

Quota Review Committee  
June 7, 2007  
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Reports By Committee Members on feedback they have received from other producers:

- Quota System needs change
- Some not sure what the change is. If quota is retired, payout should be at least 75%+ of value.
- Quota is very positive in North Bay
- Committee needs to be able to explain why retirement of quota would be favored- how does it strengthen the pooling system?
- What is the justification to change system?
- How would change affect pooling?
- Quota has value, don't want to lose value
- Leave it alone
- Why do we have Regional Quota Adjusters (RQAs)?
- If quota is going to be retired, NOW is a good time to do it
- If we replace it, what do we replace it with?
- Industry is changing, quota may be an obstacle to making other changes to pooling\pricing system
- Producers want to keep California pooling system, but want to reduce pressure from out-of-state milk
- Quota system does not impact out-of-state milk (opinions differed on this!)
- Retiring quota should be the first step in changing the CA pooling\pricing system
- Quota is not doing the job it was originally was intended to do, (system periodically needs major tweaks (such as blue sky quota issued in 70's; 1991-92 Blue Ribbon Committee that agreed on \$1.70 fixed differential; this Quota Review Committee to evaluate 3 options for Quota)

POSITIVE FACTORS (Option 1- to leaving quota unchanged)

- a. Currently two-thirds of California producers own some quota and benefit from it's ownership
- b. Value/equity of ownership of quota
- c. Quota improves producer profitability (an investment tool) [Rank #1- 7 votes, **Ben Curti**]
- d. Quota does not cause disruption to California pooling\pricing system
- e. Quota holder enjoy a higher return on milk sales [1 vote]
- f. Maintaining current system avoids massive public scrutiny (of a complicated pricing system) [Rank #2- 6 votes, **Dennis Leonardi**]
- g. Quota maintains an historic producer/distributor exemption [Rank #3- 4 votes, **Richard Shehady**]
- h. Maintaining quota helps create a "vote of confidence" in the pooling\quota system [Rank #2- 6 votes, **Frank Konyn**]
- i. Quota is an asset in estate planning
- j. Quota benefits higher cost areas. To change quota system is detrimental to high production cost areas of CA [Rank #3- 4 votes, **Domenic Carinalli**]
- k. Any purchase of Quota will receive higher income to pay it back
- l. No need to terminate Quota
- m. You can deduct quota from taxes (15 years) [Rank #5- 1 vote, **Pete Vander Poel**]
- n. Maintaining Quota preserves time and effort [Rank #4- 2 votes, **Dennis Leonardi**]
- o. Value of quota COULD increase, once known that quota is reaffirmed
- p. Quota is equity/asset (useful with your banker) [Rank #2- 6 votes, **Pete Vander Poel**]
- q. Quota helps protect Pool [Rank #2- 6 votes, **Steve Maddox**]
- r. Quota is another type of investment vs. more cows, land or building improvements

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NEGATIVE FACTORS (Option 1- to leaving quota unchanged)

- a. Quota is only available in a resale market (unless Class 1 sales increase so new quota can be issued)
- b. California's Class 1 milk market share is decreasing [Rank # 6- 1 vote, **Brad Scott**]
- c. If Quota is not changed, refinancing could not be done to help offset costs of higher environmental compliance
- d. If Quota is not changed, we lose the potential to increase the overall California blend price [Rank #4- 3 votes, **Steve Maddox**]
- e. Without a change to Quota it is harder to make other changes to Pooling System [Rank # 5- 2 votes, **Steve Maddox**]
- f. Without a change, \$1.70 differential cannot go up or down
- g. Current system relies on good will of dairy producers to maintain higher payments to holders of Quota
- h. Quota has changed from the original purpose. When \$1.70 was implemented Quota became more of an investment tool. Rank #3- 6 votes, **Brad Scott**]
- i. Non-Quota holders could help vote out current Pooling system returning producers to the old contract system. (Risk). [Rank #1, 11 votes, **Frank Faria**]
- j. Quota COULD go away with NO value. [Rank #2- 8 votes, **Ray Veldhuis**]
- k. It is difficult to gain support for California Pooling\ Pricing System from legislators while CA has Quota and other milk marketing orders do not. [Rank # 5, 2 votes, **Steve Maddox**]
- l. If we make to change, it looks like Committee is "rubber stamping" the current system. [Rank # 6, 1 vote, **Dennis Leonardi**]
- m. With no change to Quota, it is harder to bring supply management ideas to the table. [Rank #5- 2 votes, **Frank Faria**]
- n. Current system brings chaos to market place.
- o. Quota failed to achieve its original goal of equity and has needed tweaks.
- p. Overbase producers are unhappy with \$1.70 spread. Rank #4- 3 votes, **Ben Curti**]

