California Producer Handlers Association

California Federal Order Supplemental Proposal

May 5-7, 2015 • California
CPHA Producer-Handlers

- Foster Dairy Farms, Inc.
- Hollandia Dairy, Inc.
- Producers Dairy Foods, Inc.
- Rockview Dairies, Inc.
CPHA Supplemental Proposal

Preserve Producer-Handler Quota exemption that has existed for nearly 50 years.
Producer-Handlers’ Business

Dairy Farm milks cows

Processes raw milk into final product

Markets and delivers product to customer

Retail outlets
California Milk Stabilization Act

1935 Young Act

- Stabilization Act to protect dairy farmers from price fluctuations and predatory pricing
- Established milk Classifications (1, 2, 3, 4a, 4b)
- Producers ➔ Processors
- Pricing depended on contract with processors
- Extreme competition for Class 1
- California unique from Federal Order
California Pooling Act
1967 Pooling Act (effective 1969)

- Response to competitive abuses
- Producer prices not dependent on milk produced
- All milk (unless exempt) bought by Producers put into financial pool
- Negotiated for each type of Producer
- Quota system established
  - Quota higher price assigned to Producers based on historical Class 1 production
  - Base lower price assigned to Producers for non-Class 1 production
  - Overbase paid to Producer for anything beyond Base/Quota
- Producer-Handlers Quota exempt from Pooling Act based on historical Class 1 production and sales
Producer-Handlers Exemption

- Producer-Handlers vertically integrated
  - Produced, processed, marketed, distributed and serviced own customers
  - Created their own Class 1 market (farm → consumer)
  - Not subject to same processor price pressures and destructive trade practices
Producer-Handlers
Quota Exemption

• Producer-Handlers granted exempt Quota for their own historical production of Class 1 milk

• Remainder of production assigned as regular Quota and Base like other Producers

• Exempt Quota does not qualify for transportation credit, but Regular Quota can take transportation credit
California Producer Handlers Association
May 2015, California, USDA Public Outreach Sessions

Producer-Handlers

Exempt Quota

Quota

Overbase

Base

Overbase

Base

Regular Quota

Exempt Quota
Exempt Quota v. Regular Quota

- **Exempt**
  - Fixed volume of milk treated as exempt
  - Ok to own regular Quota as well
  - Anything in excess of exempt Quota is treated as regular Quota or overbase (Pooled)
  - Price paid to Producer-Handlers negotiated with customers

- **Regular Quota**
  - Subject to pool and pool pricing
  - Qualifies for Transportation Credits

❖ Producer-Handlers can hold both Exempt and Regular Quota
Exempt Quota Requirements

• Producer ownership and Processor ownership must be at least 95% identical
• Ownership determined when exempt Quota obtained
• Cannot exceed 10 individuals
• Stay within 4 degrees of consanguinity, adopted children, and half-blood lineage
• Cannot sell exemption – only as regular Quota

❖ Loss of exemption = never get it back, treated as regular Quota
Producer-Handler Investment

- Business structures controlled by Exempt Quota requirements
- Nearly $10 million invested for Exempt Quota
- Preserve family businesses
- 81,992.28 pounds per day Exempt Quota
- Represents only 0.6% of total milk production in California
Federal Order Producer-Handler

• 3 mm pounds / month threshold
  – Exempt if produce less than 3mm lbs / month
  – Non-exempt if produce more than 3mm lbs / month
• All or nothing

❖ None of the California Producer-Handlers would qualify
Preserve Exempt Quota Treatment

• Quota system preserves all Quota treatment

• No change to Producer-Handler definition allowing 3mm lb per month

• Grandfather prior Exempt Quota
  – Preserves 50 years of investment and family lineage entities
  – No allowance to expand, sell or transfer exemption
  – Retain restrictions (except degrees of consanguinity)
  – Any additional Quota is regular quota
Degrees of Consanguinity

Consanguinity and the Degree of Relationships

Decedent

Children

Grandchildren

Parents

Brothers/Sisters

Nephews/Nieces

Great Grandparents

Grandparents

Uncles/Aunts

1st Cousins

2nd Cousins

Great Uncles/Great Aunts

1st Cousins Once Removed

2nd Cousins Once Removed

1st Cousins Twice Removed

2nd Cousins Twice Removed
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