

Order #10

FINDINGS AND CONCLUSIONS OF THE DIRECTOR OF THE CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE UPON THE STABILIZATION AND MARKETING PLANS FOR MARKET MILK FOR THE CENTRAL VALLEY, DEL NORTE-HUMBOLDT, NORTHERN CALIFORNIA, SOUTH VALLEY AND SOUTHERN CALIFORNIA MARKETING AREAS AND FOR THE POOLING PLAN FOR MARKET MILK

WHEREAS, a consolidated public hearing on the Stabilization and Marketing Plans for all milk marketing areas in the State was held in Ontario, California on August 20 and August 21, 1981, concurrently with a hearing on the Pooling Plan for Market Milk, for the purpose of considering any and all bulk market milk movement issues; 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 for said Marketing areas and the Pooling Plan for Market Milk; and

WHEREAS, said hearing was called pursuant to petitions 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, 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:

1. A Pool Obligation Credit system shall be established in order to facilitate the necessary movement of bulk market milk and bulk market skim milk from milk plants located in surplus production areas to plants located in areas of deficit production.
2. A system for the assignment of usage for bulk market milk shall be established which will allow bulk market milk or bulk market skim milk transferred from a plant located in a surplus production area to a plant located in a deficit production area to be assigned as all Class 1 instead of the current practice of a pro rata assignment of the usage of the receiving plant.
3. The requested changes in the current incentive system for ranch-to-plant movement of market milk are denied at this time. Further industry study and review is necessary before this issue can be resolved; and

WHEREAS, the Director hereby adopts said 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 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 Central Valley Order Number Six (6), Del Norte-Humboldt Order Number Ninety-three (93), Northern California Order Number Two (2), South Valley Order Number Nineteen (19), and Southern California Order Number Eighteen (18), and Pooling Plan Order Number Thirty-five (35) 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.

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Director of Food and Agriculture

By *V. L. Shahbazian*

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Date *October 4, 1981*

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

General Background

A public hearing was held in Ontario, California on August 20 and August 21, 1981, for the purpose of considering any and all milk movement issues. The hearing was called in response to petitions from producer and handler representatives. The problems involved in both plant-to-plant movement and ranch-to-plant movement were considered.

This was a consolidated hearing on the Stabilization and Marketing Plans for all milk marketing areas in the State held concurrently with a hearing on the Milk Pooling Plan. A hearing held in this manner allows for any changes that may be necessary to be made simultaneously in both the Stabilization and Marketing Plans and the Pooling Plan, since each is often dependent upon the other.

The Issues

Bulk market milk is moved to processing plants in two ways. The first and most often used method is transportation from ranch locations directly to a processing plant where it is utilized into various products including packaged milk.

The second method is the collection or assembly of the bulk market milk into a local "supply" plant for transshipment to another plant for processing. This method is most commonly used in the servicing of plants located in areas of deficit milk production. Plants receiving such shipments are usually bottling plants or plants of high Class 1 usage otherwise. Most of the supply plants are located in the surplus production area of the San Joaquin or Sacramento Valleys while the receiving plants are mostly located in the deficit metropolitan areas.

The purpose of the hearing was to explore ways to improve the bulk market milk and bulk skim milk movement within the State. The incentives to move such milk either ranch-to-plant or plant-to-plant are monetary in nature.

Plant-to-Plant Movement of Bulk Market Milk and Bulk Skim Milk

Currently the primary monetary incentive to move bulk market milk between surplus production areas and deficit production areas is the difference in the Class 1 price between the two milk marketing areas.

The purchasing plant located in the deficit area pays the transportation cost from the supply plant location. When the cost of transportation is equal to the price difference, the purchasing handler can buy bulk milk from such a supply plant at a cost equal to the cost of milk available locally. Historically, the marketing area price differentials have been established at slightly less than the cost of transportation, encouraging purchasing plants to purchase the closest milk available first.

In recent years the cost of transportation has increased rapidly, causing frequent changes in the Class 1 price differential established under the Stabilization and Marketing Plans, in order to move milk. These adjustments have distorted the Class 1 prices between the marketing areas of the Sacramento and San Joaquin Valleys and have been detrimental to producer-distributors in the valley markets who have no concern in serving deficit city areas.

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The volume of bulk market milk needed for movement into the deficit areas on a plant-to-plant basis is a relatively small proportion of the total volume of milk produced in the surplus production area as well as being a relatively small proportion of the milk utilized in the deficit area. In addition, plant-to-plant movement has been decreasing in recent years.

It is for these reasons that it has been increasingly difficult to justify Class 1 price changes as the sole incentive to move bulk market milk.

a. Pool Obligation Credit Concept

When the cost of moving bulk market milk and bulk skim milk from a plant located in a surplus supply area to a plant located in a deficit supply area exceeds the price differential, there is a short fall which must be absorbed by the purchasing plant. If this short fall is of significant proportion, an unequal raw product condition will occur.

It was proposed and widely supported by both producer and handler representatives that a credit, to be paid for out of the pool, be granted to handlers to partially offset this short fall. This credit would be called a Pool Obligation Credit (POC). The short fall should be only partially offset so that a purchasing handler will bear a sufficient portion of this cost to encourage him to buy close-in milk first.

A study was made by the Department and presented as an exhibit at the hearing which shows the county locations of potential supply plants and deficit area plants. Based on these data, a system of Pool Obligation Credits should be established which will recover a major portion of the transportation short fall for the handlers concerned.

A recovery of \$.06 per hundredweight of an \$.08 short fall for shipments of bulk market milk and bulk market skim milk from Tulare County into San Diego, Riverside, Orange and Los Angeles Counties and a recovery of \$.09 per hundredweight of a \$.16 per hundredweight short fall for shipments from Kings and Fresno Counties to the same Southern California Counties is appropriate.

