FINDINGS AND CONCLUSIONS OF THE DIRECTOR OF THE DEPARTMENT OF FOOD AND AGRICULTURE WITH RESPECT TO ISSUES CONSIDERED AT THE CONCURRENT PUBLIC HEARING ON THE POOLING PLAN AND THE STABILIZATION AND MARKETING PLANS HELD ON OCTOBER 2, 1984

WHEREAS, a public hearing on the Pooling Plan for Market Milk, as Amended, was held concurrently with a consolidated public hearing on the Stabilization and Marketing Plans for all milk marketing areas in Sacramento, California, on October 2, 1984; and

WHEREAS, pursuant to the provisions of Chapter 2 and 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-handlers, and handlers of record with the California Department of Food and Agriculture, who may be subject to the provisions of the Stabilization and Marketing Plans for Market Milk and the Pooling Plan for Market Milk; and

WHEREAS, said hearing was called at the instance of the Director and pursuant to a petition from 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, the Director hereby adopts the concurrent Economic Basis for Findings and Conclusions on Material Issues; and

WHEREAS, as set forth with more particularity in the administrative record of the proceedings herein, based on evidence at said hearing, and as supplemented in the record thereafter, it is hereby found and concluded that amendments should be made to:

1. Article 9.2, Section 921.2, Subsection (d), Item 2, Sub-item (i), of the Pooling Plan for Market Milk by increasing the transportation adjustment for ranch to plant shipments for plants located in the Southern California area which receive market milk from dairy farms located in the Fresno, Kings, and Tulare Counties, and which are over 75 miles away, by two cents ($0.02) per hundredweight, increasing the current adjustment from thirty-four cents ($0.34) per hundredweight to thirty-six cents ($0.36) per hundredweight.

2. Article III, Section 300.2, of the Stabilization and Marketing Plans by increasing the maximum transportation credit for quantities of market milk and market skim milk shipped in bulk form to the San Diego, Riverside, Orange, or Los Angeles deficit counties, from the designated supply counties of Tulare, Kings and Fresno by two cents ($0.02) per hundredweight, raising the twenty cent ($0.20) per hundredweight credit from Tulare County to twenty-two cents ($0.22) per hundredweight, and the twenty-three cent ($0.23) per hundredweight credit from Kings and Fresno Counties to twenty-five cents ($0.25) per hundredweight.

WHEREAS, the above-mentioned amendments applicable to the Pooling Plan for Market Milk are not substantive in nature, they shall be adopted without the necessity of a referendum.

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 Stabilization and Marketing Plans and the Pooling Plan for Market Milk now in effect in said Marketing Areas are no longer in conformity with the standards prescribed in said Chapters 2 and 3, and that the same will not tend to effectuate the purposes of said Chapters 2 and 3 without amending said Plans and that amendments to such Stabilization and Marketing Plans and such Pooling Plan for Market Milk are proper and necessary in order that said Plans shall continue to conform with the standards prescribed in, and shall continue to tend to effectuate the purposes of, said Chapters 2 and 3; and

The Director of the California Department of Food and Agriculture further finds that amendments to the Stabilization and Marketing Plans for Market Milk for said Marketing Areas, and each and every part of said Plans, identified as Del Norte-Humboldt Order Number One hundred (100), Northern California Order Number Nine (9), South Valley Order Number Twenty-six (26), and Southern California Order Number Twenty-five (25), and Pooling Plan Order Number Forty-nine (49) are necessary to accomplish the purposes of said Chapters 2 and 3 and hereby determines that said Plans, as Amended, will tend to accomplish the purposes of said Chapters 2 and 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.

Clare Berryhill
Director of Food and Agriculture

By R. A. Abbott

Robert A. Abbott, Acting Chief
Bureau of Milk Stabilization

Date 11/14/84

ECONOMIC BASIS FOR FINDINGS AND CONCLUSIONS ON MATERIAL ISSUES PRESENTED FOR CONSIDERATION FOR AMENDMENT OF STABILIZATION AND MARKETING PLANS FOR MARKET MILK FOR THE DEL NORTE-HUMBOLDT, NORTHERN CALIFORNIA, SOUTH VALLEY AND SOUTHERN CALIFORNIA MARKETING AREAS

On October 2, 1984 a public hearing was held for the purpose of considering a Department proposal on ranch to plant movement in the Sacramento-Solano region and to respond to concerns brought forth in a petition which the Department had received from a cooperative in the South Valley Marketing Area requesting review of plant to plant credits from South Valley into Southern California. The hearing was also called to review and consider any needed changes in ranch to plant movement in the South Valley Marketing Area.

