

order # 29

FINDINGS AND CONCLUSIONS OF THE DIRECTOR OF THE CALIFORNIA
DEPARTMENT OF FOOD AND AGRICULTURE ON MATERIAL ISSUES PRESENTED
FOR CONSIDERATION FOR AMENDMENT OF THE POOLING PLAN FOR MARKET MILK

WHEREAS, a public hearing on the Pooling Plan for Market Milk was held in Sacramento, California on September 14, September 29, and November 23, 1982; 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; and

WHEREAS, said hearing was called pursuant to petitions from representatives of dairy producers; 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, the Director hereby adopts the concurrent Economic Basis for Findings and Conclusions on Material Issues; 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 amendments should be made to the Pooling Plan for Market Milk to replace the current system of plant location differentials on quota milk as incentive to move milk from ranches to processing plants as follows:

1. A transportation allowance system should be established;
2. The transportation allowances within such a system would apply to all market milk moved regardless of the amount of quota held by a dairy farmer;
3. There would be four designated receiving areas;
4. Two sub-pool regions would be established to recover the transportation allowance costs of moving market milk from dairy farms to the designated receiving areas which are located within each sub-pool region;
5. A regional quota adjuster (RQA) system would be established for application at dairy farm locations;
6. The transportation allowances would be limited to producers shipping to plants located in any designated receiving area which have 50% or more in-plant usage of products other than Class 4a or Class 4b; and

WHEREAS, since the above-mentioned amendments are substantive in nature, they shall be adopted only if producers assent thereto at a referendum as provided in said Chapter 3; and

WHEREAS, if the producers do not vote favorably on said amendments to the Plan, the current Plan shall continue in effect;

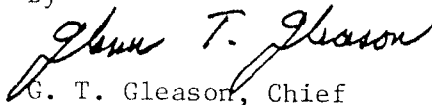
NOW, THEREFORE, after due deliberation upon the full consideration of the facts and evidence adduced, the Director of the California Department of Food and Agriculture hereby finds that the Pooling Plan for Market Milk would more fully conform with the standards prescribed in said Chapter 3 if amendments of a substantive nature were made and that such amendments to such Pooling Plan for Market Milk are proper and necessary in order that said Plan shall more fully conform with the standards prescribed in, and shall continue to tend to effectuate the purposes of, said Chapter 3; and

The Director further finds that amendments to the Pooling Plan for Market Milk are necessary to more fully accomplish the purposes of said Chapter 3 and hereby determines that said amendments, if approved by a referendum of producers, will tend to accomplish the purposes of said Chapter 3 within the standards therein prescribed.

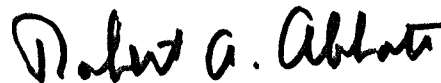
All testimony and items of evidence submitted by all parties to these proceedings, whether or not specifically mentioned herein, have been considered in rendering these findings and conclusions.

Richard E. Rominger
Director of Food and Agriculture

By



G. T. Gleason, Chief
Bureau of Milk Pooling



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

Date December 20, 1982

ECONOMIC BASIS FOR FINDINGS AND CONCLUSIONS OF THE DIRECTOR OF THE
CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE ON MATERIAL ISSUES PRESENTED
FOR CONSIDERATION FOR AMENDMENT OF THE POOLING PLAN FOR MARKET MILK

Background

By action of the Legislature a permissive pooling program was set into effect on July 1, 1969. The Gonsalves Milk Pooling Act created the legal framework for what is today the California Milk Pooling program. In the initial legislative authority, direction was given to the Director of the Department of Food and Agriculture to establish a milk pooling plan for the State of California.

At the outset the Legislature was specific with respect to how pool quota was to be established and as to how future allocations of quota should be made. In effect the Legislature directed that those producers who enjoyed relatively high Class 1 usage should not be adversely affected or have their share of the Class 1 market diminished by the action of the Director. It was also recognized at that time that those producers who were not enjoying higher classes of usage would be given the first opportunity to obtain greater quota holdings as increases in Class 1 sales occurred. Producers whose assigned pool quota was 95% of their production base were considered to be at "equalization" and would, under the law, not gain additional quota as the new Class 1 usage was assigned to lower quota holders. The legislation resulted in the Director's establishing the Pooling Plan for Fluid Milk on July 1, 1969.