In Northern California, a \$.16 per hundredweight recovery for plants located in Merced or Sonoma Counties for bulk market milk and bulk market skim milk shipped into the deficit counties of Alameda, San Francisco and Santa Clara is appropriate. The short fall currently between these locations ranges between \$.21 per hundredweight and approximately \$.30 per hundredweight.

In determining these recovery amounts, consideration was given to recovering a proportion of the short fall amount without encouraging an expansion of plant-to-plant movement as well as to encourage the continued system of ranch-to-plant shipping where that system is more efficient. A plant override on the Pool Obligation Credit system should not be so large as to encourage the replacement of ranch-to-plant shipments by plant-to-plant shipments.

The Pool Obligation Credit will have a nominal effect on the total pool. The significant factor in accepting the Pool Obligation Credit concept is not the amount of money involved but rather the recognition for the first time that there is acceptance of collective responsibility toward the movement of milk by use of pool funds.

b. Assigned Usage Concept

When bulk milk is moved from one plant to another, the milk moved is assigned by the pool to the receiving plant's in-plant usage on a pro rata basis. Therefore, a receiving plant with less than 100% Class 1 usage would not recover the cost of transportation through either a price differential or the proposed Pool Obligation Credit on that portion of the milk prorated to other than Class 1.

One petitioner requested that an assigned usage of 100% Class 1 be incorporated into the Pooling Plan which would treat milk so moved as all Class 1 instead of on a pro rata basis. Witnesses testified that when milk was moved from the valley marketing areas into deficit area plants that the milk was actually used as Class 1. The request has been denied by the Department in the past because it would tend to diminish the pool income through payment to the pool at the lower valley prices instead of the higher city area prices and because it is doubtful that it is necessary to move the milk on a year-round basis.

By limiting the assigned usage concept to the September through February period only and by limiting the total recovery of transportation costs through the proposed Pool Obligation Credit system, the potential abuses have been minimized. Such a system should be tried because in the alternative, milk from individual producers located in the valley is being directly diverted to the city plant at the producer's expense instead of shipment to the local country plant for transshipment.

Ranch-to-Plant Movement

The most common system of marketing bulk milk is by shipments directly from a producer's ranch to a processing plant. The incentives for producers to ship to bottling plants which are mostly located in urban areas is through a system of plant location differentials. These differentials are applied at each plant identified as a "pool plant" under the Milk Pooling Program, depending on the distance each such plant is from one of two basing points.

One basing point is located in the San Francisco area, which is designed to draw milk from the Sacramento Valley and the upper San Joaquin Valley. The other basing point is located in Downey and is designed to draw milk from the Southern San Joaquin Valley and milk production areas surrounding the Los Angeles area.

Each pool plant is assigned a location differential. The farther the plant is away from a basing point the larger the negative location differential which is assigned to the plant. It is the combination of the pool plant's location differential figure and the transportation cost to the plant that determines the producer's decision where to ship his or her milk.

Location differentials apply only to that portion of a producer's total milk production which is assigned to him or her as pool quota. This system works well when quota milk represents a large portion of the total milk produced. Adjustments in location differential amounts have been necessary to account for changes in transportation costs.

There has been stress placed on the system in recent years because of excessive production of excess overbase (non quota) milk and because of rapidly escalating transportation costs. The necessary adjustments in location differentials required by these changes has enabled milk to move when needed but has caused increasing inequity between producers with respect to quota value.

This perceived inequity prompted those petitioners who were producer representatives to request a hearing, at which they presented a plan to restructure the ranch-to-plant milk movement incentive system.

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The plan drew opposition from representatives of those producers who were not represented by the petitioners and by most of the handler representatives. The criticism was not necessarily based on the concept of the proposal or the need for some change. It was based on what was felt to be insufficient input and discussion by other producer groups and handlers in the formulation of the plan.

The major testimony stressed inequity of payment between producers holding quota. There was not as much emphasis in regard to enhancing the incentives for ranch-to-plant milk movement. Those witnesses in opposition to the petitioners plan requested that the hearing be considered an informational hearing and that further industry discussion be forthcoming before any major revamping of the present system is undertaken.

In post-hearing briefs, a number of the proponents also requested that the hearing be considered as an informational hearing but stressed the need for the Department to vigorously pursue the resolution of the equity problem which they feel is exacerbated by the current location differential system.

Summary

There were three areas discussed at the hearing which pertain to the movement of bulk milk. Two proposals, namely the Pool Obligation Credit and the assigned usage concepts, addressed the plant-to-plant movement.

It is hereby determined that these two concepts shall be adopted, since they both enhance bulk market milk and bulk skim milk movement, are supported by testimony, and tend to eliminate distortion in area pricing for the purpose of moving milk. The Assigned Usage Concept is an accounting procedure which affects only the Milk Pooling Plan. It is not a substantive change and will not require a referendum.

The movement of bulk condensed skim milk and bulk cream shall not be included under either the Pool Obligation Credit or assigned usage concepts. These shipments are generally not used in Class 1 and special charges are usually assessed by the shipping plant.

The legal deadline by which the Director must make effective any change in the Stabilization and Marketing Plans as a result of this hearing is October 22, 1981. However, because of the need to correlate these Plans with the Pooling Plan, it will be necessary to plan an implementation date of November 1, 1981 in the Pooling Plan for the Pool Obligation Credit and Assigned Usage Concepts. This will provide for start-up time to carry on the necessary operations under the Pooling Plan.

The third proposal, which deals with ranch-to-plant milk movement, would be a major change requiring a referendum. Due to the magnitude of the change, the diversity of opinion within the industry, and the testimony with respect to the need for further study, no change in this present system shall be made at this time.

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