

MPC

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April 28, 2003

Mr. David Ikari, Chief  
Dairy Marketing Branch  
1220 N Street  
Sacramento, CA 95814

Re: Alternative Proposal for the June 4, 2003 Transportation Subsidy System Hearing

Dear Mr. Ikari:

Making sure that the class 1 market is fully supplied with milk is the underlying reason for why producers should fund a transportation subsidy system. Producers have both an incentive and a responsibility to "keep the bottle full". The transportation subsidy system that is established to meet this goal must be constructed in such a way that it is both efficient and equitable. The current system could use improvements in both respects.

The department in the past has supported the principle that producers who serve the Class 1 market ought to be rewarded, that the closest milk to the market ought to move first to the bottle, and that any regulated system ought to attempt to minimize costs to the pool. Our alternative proposal seeks to address all of these principles.

The following points summarize our proposal:

- Only class 1 milk in California should qualify for transportation incentives.
- All class 1 milk in California should qualify for transportation incentives. The current plant eligibility standard defined in Section 921 is too loose because a lot of non-class 1 milk is eligible for subsidy. On the other hand, the receiving area designations are discriminatory.
- All California Grade A milk production is eligible.
- The minimum allowance starts at zero miles for all eligible plants and increases in constructive mileage brackets until the concentric zone emanating from the plant encompasses an adequate supply of milk to cover all of the class 1 needs of the plants in that area with about a 40% reserve supply, at which time the rate is capped and stops increasing.
- Transportation credits continue, but the combination of the area differential and transportation credit shall not exceed the applicable transportation allowance for the distance the milk travels.

This proposal treats all class 1 milk equitably. It is in the producers' best interest to see to it that the class 1 market is fully served, therefore all class 1 sales should be eligible to utilize the transportation subsidy system. This proposal treats all California production equitably by using distance as the criterion for establishing the appropriate amount of subsidy. This proposal allows for the continuance of the transportation credit, but makes sure that it is no more costly to the pool per unit of milk delivered to the class 1 market than the transportation allowance.

Milk Producers Council thanks you for an opportunity to submit this alternative proposal for your consideration at the June 4, 2003 hearing.

Sincerely,

Geoffrey Vanden Heuvel

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Pooling Plan Changes:

Section 921. Producers, including producer members of cooperative associations, will receive transportation allowances on shipments to plants which process class 1 milk to the extent that the milk is used for class 1 purposes.

Section 921.1 Delete

Section 921.2 Transportation allowances shall be calculated on the constructive miles from the dairy farm to the location of the plant of first receipt and shall be paid only on that percentage of milk that the plant actually processes into class 1 products.

The following rates shall be utilized in the calculation of the allowances:

For all plants located in the State of California:

From zero through 15 miles	\$0.05 per cwt.
From 15 miles through 50 miles	\$0.10 per cwt.
From 50 miles through 75 miles	\$0.15 per cwt.
From 75 miles through 100 miles	\$0.25 per cwt.
From 100 miles through 125 miles	\$0.35 per cwt.
Over 125 miles	\$0.45 per cwt.

Delete references to designated supply and deficit county in all the various Sections. (ie., 810, 811, 812 etc.)

Southern California and Northern California Stabilization Plan Changes:

Section 300.2 Each Handler may deduct from the applicable minimum prices pursuant to Section 300.0, Paragraph (A), a transportation credit for quantities of market milk and market skim milk shipped in bulk form to a plant processing class 1 milk. Shipments of condensed skim milk and market cream are excluded from such transportation credits. Such deduction shall be equal to the Transportation allowance for constructive miles applicable for the distance between the supply plant and the receiving plant pursuant to Section 921.1 of the Pooling Plan for Market Milk, less any positive Class 1 price differential between marketing areas.