

TESTIMONY
of
Robert Horton
on behalf of
California Department of Food and Agriculture
Milk Pooling Branch

Mr. Hearing Officer and member of the Hearing Panel:

My name is Robert Horton, and I am the Chief of the Milk Pooling Branch, California Department of Food and Agriculture. I have been asked by the United States Department of Agriculture to testify here today to explain how milk is Pooled under the California Milk Pooling Order.

The Gonsalves Milk Pooling Act, which went into effect on July 1, 1969, authorizes the Secretary of the California Department of Food and Agriculture to operate a statewide pooling system under specific guidelines. These statutes provide for the formulation and adoption of Milk Pooling Plans for Market Milk.

The California Pooling system is similar to Federal Orders except California has a Quota system. During the preliminary stages of formulating a plan, basic milk production data were gathered to establish two benchmarks for each eligible producer, Production Base and Pool Quota. Production Base and Pool Quota were established for each producer by milk fat and solids-not-fat on an average daily basis. The Production Base was computed by dividing the total production during the base period by the number of days market milk was produced. Pool Quota was established as 110 percent of the Class 1 utilization accounted for during the base period divided by the number of days in that period the producer actually had Class 1 utilization. The amount by which the Production Base exceeds Pool Quota was designated as Base. A producers' Production Base and Pool Quota is transferable with some restrictions.

Market milk shipped by a producer through a pool handler cannot be defined as Quota Milk or Overbase Milk. Quota, Base and Overbase are the different prices paid to a producer for the milk they produce based on the producers' daily Production Base and Pool Quota entitlement.

For pooling purposes, a cooperative association is treated as a single producer, for both producer payment and pool settlement purposes. The daily Production Base and Pool Quota entitlements for members of a cooperative association belongs to the individual producer but is assigned to the custody and control of the cooperative association. (Sec. 62710)

As in the Federal Orders, the California Order is designed to promote orderly marketing conditions by applying a uniform pricing system throughout the market. The pooling system provides the sharing among producers the value from all milk uses.

California has a pricing system which handlers pay for bulk milk based on their monthly usage. This usage is accumulated by the pooling system statewide to determine the producer prices. Producers are paid based on their allocated Quota, Base and Overbase by components as determined by the producers' actual butterfat and solids-not-fat. Since cooperatives are treated as a single producer, the individual producer daily Production Base and Pool Quota entitlements are added together to determine the cooperatives pool settlement.

In January 1994, the California Legislature adopted a major Milk Pooling reform language at the request of producers. The value between the Quota price and the Overbase price was fixed at \$1.70 CWT. This change was determined to be a more equitable method by producers to share all revenue contained in the pool. Prior to the amendments, the difference between quota and overbase prices fluctuated greatly in the range of \$5.00 CWT to, on occasion, Overbase price being more than the Quota price. The other change made by this legislation was to fix the Base price at the same level as the Overbase price.

All market milk produced and marketed through a Pool Plant in California is pooled. To become a Pool Plant, a California handler or cooperative must have direct or indirect Class 1 or Class 2 usage. A California nonpool plant is a plant that does not qualify as a pool plant. A nonpool cheese plant can qualify as a pool plant if they have contract producers and ship milk each month to a plant that produces Class 1 or Class 2 products. If a Pool Plant transfers or diverts milk to a nonpool plant, the milk is pooled because it's marketed through a Pool Plant. In California, all cooperatives are qualified to be Pool Plants and all their members market milk is pooled except market milk shipped directly to handlers out-of-state. [Milk shipped directly out-of-state by a producer, including a cooperative acting for their member, is not pooled and not accounted for in the California pooling system.]

For the purpose of this hearing I present the attached table comparing milk prices for Class 4b (Cheese milk) and the California Overbase price. The table covers the period of September 1999 through April 2001 and shows the difference between the Overbase price and the Class 4b price. September 1999 was the last time the Class 4b prices exceeded the Overbase price. For the months of October 1999 through April 2001 the Overbase price exceeded the Class 4b price by at least \$0.45 CWT and as much as \$2.28 CWT.

This concludes my testimony. Mr. Krug and I will be happy to answer questions regarding how the California pool works at this time.

**CALIFORNIA MILK POOLING PROGRAM
CALIFORNIA POOL PRICES VS CLASS 4b (Cheese) PRICE**

	OVERBASE CWT	CLASS 4b CWT	Difference OB/4b
SEPTEMBER '99	\$ 13.62	\$ 15.06	\$ (1.44)
OCTOBER	\$ 12.11	\$ 11.66	\$ 0.45
NOVEMBER	\$ 12.11	\$ 9.88	\$ 2.23
DECEMBER	\$ 10.46	\$ 9.67	\$ 0.79
JANUARY '00	\$ 10.05	\$ 9.58	\$ 0.47
FEBRUARY	\$ 9.95	\$ 9.28	\$ 0.67
MARCH	\$ 10.03	\$ 9.34	\$ 0.69
APRIL	\$ 10.36	\$ 9.27	\$ 1.09
MAY	\$ 10.54	\$ 9.17	\$ 1.37
JUNE	\$ 11.08	\$ 9.98	\$ 1.10
JULY	\$ 11.30	\$ 10.64	\$ 0.66
AUGUST	\$ 11.32	\$ 10.57	\$ 0.75
SEPTEMBER	\$ 11.61	\$ 11.32	\$ 0.29
OCTOBER	\$ 10.59	\$ 9.01	\$ 1.58
NOVEMBER	\$ 10.99	\$ 8.71	\$ 2.28
DECEMBER	\$ 11.28	\$ 9.39	\$ 1.89
JANUARY '01	\$ 11.03	\$ 9.22	\$ 1.81
FEBRUARY	\$ 11.34	\$ 10.05	\$ 1.29
MARCH	\$ 12.18	\$ 11.34	\$ 0.84
APRIL	\$ 12.95	\$ 12.12	\$ 0.83

Hundredweight prices (CWT) are bases on 3.5% Fat and 8.7% Solids-Not-Fat