It was unfortunate that in the years immediately following the establishment of the Pooling Plan that increases in Class 1 sales were insufficient to bring to equalization those low quota producers who were producing at the inception of the pooling program. Assembly Bill (A.B.) 1110, passed by the Legislature in 1977, amended the original precepts on which quota was assigned, bringing all producers who were producing at the inception of the Pooling Plan up to equalization.

In both the initial legislation and in the amendment with respect to quota allocation there was no attempt on the part of the Legislature to equalize monetary returns to all producers. In 1982, an attempt was made through Senate Bill (S.B.) 1545 to more closely equalize returns to all quota holders but the bill failed, leaving existing statutes with respect to "equity" as originally established.

The effects of establishing a quota system in which producers are guaranteed a share of the Class 1 market without respect to the usage to which their milk is utilized eliminates the incentive for each producer to seek the highest classified market available. Under such a pooling program a producer has an incentive to market milk at the location of the closest plant to his farm. The pooling concept has an inherent adverse effect on the serving of the high usage markets which are often some distance from the ranch location.

It is for this reason that the initial pooling plan established a milk movement system of plant location differentials which takes into consideration the cost of transportation from a dairy farm to a local country plant versus the cost of transportation to a more distant terminal metropolitan bottling plant. This system of plant location differentials establishes a zero or plus location number for urban milk processing plants located in deficit areas and progressively greater negative numbers for plants more distant from the terminal market. These negative numbers can be adjusted so as to reduce the value of that quota milk which is not moved to the metropolitan areas where milk is needed. This concept worked quite well at the outset of the pooling program and would continue to work well today if all milk were under quota.

Since the inception of the pooling program there have been increases in transportation costs which impact more heavily on shipments to urban areas since they are longer distance hauls. In addition there has been a pronounced increase in the supply of milk. This increase in production is in excess of assigned base production and is considered as overbase milk. In recent years, because of the high Federal Government support for Class 4 milk, the volumes of overbase milk have increased steadily to the current date. The trend toward increases of overbase milk has lowered the ratio of quota milk produced to the overbase milk produced. The effect of this change in ratio has caused frequent adjustment of the plant location differentials in order to compensate the quota milk sufficiently to allow the dairy farmer to ship the large volume of overbase milk he is currently producing without losing money.

This constant need to increase the compensation for quota milk has had the adverse effect of enhancing the value of quota. The producer located in the valley production area who acquires a contract to supply a city bottling plant has an incentive to purchase quota to cover all of his milk by quota. In other words, the current milk movement incentive system tends to increase the value of quota each time the returns to quota are increased to compensate for increases in the supply of overbase milk and for increases in transportation rates.

Handlers purchase market grade milk which is suitable for all purposes and not identifiable by its pool identification. Since pool quota milk has built in premium payments from all of the higher classified uses, handlers should not be required to subsidize the movement of milk to the plant of first receipt. The need to constantly increase the compensation for quota milk in order to provide an incentive to producers to move milk to deficit areas is of concern to the Department.

The last statewide adjustments to the location differential system were done in two steps. The first step was accomplished on September 11, 1979, the second on May 1, 1980. At that time the Department indicated that it was important to recognize that the current system was placing the burden of the cost of moving milk from ranch to plant on quota only and that this would constantly increase the value of pool quota. 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. It was recognized at that time that a review of the milk movement program within the Pooling Plan was necessary and it was hoped that it could be resolved by a broad based consensus of industry.

Actions Taken to Resolve the Milk Movement Problem

A hearing was held in Southern California on August 20, 1981. At that time petitioners for the hearing requested that there be a change in the milk movement provisions which would create a greater degree of "equity" between producers. It was alleged that producers located in valley locations had less incentive to purchase quota since they received less money for their quota milk than those producers shipping to or who are located in urban areas.

