Order #27

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 May 17, 1978; 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 20 cents to 27.5 cents.

2. The location differential between the Willows production areas and the processing area in Redding be increased from 12 cents to 20 cents.

3. The location differential in the Northern San Joaquin Valley and the Sacramento processing areas be increased from 8 cents to 13 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 Twenty-Seven (27) 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

G T Gleason
G. T. Gleason, Chief
Bureau of Milk Pooling

Date 6/30/78

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

Date 6/30/78

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 findings and conclusions are based on material issues raised at a public hearing held in Sacramento on May 17, 1978.

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 the northern half of the State in assuring the movement of an adequate supply of market milk for Class 1 uses to processing plants located in the Bay Area, in Sacramento and in Redding.

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. The 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 necessarv to review location differentials on a periodic basis.

The hearing was such a review and was triggered by allegations that plants located in the San Francisco Bay Area and in Redding 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 the greater the difference between location differentials must be in order to draw milk.

The current location differentials in the Northern San Joaquin Valley and the San Francisco Bay Area provide an incentive to producers whose shipments exceed 75.5% quota. Based on February 1978 production records the current differentials cover only enough production to meet 58.2% of the actual Class 1 usage in the Bay Area. The current location differential must be changed in order to attract that portion of quota milk not now being attracted. The average percent of milk production which is quota in the area of potential supply to San Francisco is 62.9%. This percentage includes that portion of milk now being attracted to the Bay Area.

It is necessary that there be an incentive to move that milk not now being attracted. The percentage of milk production that is quota and is not now being moved to the Bay Area from the Northern San Joaquin Valley is 55%.

In order that production which is 55% quota or more be attracted to the Bay Area the location differential between the Bay Area and the Northern San Joaquin production area must be increased by 7.5 cents per hundredweight. This can be accomplished by lowering the location differential in the Northern San Joaquin area by 3 cents per hundredweight and increasing it by 4.5 cents per hundredweight in the Bay Area. This combination of increase and decrease will tend not to affect the pool payout in other areas. This change in location differentials will cover a volume of production equivalent to 165.8% of the Class 1 usage in the Bay Area. A computation of comparative incentives is as follows.

	Valley	Bay Area
Location Differential	- $ .23	+ $ .045
Transportation rates (common carrier)	.162/cwt	.313/cwt
Location Differential @ 55% quota	.127/cwt	(.025)/cwt
Total Cost	.289/cwt	.288/cwt
Incentive		= $ .001

There are two special issues which were involved in determining the appropriate location differential levels.

One issue is that of using common carrier rates versus actual costs of transporting milk. Section 62070 requires that common carrier rates be used in computing handler transportation rates. To use any transportation costs which are in excess of available common carrier cost in computing location differentials is not only economically unsound but is not in conformity to the Code.

One major handler testified to costs of 38 cents per hundredweight and further testified that they were experiencing difficulty in getting an adequate supply. The new order should be helpful in attracting more milk to Bay Area plants but cannot totally solve the problem of procurement as long as individual transportation costs are in excess of what common carrier rates would be.

A second special issue was that of a large supply of quota milk being shipped to a predominantly Class 4 usage plant. The milk shipped to this plant exceeds 70% quota. The milk committed to this plant is not available for bottling purposes. The location differentials established in this order increases the incentive to move milk now going to this plant to bottling plants in the Bay Area. However, the order does not increase the incentive to any greater extent than for other plants located in the valley.

The location differentials in the northern portion of the Sacramento Valley must also be adjusted. Current costs for the procurement of a milk supply are being subsidized by a major Class 1 bottling plant located in Redding. The costs paid by the bottling handler are not for special services rendered but are as an offset against transportation costs. Producers in the Willows area are more attracted to local plants with large Class 4 uses than to the bottling plant in Redding. Department transportation studies show that the local haul rates in the Willows production area are 23 cents per hundredweight. Currently the Redding plant pays a 10 cent transportation premium which brings the cost of delivering milk from Willows to Redding to 33 cents per hundredweight.

A reduction from -$.11 to -$.20 in location differentials in the Willows area and an increase from -$.05 to -0- in Redding would increase the incentive to divert milk directly to Redding. The change is computed as follows:

	Willows	Redding
Location Differential	- $ .20	-0-
Haul	$ .230	$ .330
Location Diff. @ 55% (average Willows quota)	.110	0
Total Market Cost	$ .34	$ .33
Incentive		= $ .01

The order eliminates a 10 cents per hundredweight disincentive for producers to ship to Redding and at the same time creates an added incentive for producers to ship to Redding of $.01 per hundredweight.

The changes in location differentials between the Northern San Joaquin Valley and the Bay Area have the effect of drawing milk from the Valley into the Bay Area which has a side effect in those processing plants located in the Sacramento area. These handlers also depend, in part, on milk produced in the Northern San Joaquin Valley. In order not to jeopardize their supply it is necessary to decrease the Sacramento location differential from -$.12 to -$.10.

In establishing this order an attempt has been made to as closely as possible increase and decrease the respective location differentials so as to balance the pool. By this method of balancing only quota holders in the areas where changes have been made will be affected. It is not the intent of this order to enhance or adversely affect producers in other areas of the State through changes in quota payout.

The Department made a proposal for change going into the hearing. The findings vary slightly from the proposal based both on the hearing testimony as well as a more current transportation rate data which became available after the proposal was made but prior to the hearing.

R. E. Rominger
Director of Food and Agriculture

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G. T. Gleason

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