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Modify Quota System

- a. Look at changing Regional Quota Adjusters (RQAs) across the State (Make them all the same in each region). [Rank #1- 10 votes, **Ben Curti, Domenic Caranalli**]
- b. Distribute all Quota to all dairymen and take current money in overbase and redistribute to Quota value losers. [ 1 vote]
- c. Go back to pre 1994 variable spread between Quota and Overbase. Only Quota holders would get higher\lower Class 1, 2, 3 values. [1 vote]
- d. Raise the fixed differential from \$1.70 to a higher level to encourage investment in Quota.
- e. Reinvigorate Quota . Add more value by reconstructing Pool by expanding Classes of Milk. Include and reissue Quota. [ Rank #2 - 6 votes, **Steve Maddow, Frank Konyn**]
- f. Double Quota but cut fixed differential in half from \$1.70 to \$0.85. [Rank #3, 5 votes, **Dennis Leonardi, Richard Shehady**]
- g. Freeze the Overbase going into the Quota Pool. Link Quota Pool only to Class 1, 2, and 3.
- h. Take Regional Quota Adjuster (RQA) money to offset or equalize overbase shipments. (Is this administratively viable?).
- i. Redistribute Quota to ALL producers (1 vote)
- j. Producer/Distributors- Calculate value of milk that is covered by Exempt Quota, compare to historical levels. Consider including it in Pool. [**Dennis Leonardi, Richard Shehady**]

## HOMEWORK ASSIGNMENTS FOR JUNE 18<sup>TH</sup> MEETING

Committee members are to expand on the factor(s) for Options 1 and 2 as assigned above for discussion at June 18<sup>th</sup> Meeting at the Farm Bureau. Assignments can be in an outline format and should not exceed one page in length. Contact other Committee Members or other persons knowledgeable about the dairy industry if you need assistance with your assignment.

Committee members should contact Milk Pooling Branch, Don Shipplehoute (916.341.5901, [dshipplehoute@cdfa.ca.gov](mailto:dshipplehoute@cdfa.ca.gov)) if you need assistance with additional data analysis or contact facilitator Jim Morgan (707.321.1330, [jim@stdynamics.com](mailto:jim@stdynamics.com)) if you need general clarification.

**HOMEWORK EXAMPLE** (if you were assigned to expand on Positive Factor Option 1 a. *(Currently two-thirds of California producers own some Quota and benefit from it's ownership)*)

Your research might include handouts to the Committee from Milk Pooling Branch showing the number of producers owning Quota. You may also wish to provide general knowledge you or other informed persons may have about extra value returned to Quota holders. The History of Milk Pooling Article or the McKinsey Report could also be a source for you.

**Possible Assignment Comments for the factor mentioned above (Currently two-thirds of California producers own some Quota and benefit from it's ownership)**

- a. In May 2007 Quota traded at an average of \$497 per pound according to the Milk Pooling Report on sales by 13 sellers, 15 buyers.
- b. The Pooling Report from the 1<sup>st</sup> Meeting showed 1,812 California producers pooled with only 650 producers NOT owning quota. (650 divided by 1812 = 35% with no quota)
- c. Quota holders receive up to \$1.70 per cwt. more for Quota milk than Overbase.
- d. Regional Quota Adjusters reduce the \$1.70 in some areas to as low as \$1.43 per cwt. in Fresno, Kings and Tulare Counties.
- e. The McKinsey Report (Part 2, page 39) says the "implied yield on quota is around 16 percent per year."
- f. Most producers in my area own quota and some are buying more because it has been a good investment in the past.

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**SUMMARY - ASSIGNMENTS FOR JUNE 18, 2007 MEETING**

<b>MEMBER ASSIGNED</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>	<b>Factor 4</b>	<b>Factor 5</b>
<b>Dominic</b>	j. Option 1, Positive	a. Option 2, with Ben			
<b>Frank K.</b>	h. Option 1, Positive	e. Option 2, with Steve			
<b>Pete</b>	m. Option 1, Positive	p. Option 1, Positive			
<b>Steve</b>	q. Option 1, Positive	d. Option 1 Negative	e. Option 1 Negative	k. Option 1 Negative	e. Option 2, with Frank K.
<b>Frank F.</b>	i. Option 1 Negative	m. Option 1 Negative			
<b>Ben</b>	c. Option 1, Positive	p. Option 1, Negative	a. Option 2 with Dominic		
<b>Ray</b>	j. Option 1, Negative				
<b>Dennis</b>	f. Option 1, Positive	n. Option 1, Positive	l. Option 1, Negative	f. Option 2, with Richard	j. Option 2, with Richard
<b>Richard</b>	g. Option 1, Positive	f. Option 2 with Dennis	j. Option 2 with Dennis		
<b>Brad</b>	b. Option 1, Negative	h. Option 1, Negative			