There was considerable opposition to changing this system. Since the system is a closed one, any change benefits some and is detrimental to others. The only alternative would be to increase the price to handlers and ultimately to consumers. There is questionable benefit within the pooling program to either handlers or consumers that would warrant increasing the price to either. The benefits derived from pooling accrue principally to producers. The record of this hearing was not sufficiently conclusive for the Director to make the necessary findings to effectuate a change.

It was concluded that further discussion within the industry should take place in order that a greater degree of consensus be developed. Staff of the Department made itself available and attended all meetings to which it was invited at which representatives from all aspects of production and distribution were present. The series of meetings continued for approximately one and one-half years. A special subcommittee of ten representatives from the broader group was appointed since the larger group was too unwieldy and could not come to conclusive decisions with respect to the milk movement program. Staff of the Department continued to attend all meetings to which it was invited and acted as resource agent for whatever information was requested. Prior to any conclusion of these series of meetings, a bill (SB 1545) was introduced in the legislature, resulting in the discontinuance of the meetings without resolving either the milk movement situation or the equity problem. As mentioned earlier, this legislative attempt was not successful.

Current Situation

The Department once again received petitions to hold a hearing to resolve the milk movement and the equity problems. The hearing, which was called by the Director, was held in three segments. The first segment was held on September 14, 1982, and gave all interested parties opportunity to state their position with respect to continuing with the current location differential system in milk movement or to change to a different system of milk movement.

The second segment was held on September 29, 1982 for the purpose of giving all interested parties an opportunity to rebut positions taken in the first segment if they so desired. Between the second and third segments of the hearing the Department promulgated a proposal which was mailed to all interested parties on November 3, 1982 prior to the third segment which was held on November 23, 1982. The conclusions drawn by the Director and put forth as the proposal reflects not only the testimony presented at the current series of hearings but also discussions of the meetings held by the industry over the past two years.

Conclusions

From careful review of legislative enactments, both at the inception of the pooling program and in 1977 by AB 1110, at which time Chapter 3 was amended with respect to equalization, it is concluded that the intent of the Legislature was not to equalize all producers with respect to income. If the Legislature had intended that all producers would share equally in all usage and all markets, a system of annual rebasing would have been established. Under this system, each year all production of all producers would be assigned equally a percentage of usage based on the previous year's sales patterns.

It is concluded that as a result of the hearing there should be no attempt to resolve the "equity" problem as perceived by the petitioners. The proposed amended pooling plan should have as its first priority the movement of milk without the enhancement of quota value. A system of transportation allowances should be established which would move milk directly from dairy farms to designated areas of receipt (see Attachment A). This system should replace the current plant location differential system in its entirety. A transportation allowance system would remove the pressure presently occurring by the current location differential system to purchase pool quota.

All market milk shipped under a transportation allowance system should benefit from milk movement incentives, not just a portion of the shipment which is designated as quota. This concept removes quota milk per se from the milk movement incentives in the Pooling Plan and creates equal incentives on all milk. Under the current system quota milk has been overcompensated in order to accommodate the necessary haul of the overbase milk which must be shipped with it. All milk is the same quality from the handler use standpoint.

The transportation allowances should be based on the proximity of the dairy farm to the terminal market. Mileage brackets which reflect current milk movement and are related to current transportation costs should be established (see Attachment B). Such allowances can be adjusted over time as changes in transportation costs occur.

Milk which does not need to be attracted to the central terminal markets should be exempted from receiving transportation allowances. The system should also assure that the milk closest to the market should be attracted first.

It is important to recognize that there are basic differences between the manner in which the Northern California terminal market and the Southern California terminal market is served. In Northern California there are three terminal markets or areas which should be designated receiving areas. In Southern California there is one.

The receiving areas in the northern part of the State are served principally by ranch to plant movement which will involve considerable cost under the proposed transportation allowance system.

The major standby and "swing" supply area for the southern metropolitan region comes from a great distance located in Kings, Tulare and Fresno Counties. Current regulations allow for plant to plant movement of bulk milk from plants located in these areas into the Southern California market. There is little need to attract large volumes of milk on a ranch to plant basis. There should be very little cost in establishing a transportation allowance system for the southern part of the State.

