order # 32

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, CENTRAL VALLEY, 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, Central Valley, Del Norte-Humboldt, North Valley, Redwood, Siskiyou, South Valley, and Southern California Marketing Areas was duly and regularly called and held in Ontario, California, on February 21, 1980; 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-handlers, and handlers 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 petitions 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 of the lower San Joaquin Valley and the deficit processing areas of Southern California do not tend to offer sufficient incentive for effective movement of market milk from ranch locations to certain regions within Southern California 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 southern portion of the South Valley Marketing Area (essentially Kern County) and the Southern California region be increased from 20.0 cents to 25.5 cents.

2. The location differential between the production areas of the middle San Joaquin Valley (Tulare, Kings and Fresno Counties) and the processing areas in Southern California be increased from 30 cents to 33.5 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,

254

said Chapter 3; and the Director hereby further 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-two (32) 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 V. L. Shahbazian

R. A. Abbott

V. L. Shahbazian, Chief
Bureau of Milk Stabilization

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Bureau of Milk Stabilization

Date May 1, 1980

255

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, CENTRAL VALLEY, 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 Ontario, California, on February 21, 1980.

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 to processing plants located in Southern California for Class 1 uses.

Background

In June of 1979 a hearing was held to review the then current location differentials to determine if changes were necessary in order that milk would continue to move from ranch to plant when needed. An order was issued effective October 1, 1979, amending the Pooling Plan which adjusted most major areas in the State to encourage the ranch to plant movement of milk. The notable exception was the location differentials which service the processing plants in the metropolitan Los Angeles area, which were not adjusted at that time.

The need for the widening of the differential between Los Angeles and the San Joaquin Valley was shown to be approximately $.05. This could have been accomplished by either (1) increasing the Southern California location differential from 0 to +$.05, (2) decreasing the South Valley by the same amount, or (3) splitting the $.05 between the areas in any manner which would increase the total location differential by the requested $.05. There was, however, a new concept proposed by a handler representative which would have created an override of $.05 per hundredweight, available only to those producers who shipped milk out of area, that is, from their ranches located in the South Valley Marketing Area to a processing handler located in the Southern California Marketing Area.

The purpose of location differentials is to assure the ability of producers to move milk ranch to plant from areas of excess production to areas of deficit production for Class 1 needs. Since the use of location differentials is within a closed money pool system, it is necessary to shift income from those producers whose quota is not used to service the Class 1 market to those who do, if proper marketing incentives are to be preserved.

The override proposal would have been a plausible way to create the incentive to move milk from the South Valley area to the Southern California area with the least amount of shifting of producer income. The decision in the fall of 1979 was not to accept the override concept because of unresolved questions as to the ability of the pooling system to administer the new concept and also to give the producer segment of the industry an opportunity to study the application of overrides on a statewide basis along with other concepts for Pooling Plan reform. The override concept is a modification of the current system which uses quota as a vehicle to move milk ranch to plant. It is only one of several concepts that might be considered by the industry in revamping the overall incentive system. Adoption of the override concept with such limited application appears to be premature. In addition, if an override system is established now for South Valley to Southern California without consideration of other areas, the probable result will be a condition of inequity in some other areas.

This in turn could result in another series of requests for more hearings when what appears to be necessary is a total review of the current system of incentives to move milk.

Current Situation

Since the results of the October 1, 1979 adjustment did not resolve the milk movement problem for the Southern California Marketing Area, a follow-up hearing was held on February 21, 1980, to resolve the issue. The Department proposed at this hearing to increase the location differential in the Southern California Marketing Area from zero to plus $.055. There was no questioning of the $.055 figure proposed by the Department as the necessary amount of increase needed to assure the ability of milk to be moved.