Background

A hearing was held on July 12, 1984, in response to a petition, for the purpose of considering amendments to the current transportation allowances into Sacramento and Solano bottling plants. The petitioner made a proposal which would have extended the distance from which milk might be drawn into the Sacramento-Solano area and which also would have increased the dollar incentive to move milk.

The basis for calling the hearing was that a major bottler located in Sacramento had been unable to obtain an adequate supply of milk directly from producers. At the time of the hearing this handler reportedly was receiving milk through a broker and had been unable to secure a supply directly from producers.

As a result of the hearing the Department reviewed the various proposed transportation allowances and the proposed distance brackets and determined it should not grant the request as proposed by the petitioner. However, the Department developed an alternative proposal which the Department felt would more closely address the long term policy issues and the needs of the market. This proposal was made a part of the August 22, 1984 notice for the hearing held on October 2, 1984.

A petition dated July 31, 1984, was received from a major cooperative located in the South Valley Marketing Area which has sales in the Southern California Marketing Area. This petitioner requested an increase in the plant to plant transportation credit.

As a result of the decision on the previous hearing and the petition from the cooperative, the Department held the October 2 hearing to review (1) the Sacramento-Solano area transportation allowances; (2) the South Valley to Southern California transportation credits; and (3) the ranch to plant movement from South Valley to Southern California Marketing Area. This in effect opened the hearing for a widespread discussion or review of all transportation credits and transportation allowances throughout the State.

Issues and Conclusions

Sacramento-Solano Transportation Allowance

This issue, which was previously considered at the consolidated hearing held on July 12, 1984, concerned the ranch to plant shipments of milk to the Sacramento-Solano area. The proposal by the Department would have decreased the current allowance to those producers who are located close-in to the Sacramento area and do not have an alternative manufacturing plant available for their milk. It has been the policy of the Department to grant transportation allowances only where milk is needed to be moved to Class 1 bottling locations from production areas where market milk is being used for manufactured products. Payment from pool sources to producers simply to move their milk where there is no alternative market opens the door to any producer to receive assistance from the pool to offset transportation costs.

A major bottler located in Modesto objected to extending the procurement of milk for Sacramento-Solano into San Joaquin and Stanislaus Counties as was included in the Departmental proposal since it would draw milk away from their Class 1 bottling needs. Their opposition would be moderated if a series of transportation allowances would be established for them in order for them to draw milk from the South Valley area into Modesto. The proposal and the incentives necessary to change procurement patterns for the Sacramento-Solano area would cause some disruption to established procurement patterns of Class 1 bottling plants. A review of the areas from which additional milk might be attracted into the Sacramento-Solano area shows that these are the areas from which a bottling plant located in Modesto also draws a supply. The disruption to current patterns of milk movement could be greater than benefits derived in attracting more milk into the Sacramento-Solano area. Therefore, no changes should be made in the current transportation allowances pertinent to the Sacramento-Solano area.

South Valley-Southern California Transportation Credits and Allowances

The petitioner located in the South Valley requested a 5¢ per hundredweight increase be granted in the transportation credit now established for bulk milk shipments from milk plants located in Tulare County to Los Angeles milk plants. The 5¢ increase requested would eliminate the traditional shortfall experienced by processing plants in Los Angeles when purchasing milk from Tulare County. The traditional shortfall has historically been between 3¢ to 5¢ per hundredweight. The shortfall is that amount of cost which the purchasing handler can not recover through the price differential between South Valley and Southern California and the transportation credit allowed on the purchase. All other witnesses who addressed this issue were in opposition of changing from this basic shortfall concept, although there was support for some lessening in the amount of the shortfall.

This support came mostly from handlers who have needed to move milk from South Valley plants into the Southern California market during the fall and winter period. Opposition came from Southern California sources who feared an over-reaction in incentives which might draw excessive supplies into the Southern California market.

Starting in late September and carrying into the fall there have been shortages of milk for Class 1 purposes in the Southern California market. These shortages, in part, prompted the Department to invoke the mandatory milk movement provisions (call provisions) of the Stabilization and Marketing Plans. These call provisions designate as a major supply source a plant located in Fresno County.

The credible evidence on the record and the apparent need to attract additional supplies of milk for Class 1 purposes into the Southern California Marketing Area support a two-cent increase in both the plant to plant transportation credit and the ranch to plant transportation allowance. The increase would be applicable to all milk used for Class 1 purposes shipped plant to plant and for all bulk milk shipped ranch to plant from Tulare, Kings and Fresno Counties.

A request was made by a cooperative representative on behalf of producers who ship ranch to plant from the South Valley to plants located in Southern California for an increase of 3¢ per hundredweight in the transportation allowance. The present ranch to plant shortfall is $.07/cwt. A two-cents per hundredweight increase will bring the shortfall to $.05/cwt., which is within an acceptable range.