It is for this reason that two separate sub-pools should be established for the payment of the cost of moving milk ranch to plant (see Exhibit C). The cost of paying for transportation in each sub-pool region should be charged to the quota milk produced within that region. The only exception should be that producer handlers who currently operate under one or more of the Pooling Plan exemptions should not participate in the proposed transportation allowance system.

The payment of the costs incurred by the transportation allowances which would be paid on milk that is moved into designated receiving areas should be charged against the milk which receives a premium payment. These are basically Class 1, Class 2 and Class 3 uses, all of which are within quota. It is the responsibility of quota holders to see that the need for milk for higher uses, for which they receive premiums, is satisfied.


Milk on ranches located at greater distances from the major terminal markets has less value with respect to the terminal market than that milk on ranches located closer to such terminal markets. A system of regional quota adjusters should be established which reflects this fact (see Attachment D).

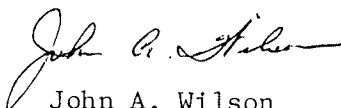
The regional quota adjusters to be established at this time should reflect the value of quota milk relative to the terminal market and should also attempt to minimize the adverse and destabilizing effects of a change from the present plant location differential structure to the ranch regional quota adjuster system.

Processing plants which are essentially involved in the manufacture of Class 4 products regardless of the location of their plant do not contribute to the premiums paid within the quota price. Producers shipping to these plants should not receive transportation allowances paid for by quota milk. Plants which qualify a producer to receive the transportation allowance should be located within a designated receiving area and should have more than 50 percent of the total pounds of milk processed at the plant location into products other than products classified as Class 4a or Class 4b.

Richard E. Rominger
Director of Food and Agriculture

By


Robert A. Abbott
Senior Agricultural Economist
Bureau of Milk Stabilization


John A. Wilson
Supervising Auditor II
Bureau of Milk Pooling

Date 12/20/82

Designated Receiving Areas

1 Shasta

County of:

Shasta

2 Sacramento/Solano

Counties of:

Sacramento

Solano

3 Bay Area

Counties of:

