Milk Movement Incentives

At the Producer Review Board meeting held on May 30, 2017, a board member asked for basic information on milk movement incentives and location differentials that would apply to a potential California Federal Order. This document contains a brief historical explanation of milk movement incentives from the current California state system. It also contains excerpts from USDA's Recommended Decision released on February 14, 2017 and USDA's presentation given at their informational meeting held on February 22, 2017 in Clovis, CA, which both provide information regarding location differentials in a potential California Federal Order.

Current California State System

Prior to the implementation of the state-wide pool in 1969, producers were paid a price related to the utilization of the plant where their milk was shipped. The incentive to ship milk to fluid milk plants was the higher class prices paid by such plants. However, after the implementation of the state-wide pool that introduced the equitable sharing of pooled revenues, the incentive to ship milk to fluid milk plants was removed. In the years since 1969, various regulatory policies have been used to encourage milk movements to fluid milk and also higher usage plants.

When the state-wide pool plan was instituted, location differentials were established to create an economic signal for producers to ship quota milk to designated counties. The location differential was either added or subtracted from quota payments to producers. However, as California milk production began to increase and quota milk became a smaller share of total milk production, location differentials were no longer an efficient means of ensuring milk supplies would be shipped to fluid milk plants. As a consequence, the location differential was augmented by call provisions and transportation credits in the late 1970s and early 1980s, and then completely replaced by transportation allowances and regional quota adjusters.

In 1979, the call provisions were implemented. They required pooled manufacturing plants, which received quota milk, to make that milk available to fluid milk plants during the fall and winter months when milk production is at cyclical lows. In 1981, transportation credits were introduced to reduce the cost of plant-to-plant shipments of milk from designated supply counties to designated deficit counties. In 1983, transportation allowances and regional quota adjusters replaced the location differential. Transportation allowances offset a portion of the cost to ship milk from dairy farms to qualifying plants. Regional quota adjusters reduced quota payments based on the location of the dairy farm.

As total California milk production continued to grow and as quota milk continued to represent a smaller share of total milk production, the milk movement incentives provided by call provisions and transportation allowance and credits became the primary incentive to move milk to fluid milk plants and plants of higher valued usage. These incentives continue to be the primary incentives to move milk in the California system presently. In addition, with the introduction of the fixed $1.70/cwt differential between the quota price and the overbase price

in 1994, quota milk and regional quota adjusters are no longer directly tied to moving milk to fluid milk plants as they were in the 1970s and 1980s.

Potential California Federal Order

The Recommended Decision released in February 2017 by USDA, which outlined the tentative provisions of a potential California Federal Order, did not include provisions similar to California's current milk movement incentives. However, the Recommended Decision did include a provision to adjust producer payments to reflect the applicable location where milk is received in order to provide the incentive to move milk to fluid milk plants. The following explanation is taken from the language of the Recommended Decision and explanations from the transcript of USDA's February 2017 meeting held in Clovis, CA to explain the provisions contained in the Recommended Decision.

"A key feature of FMMO's [Federal Milk Marketing Orders] is that producer milk is classified and priced at the plant where it is utilized, regardless of its source....producer payments should be adjusted to reflect the applicable producer location adjustment for the handler location where their milk is received."

Producer milk is priced at the location of plant of first receipt. The pool price or blend price is announced at a principal pricing point, but if a producer delivers milk to a plant that is located in a different zone, then the price on the milk check would reflect that adjustment. The blend price [pool price] received by producers is adjusted to reflect the location of the plant of first receipt.

The proposed California Federal Order's blend price would be announced at a principle pricing point for Los Angeles, which is located in the $2.10 zone. But, a pooled producer's milk is priced at the location of first receipt. So if you're a producer and you delivered to a plant that was located in the $1.60 zone, your milk check or producer price would be the announced blend price minus $0.50/cwt. This $0.50/cwt is the difference between the location values assigned to the $2.10 and $1.60 zone.

For example, suppose the announced blend price for a particular month is $17.00/cwt, which is based on the pricing point of Los Angeles. If a producer delivers his/her milk to a plant in a $1.60 zone (such as Tulare County), the price applicable to this producer's milk would be $16.50/cwt. If a producer delivers his/her milk to a plant in a $1.80/cwt zone (such as Sonoma County), the price applicable to this producer's milk would be $16.70/cwt, which reflects a $0.30/cwt adjustment. In essence, pooled producers will receive a price adjusted for the difference between the differential value of the zone where the plant of first receipt is located and the differential value of Los Angeles County.

A table containing the applicable differential values for all California counties follows on the next page.

County	Differential Value
ALAMEDA	1.80
ALPINE	1.70
AMADOR	1.70
BUTTE	1.70
CALAVERAS	1.70
COLUSA	1.70
CONTRA COSTA	1.80
DEL NORTE	1.80
EL DORADO	1.70
FRESNO	1.60
GLENN	1.70
HUMBOLDT	1.80
IMPERIAL	2.00
INYO	1.60
KERN	1.80
KINGS	1.60
LAKE	1.80
LASSEN	1.70
LOS ANGELES	2.10
MADERA	1.60
MARIN	1.80
MARIPOSA	1.70
MENDOCINO	1.80
MERCED	1.70
MODOC	1.70
MONO	1.60
MONTEREY	1.80
NAPA	1.80
NEVADA	1.70
ORANGE	2.10
PLACER	1.70
PLUMAS	1.70
RIVERSIDE	2.00

County	Differential Value
SACRAMENTO	1.70
SAN BENITO	1.80
SAN BERNARDINO	1.80
SAN DIEGO	2.10
SAN FRANCISCO	1.80
SAN JOAQUIN	1.70
SAN LUIS OBISPO	1.80
SAN MATEO	1.80
SANTA BARBARA	1.80
SANTA CLARA	1.80
SACRAMENTO	1.70
SAN BENITO	1.80
SAN BERNARDINO	1.80
SAN DIEGO	2.10
SAN FRANCISCO	1.80
SANTA CRUZ	1.80
SHASTA	1.70
SIERRA	1.70
SISKIYOU	1.80
SOLANO	1.80
SONOMA	1.80
STANISLAUS	1.70
SUTTER	1.70
TEHAMA	1.70
TRINITY	1.80
TULARE	1.60
TUOLUMNE	1.70
VENTURA	1.80
YOLO	1.70
YUBA	1.70