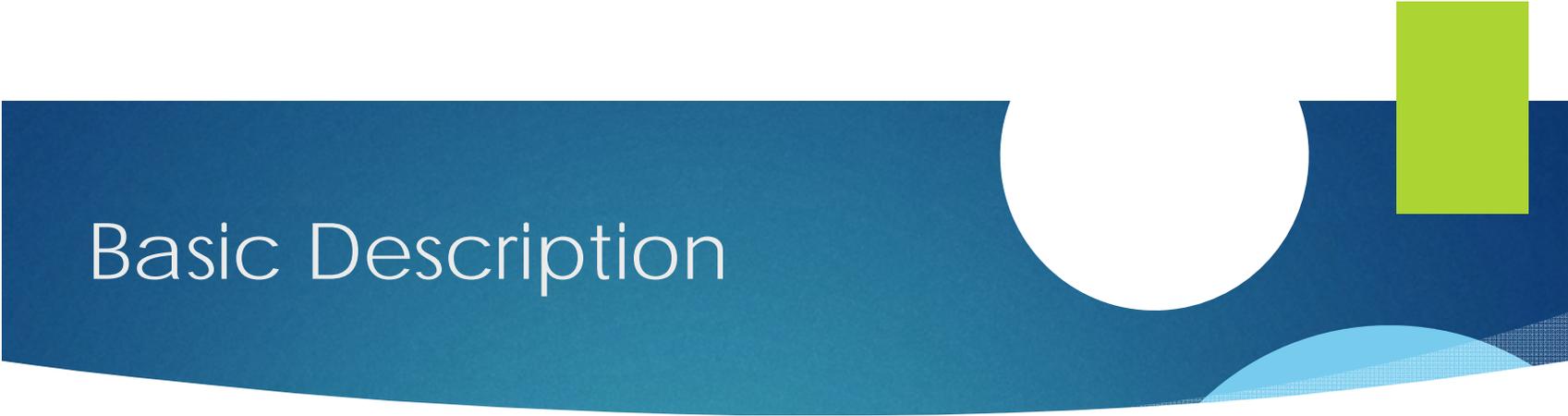




# Alternative California FMMO Proposal

DAIRY INSTITUTE OF CALIFORNIA

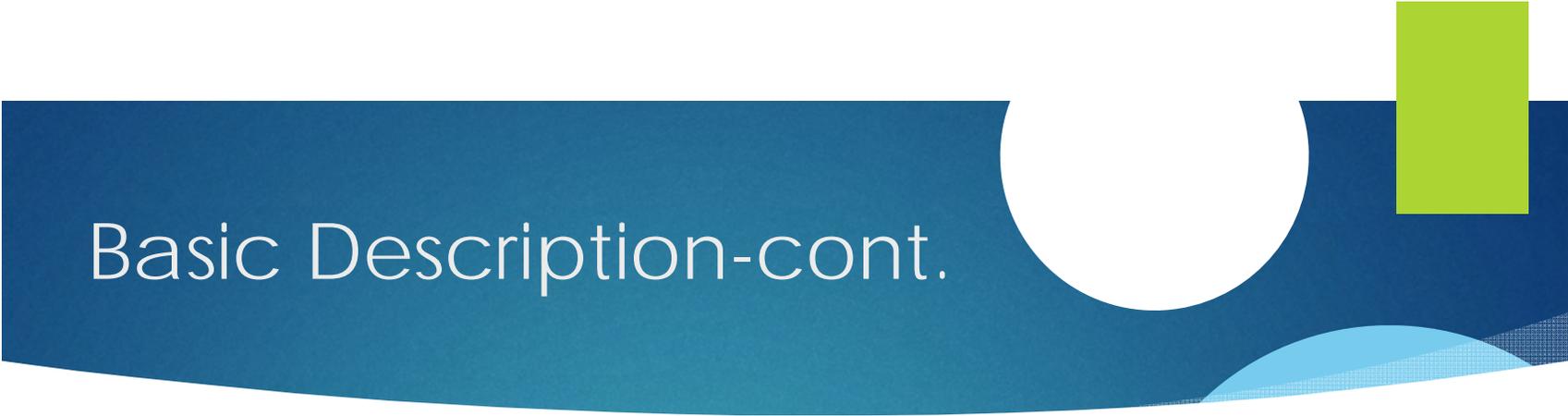


# Basic Description

- ▶ The marketing area will be the State of California.
- ▶ Provides for re-blending of producer revenues to recognize quota value. Quota milk will be subject to higher performance standards, as well as call provisions.
- ▶ Pooling is voluntary for all plants that are not pool distributing plants (Class I plants) as in all other existing FMMOs
- ▶ Producer milk must qualify in order to be pooled. Supply plants must meet shipping requirements and diversion limits in order to be pool plants under the order (no automatic, mandatory, or inclusive pooling).
- ▶ De-pooled milk will be subject to re-pooling restrictions.