Alameda

Contra Costa

San Francisco

San Mateo

Santa Clara

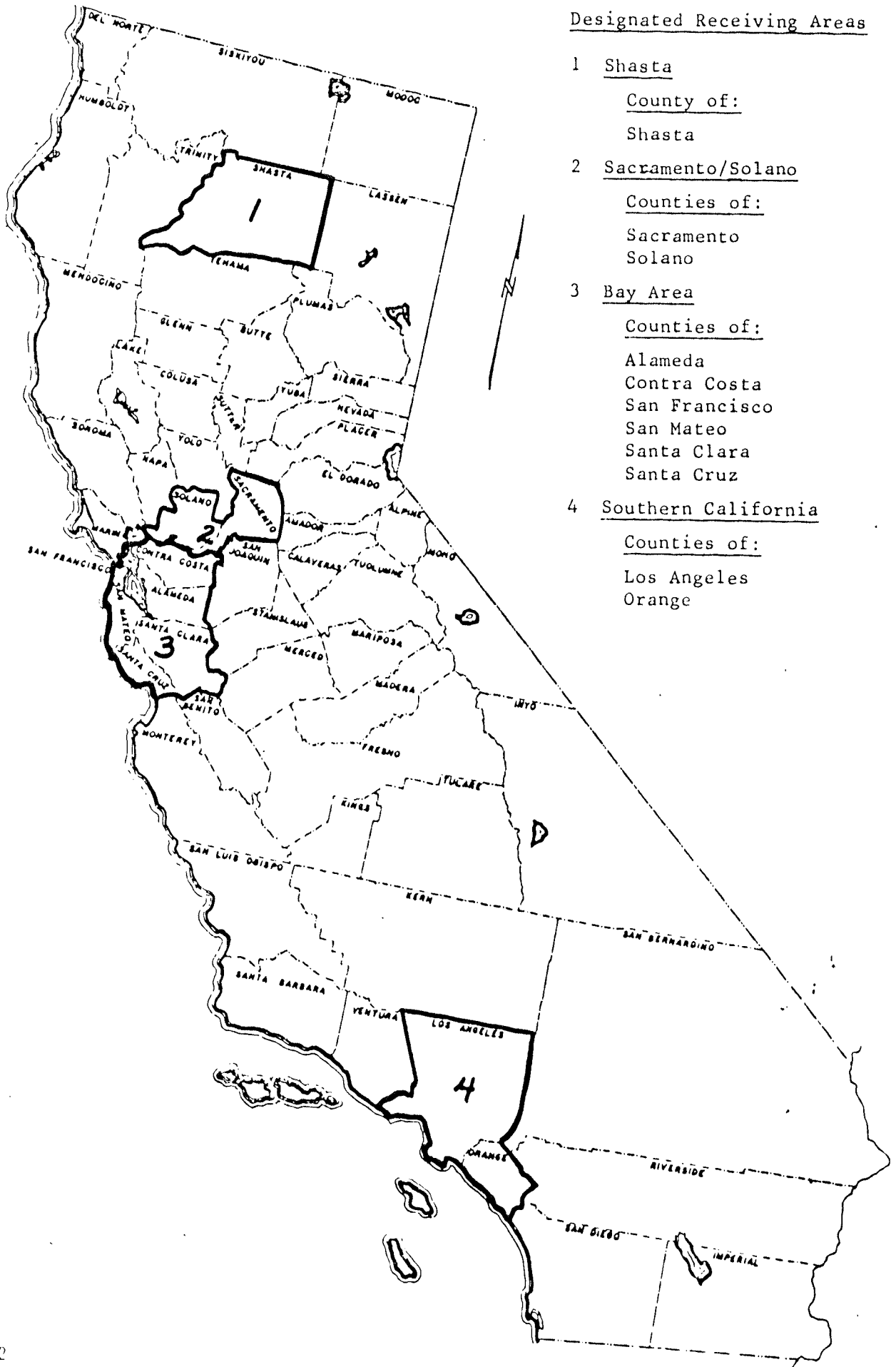
Santa Cruz

4 Southern California

Counties of:

Los Angeles

Orange



Designated Receiving Areas and Transportation Allowances

1. Shasta Receiving Area (Shasta County)

0 - 9 miles	No transportation allowance
10 - 30 miles	\$0.13 per CWT
31 - 50 miles	\$0.16 per CWT
51 and over	\$0.19 per CWT

2. Sacramento/Solano Receiving Area (Sacramento and Solano Counties)

0 - 9 miles	No transportation allowance
10 - 75 miles	\$0.06 per CWT
76 and over	\$0.09 per CWT

3. The Bay Area Receiving Area (Alameda, Contra Costa, San Francisco, San Mateo, Santa Clara and Santa Cruz Counties)

0 - 44 miles	No transportation allowance
45 - 74 miles	\$0.17 per CWT
75 - 100 miles	\$0.20 per CWT
101 and over	\$0.21 per CWT