There was, however, a broad diversification of opinion as to how to apply the increase. One major valley cooperative that had previously opposed the override concept came out in support of its adoption. Other proposals were to make no change at all and call statewide industry meetings to review the entire location differential system of milk movement incentives. In general, witnesses representing North Valley interests supported no change or even wider differentials than proposed, as well as a complete review of the present system. South Valley interests supported an override system plus a reduction in the amount of the negative location differentials in South Valley. They based their opposition to the proposal on the fact that producers in Southern California would be enriched. They contended that Southern California producers have garnered large amounts of quota through purchases and that these purchases were brought about by already greater incomes available to Southern California producers over incomes of South Valley producers. A review by the Department of this position does not necessarily substantiate this view. Notwithstanding the validity of this position, it is irrelevant to the issue of milk movement under the present incentive system.

Conclusion

It is important to redefine the role of location differentials as the mechanism which allows producers to move milk from ranch to plant to service the Class 1 market. Though the system may reward some for performance and penalize others for nonperformance, it is not a system principally designed to enhance income. It has been determined that a $.055 per hundredweight increase in the location differential is warranted. All parties agree that milk moving from the southern portion of the South Valley Marketing Area (Kern County) should continue to move ranch to plant into the Southern California Marketing Area. The need to move milk directly from areas farther north may not be as great at the present time since plant to plant shipments are currently economically feasible and are at present the major mode of supply.

The proposal of the Department at the hearing would encourage movement from Kern County to Southern California for producers holding quota ratios of approximately 70% quota to overbase and would allow producers in Tulare and Kings Counties with 96% quota to overbase ratios to also ship milk directly to Southern California. Since the average quota ratio holdings in Tulare and Kings Counties is close to 55%, little milk would be attracted into the Southern California Marketing Area from these counties. The request made by a major cooperative that the existing negative location differential for plants in Tulare, Kings and Fresno Counties be changed from -$.30 to -$.25 would not enhance milk movement. This change would not only run counter to current milk movement incentives but is designed for income enhancement purposes. This change should not be made.

The Department should not accept the premise of no change as proposed by North Valley representatives since the status quo would not correct the residual inequity from the October 1, 1979 adjustments to the Pooling Plan. The location differential problems of the Southern San Joaquin-Los Angeles areas were not corrected in the Pooling Plan order made effective in October of 1979. Consequently, an effort for some correction should be made now.

It is, however, important to recognize that the current system of placing the burden of the cost of moving milk from ranch to plant on the quota only will constantly increase the disparity between high quota ratio holders and average quota ratio holders. This disparity is a statewide issue and not only an issue in Southern California where quota ratios are charactistically high. The effectiveness of the quota system as a mechanism for moving milk has become increasingly in doubt. The ever increasing volume of milk in the overbase pool which must be moved along with the quota milk creates an excessive burden on the current system where only the quota portion of a shipment is compensated for moving the milk. Any review of the system should be resolved by a broad based consensus of industry and should most probably not be addressed as a result of this hearing.

Determination

Based on the hearing record, the proposed \$.055 increase in the location differential should be adopted, but with modifications as follows. First, the application of the \$.055 increase should be split by increasing the Southern California location differential from zero to +\$.035 and by decreasing the location differential in the Kern County region from -\$.20 to -\$.22.

Secondly, there should be no change in the -\$.30 now in effect in the Tulare-Kings-Fresno Counties region.

The effect of this proposal would be to (1) allow the average quota ratio holder located in Kern County to continue to ship quota into Southern California for Class 1 purposes, (2) reduce the loss for high quota ratio holders in Tulare, Kings and Fresno when diverted to Southern California, and (3) allow for time for the industry to work on a comprehensive revision of the incentive system to move milk ranch to plant.

The request to adjust location differentials between the North Valley and the Central Coast Counties area as proposed by one cooperative should not be granted. The location differentials in this region were reviewed and were subsequently adjusted in the October 1, 1979 Pooling Plan amendments. In addition, the requested location differential changes would tend to retain bulk milk in the valley selectively for the benefit of certain plants and would tend to diminish the incentives to move milk directly from ranches in the valley areas to the bay area. This would be counterproductive.

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Date May 1, 1980