## Basic Description-cont.

- ▶ Dairy products will be classified as they are currently in other FMMOs, except that the shrinkage allowance is increased at UP/Aseptic fluid milk plants.
- ▶ Class Prices:
  - ▶ Class I prices will be based on three components: fat, nonfat solids, and fluid carrier.
  - ▶ Class III and Class IV component values will be based on western dairy product values and manufacturing costs. These component price formulas will be used in establishing Class II fat, skim, and nonfat solids prices, as well as the Class I, fat, skim, nonfat solids, and fluid carrier prices.
- ▶ Fortification allowances will be available to offset some of the cost of making fluid products that meet California's fluid milk standards.



## Basic Description-cont.

- ▶ Transportation Assistance.
  - ▶ Transportation allowances and credits will be available from the pool for producers and plants making qualifying shipments to plants in milk-deficit receiving areas.
- ▶ Pool Prices
  - ▶ Producers will be paid Class III component prices plus or minus the order producer payment differential (PPD) adjusted for location as in other FMMOs.
- ▶ Producer Payment
  - ▶ Producers will receive a partial payment directly from their milk handler and a final payment from the Market Administrator or CDFA.

# Definitions

- ▶ Pool distributing plant:
  - ▶ A)  $\geq 15\%$  of milk receipts as Class I, and  $\geq 25\%$  distributed in the marketing area.
  - ▶ B)  $\geq 15\%$  of milk receipts as Class I (UP or Aseptic).
- ▶ Supply Plant:
  - ▶ Quantity delivered as qualifying shipments must be 10% of Grade A receipts.
  - ▶ Provisions to increase shipping percentage if three-month trailing Class I utilization in the marketwide pool is above certain threshold percentages.



# Definitions

- ▶ Handler:
  - ▶ Adds a proprietary bulk tank handler designation to the handler definition. Allows a manufacturing plant operator to be the responsible handler for the milk it delivers to the pool plant of another handler.
- ▶ Producer-handler:
  - ▶ Follows the producer-handler definition in the Pacific Northwest Order.
  - ▶ Specifies that ownership of quota does not provide the operator of a pool distributing plant any type of exemption from meeting its pool obligations.

# Definitions

- ▶ Producer:
  - ▶ Producers are paid for milk based on the location of the plant of first receipt.
  - ▶ A dairy farmer's milk shall not be eligible for diversion to nonpool plants unless the lessor of 48,000 pounds or one day's production of such dairy farmer's milk is physically received at a pool plant during the first month the dairy farmer is a producer under the order.
  - ▶ The quantity of milk that may be diverted by a handler to a nonpool plant shall be no greater than 100% minus the applicable supply plant shipping percentage.
  - ▶ Re-pooling restrictions on de-pooled milk are those currently employed in the Upper Midwest order (no more than 125% of the milk pooled in the previous month).



# Quota

- ▶ Quota will be administered by CDFA.
- ▶ California producers have a choice as to whether they want to be paid traditional federal order blend price (Class III +/- PPD) or the quota/overbase price.
- ▶ Operation of the FMMO traditional pool and the California quota program will be jointly administered by USDA and CDFA under a memorandum of understanding.
- ▶ Handlers pay their classified use values, first as a partial payment to producers directly, the remainder (final payment) will be paid to the market administrator.