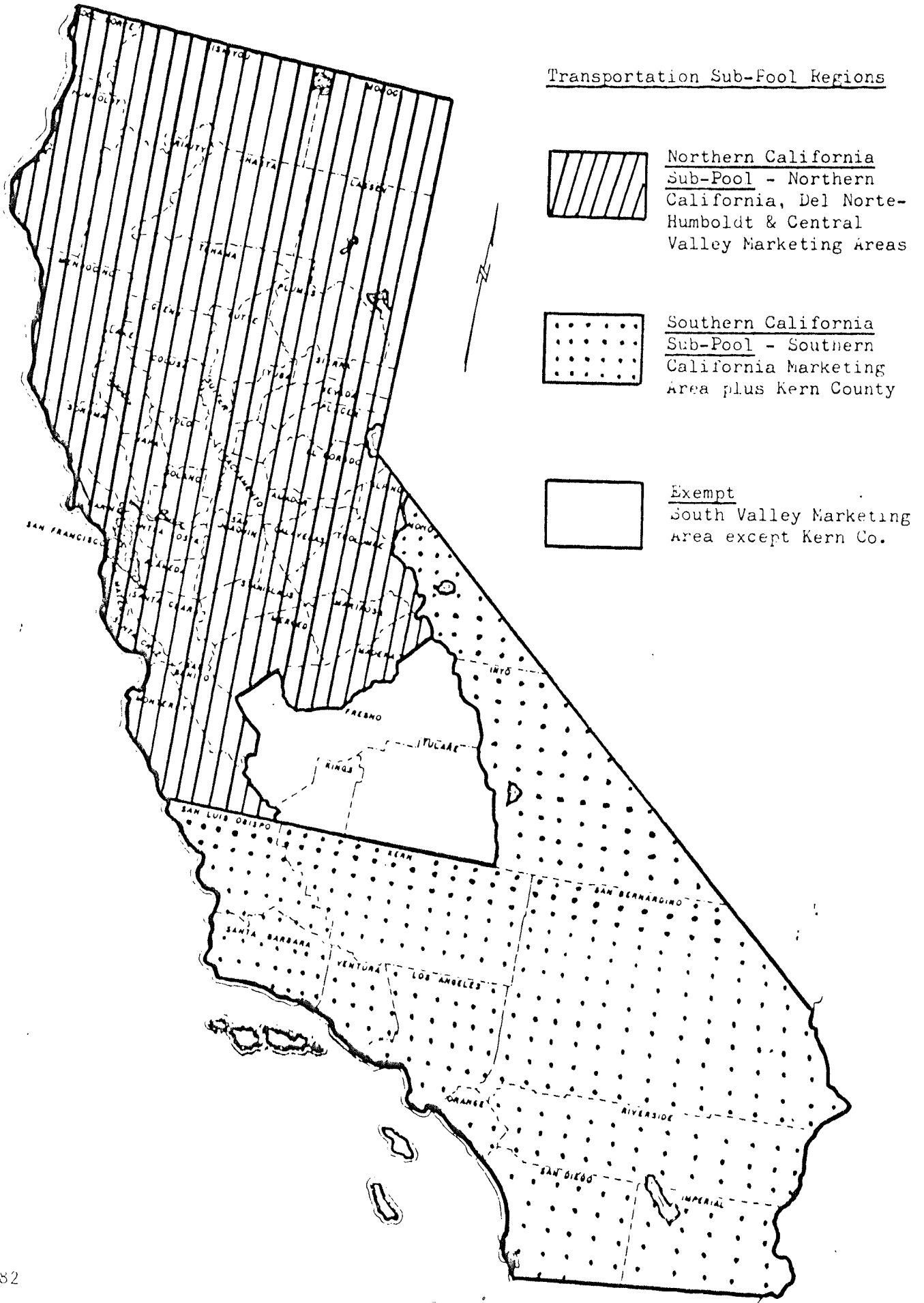
4. Southern California Receiving Area (Los Angeles and Orange Counties)

From Imperial, Inyo, Los Angeles, Mono, Orange
Riverside, San Bernardino, San Diego
and Ventura Counties

