawn from the South Valley Marketing Area when needed and are moved from country plants to Southern California on a plant-to-plant basis. From the inception of the Pooling Plan, location differentials were established which would continue this pattern of market servicing. The only exception to this pattern of market servicing was that milk from Kern County moved ranch-to-plant into the Southern California area. Current location differentials continue to support this pattern of market servicing.

At the hearing, a large proprietary handler requested that the location differential between the South Valley Marketing Area and the Southern California Marketing Area be widened by $.05 per hundredweight. It was proposed that the widening of the location differential be accomplished by applying an additional $.05 override only to milk moved from the South Valley Marketing Area into the Southern California Marketing Area. The advantage of the "override" would be that there would be no additional location differential penalty on South Valley producers whose milk was not needed in the Southern California market. In addition, there would be no increase in returns for Southern California producers through an increase in location differentials in the Southern California Marketing Area. Only producers who shipped directly from the South Valley to Southern California would benefit.

There was considerable support for the override concept from proprietary handlers. There was opposition, however, from major producer interests in the South Valley.

There has been a trend toward more milk moving from the South Valley Marketing Area into Southern California by ranch-to-plant. This trend will require adjustment in the location differentials to accommodate at least the movement of high quota ratio milk directly to the Southern California market.

At the present time, it would require a widening of the South Valley-Southern California location differential of about $.20 per hundredweight just to reach a point of indifference for a producer holding the average quota to production ratio of 64%. See Attachment 1. This amount of adjustment would be repressive considering the relatively small additional amount of milk needed to move ranch-to-plant into Southern California.

There should be no changes at this time in the current location differentials between South Valley and Southern California. However, the concept of an override system that would apply only to milk actually moved has merit. There are, however, unresolved questions as to the ability of the pooling system to administer this new concept. The Department should review this concept in light of the considerable support within some segments of the industry and make a proposal for a subsequent hearing. Such a proposal would be within the ability of the pooling system to administer and would also give all interested parties a chance for more deliberate review before possible implementation. It is also possible that the override concept may have wider application other than only for South Valley as proposed at the hearing.

There was a special request by an independent handler located in Santa Monica that the location differential for Santa Monica be increased from zero to +$.05 as has been done for other handlers who need to draw milk beyond the central core of processing plants in the Southern California market. He claimed that competition for milk and the disadvantage of longer hauling miles have caused him to lose two large shippers to major processing plants. A review by the Department substantiates this contention.

The higher transportation costs to the handler in Santa Monica are based on longer distances. Common carriers are used by competing plants so the difference in rates is not caused by efficiencies of individual handlers operating their own rolling stock. The average rate for major handlers in central Los Angeles is $.246 per hundredweight. The rate to Santa Monica is $.26 per hundredweight or $.014 per hundredweight greater cost. The request for a +$.05 differential would create an additional incentive to move milk to Santa Monica over that which would appear competitive. A +$.02 differential will restore a more competitive position.

R. E. Rominger
Director of Food and Agriculture

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Date 9/11/79

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ATTACHMENT 1

SOUTHERN CALIFORNIA

		Fresno	Tulare	South Valley	Kern
			(Local Producers)		
		- - - - - - Dollars per Cwt. - - - - - -			
Haul Rate		.178	.140	.190	.240
Location Differential at	63% 1/	.189 4/	.189 4/		
	64% 2/			.192 4/	
	84% 3/				.168 4/
Total Delivered Cost:	Local =	.367	.329	.382	.408

South San Joaquin Valley Producers to Los Angeles

	Tulare	South Valley	Kern
Haul Rate	.505	.505	.376
Location Differential	0	0	0
Total Delivered Cost to Los Angeles	.505	.505	.376

1/ Average percentage of quota held by producers delivering milk to country plants in Fresno and Tulare.

2/ Average percentage of quota held by producers delivering milk to country plants in the South Valley area other than Fresno and Tulare.

3/ Average percentage of quota held by producers delivering milk to country plants in Kern County.

4/ Using current location differential.