# Quota

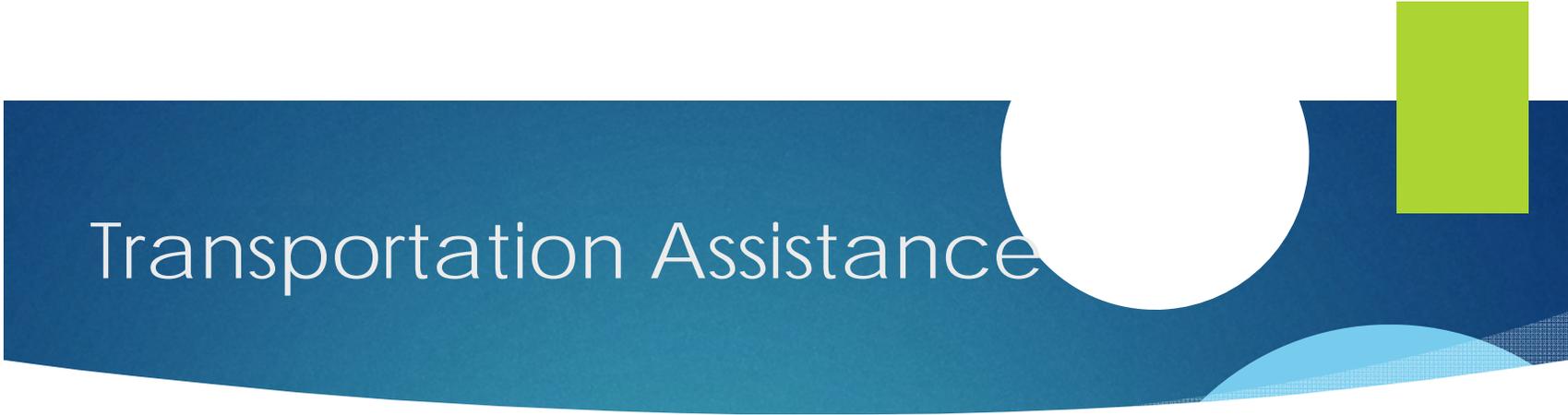
- ▶ The Market Administrator will establish a traditional statistical uniform price and PPD as in other Federal orders with multiple component pricing.
- ▶ The Market Administrator will pay out-of-state dairy farmers and California dairy farmers who elect to receive the traditional order blend, the statistical uniform price and PPD (adjusted based on the location of the plant of first receipt).
- ▶ All remaining funds are paid over to CDFA to be re-blended and distributed in accordance with the California quota system.
- ▶ Producers will be paid based on quota/overbase unless they irrevocably notify the Market Administrator that they wish to be paid the order blend.

# Class Prices

- ▶ Class III and Class IV component formulas have the same structure as current FMMO formulas.
- ▶ Under the California FMMO, commodity prices for butter, cheddar cheese, nonfat dry milk and dry whey will be those derived from a weighted average of western plants, as opposed to a US average.
- ▶ Manufacturing cost allowances for each commodity will be based on a survey of manufacturing costs in western plants.
- ▶ Cheddar cheese prices and costs will be for 40# blocks of cheddar, rather than a modified block/barrel average.

# Class Prices

- ▶ Class I and Class II prices will be calculated using the Class III and Class IV formulas applied to advance prices (except in the case of Class II fat, which shall use the Class III/IV fat price adjusted for the Class II differential).
- ▶ Class I prices for fat and skim are calculated in the same way as in the other federal orders.
- ▶ Class I differentials must be justified, but the current modified Option 1A price surface is included in the proposal.
- ▶ After the Class I skim price is calculated it is used to calculate a Class I nonfat solids and Class I fluid carrier price by apportioning 24% of the skim value to fluid carrier and 76% of the skim value to nonfat solids.
- ▶ Plants with Class I use will pay into the pool based on quantity of each of those components utilized in Class I multiplied by the appropriate component price.



# Transportation Assistance

- ▶ The order will provide for a system of transportation allowances and credits to facilitate milk movement to deficit areas.
- ▶ The allowances (ranch to plant) and credits (plant to plant) will be established with payments made from the pool.
- ▶ Based on current transportation allowance and credit rates in California, less any implicit transportation assistance provided by the Class I price surface and location differentials used in calculating the producer's PPD at the location of the plant of first receipt for the producer's milk.



# Other

- ▶ Producer payment dates will provide for partial and final check each month on dates which generally track those employed in other FMMOs
- ▶ All handlers and cooperatives will be required to file monthly reports of receipts and utilization to the Market Administrator.
- ▶ Information necessary for administration of the quota program will be made available by the market administrator to CDFA and all information necessary shall be made available by CDFA to the Market Administrator.