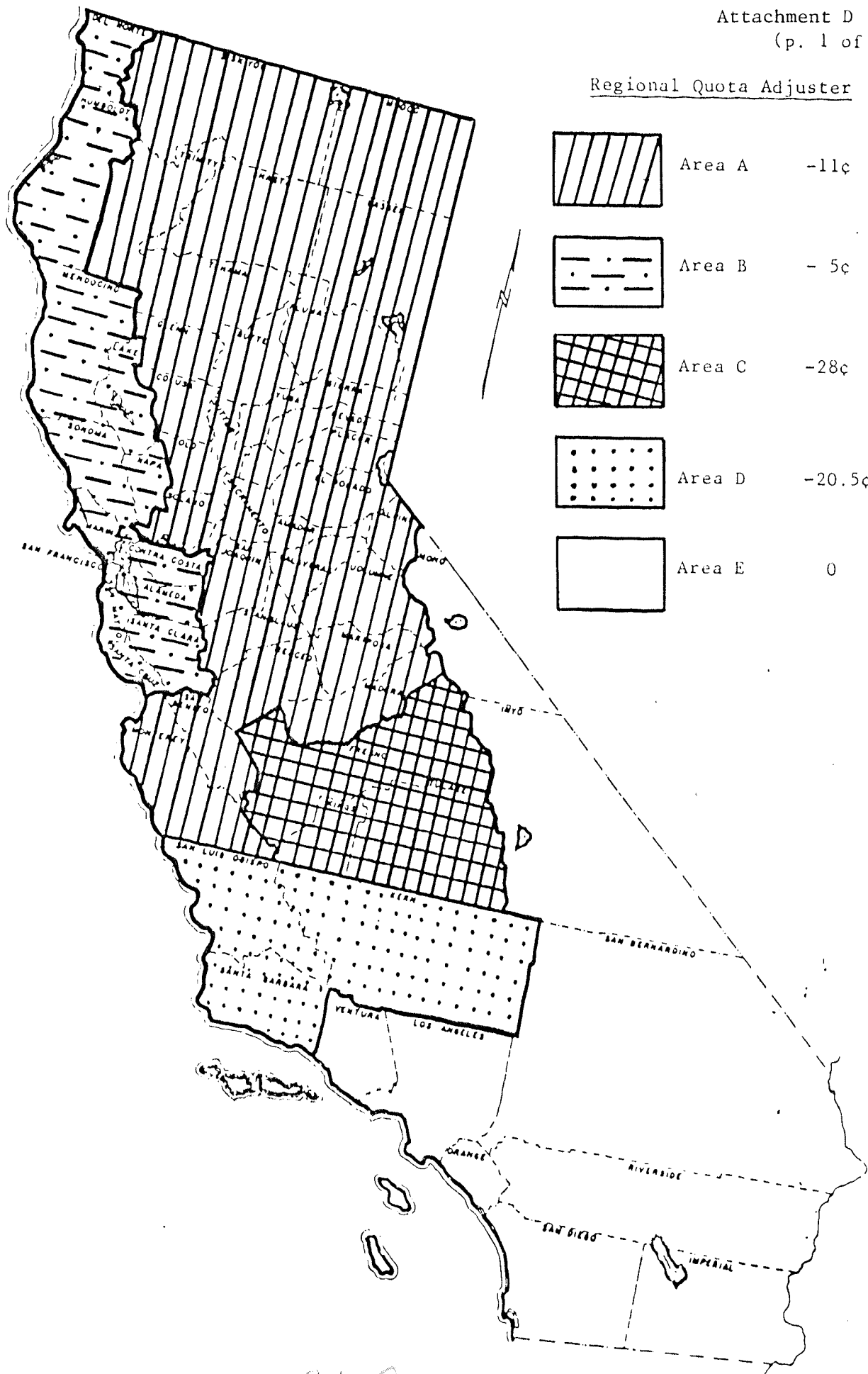
	No transportation allowance
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From all other areas:

0 - 75 miles	No transportation allowance
76 and over	\$0.21 per CWT



Regional Quota Adjuster



Regional Quota Adjuster
Area Definitions

Area A Counties

Alpine
Amador
Butte
Calaveras
Colusa
El Dorado
Glenn
Lassen
Madera
Mariposa
Merced
Modoc
Monterey
Nevada
Placer
Plumas
Sacramento
San Benito
San Joaquin
Shasta
Sierra
Siskiyou
Solano
Stanislaus
Sutter
Tehama
Trinity
Tuolumne
Yolo
Yuba

Area B Counties

Alameda
Contra Costa
Del Norte
Humboldt
Lake
Marin
Mendocino
Napa
San Francisco
San Mateo
Santa Clara
Santa Cruz
Sonoma

Area C Counties

Fresno
Kings
Tulare

Area D Counties

Kern
San Luis Obispo
Santa Barbara

Area E Counties

Imperial
Inyo
Los Angeles
Mono
Orange
Riverside
San Bernardino
San Diego
Ventura