San Diego Producer Request for Transportation Allowance

A special issue was brought forth by a representative of a major Southern California cooperative and producers located in San Diego County who currently are shipping into Los Angeles County bottling plants because the plants they formerly served are no longer doing business in San Diego County. They requested a transportation allowance to assist them in serving the Los Angeles market from San Diego County ranch locations. To grant such a transportation allowance would be contrary to existing policy. Such an allowance would be payment from the pool to a producer who does not have an alternative market and whose milk does not need to be drawn into the market since it is the only market available. Their claim for special consideration is that there are additional processing facilities moving into the San Diego area which is closed to them because they are not affiliated with the organization that services the processing facility.

Producer representatives of producers located in the "high desert" area (San Jacinto and Hemet) also want a transportation allowance if one is granted to the San Diego producers. At the present time the "high desert" producers also have no viable alternative to the Los Angeles bottling plants.

It is recognized that the producers in the San Diego area have a unique problem. However, other areas in the State have the same or similar problems in that handlers in many areas have consolidated their processing plants and closed down their plants in areas where they formerly processed milk, leaving local producers no alternative than to haul a great distance. If the request of the San Diego producers were granted, producers located in areas such as Santa Maria Valley could be expected to also request special allowances. Certainly producers in San Jacinto and Hemet would have a legitimate request for aid from the pool in the form of transportation allowances. Many producers located in Northern California where plants have closed would also have legitimate requests for aid from the pool.

In the future an alternative market such as the proposed cheese plant for the Corona area might draw milk from the Los Angeles bottling plants. In such case some consideration might be given to establishing a series of transportation allowances or other incentives for producers within the Southern California Marketing Area to assure bottling plants a supply of milk. It is possible that incentives may need to be established for producers who ship directly into the Los Angeles and Orange County bottling plants from San Bernardino, Riverside and San Diego Counties, and those other county locations where transportation allowances are already in effect. At the present time, however, there is no demonstrable need to expand transportation allowances or provide other incentives to other areas within the Southern California Marketing Area.

Service Charges for Class 1 Milk

A unique alternative to transportation credits and transportation allowances was introduced as an incentive to move milk by a producer association located in Southern California. Although this issue was not a part of the hearing notice this group proposed establishing a Class 1 service charge for the Southern California Marketing Area only.

This service charge would be paid only to those producers who serve the Class 1 needs of the area. The proposed service charge would be in addition to a producer's current payment for pool quota. The request as presented was in essence an increase in the Class 1 price that handlers would pay and ostensibly would be passed on to consumers.

It is questionable that in the consolidated hearing such as this any change of this manner could be made. However, the idea of incentive to move milk is a new concept and other witnesses indicated that the idea had some merit and that there should be further review by the industry. This concept should receive greater review before any action is taken on this proposal.

Extending Transportation Credit to Condensed Skim for Fortification

Once again it was requested that the transportation credit for plant to plant movements of bulk milk be extended to include condensed skim used in fortification of Class 1 products. At the present time only bulk milk receives transportation credit. Condensed skim and cream were considered to be partially processed products and therefore were not covered in the original transportation credit system.

It has been argued that handlers purchasing condensed skim for fortification have not made the necessary investment to handle bulk whole milk and should be expected to pay for tailoring service provided by the country plant doing the condensing.

Adding condensed skim milk to the transportation credit list could open the door for other partially processed items such as ice cream mix and nonfat dry milk for fortification. No action should be taken to include partially manufactured products in the transportation credit system.

Summary

1. The testimony and evidence to amend the current transportation allowances for milk shipped into the Sacramento-Solano County area was not sufficiently compelling when compared to the disruption such change would cause in the Modesto area to make any change at this time.

2. The milk supply available for Class 1 uses in the Southern California market was short in the early fall period. The "call" provisions which require release of quota milk for Class 1 purposes from manufacturing purposes was put into effect by the Director. To assist in the movement of milk for Class 1 usages this transportation credit and the transportation allowances from the South Valley into Southern California should be increased by at least 2¢ per hundredweight.

3. Long range consideration should be given in the establishment of transportation allowances or other incentives for producers serving the Southern California market where such allowances would assure a continuing supply for the Class 1 market. The total needs of the Southern California Marketing Area must be reevaluated in regard to the potential demand for milk for manufacturing purposes.

4. The transportation credits for partially manufactured products, namely condensed skim milk, should not be expanded.

5. Service charges payable directly to producers serving the Class 1 market along with the increase in the Class 1 price in Southern California Marketing Area should not be implemented at this time. The concept of direct incentives to serve the Class 1 market should, however, be given further review as a possible method for assuring that Class 1 needs continue to be served.

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Date November 14, 1984