

pooled simultaneously on the California State order and the Upper Midwest order. Hilmar Cheese (Hilmar) produces a variety of cheeses which are marketed throughout the United States. The Hilmar witness testified that the California milk order system employs marketwide pooling.

The Hilmar witness stated that dairymen in California participate in a marketwide pool through a regulated milk pricing and pooling system that includes quota milk and that is operated by the State of California. The Hilmar witness confirmed the testimony of the California State government witnesses that all Grade A milk sold to a pool plant in California is associated with the pool and shares in the revenue generated from the use of milk in all classes of use. While all plants that manufacture milk into manufactured products such as cheese, frozen products, butter, and milk powder need not be pool plants, said the witness, most plants opt to participate in the pool so that their dairy farmers can reap the benefits of marketwide pooling. Manufacturing plants become pool plants, said Hilmar, by making some of their milk receipts available for Class I and Class II uses. Producers are paid for their milk on the basis of the milk components they ship and on the proportion of their milk sales that are covered by their quota holdings, said this witness. Fat and solids-not-fat, said Hilmar, have their own separate pools, and all producers share equally in the revenue generated by sales in the various milk classes. The total revenue from solids-not-fat in all classes, including revenue from the Class I fluid carrier value, is first adjusted to pay for transportation allowances and credits, and the remaining revenue is reduced by the total value of milk that is quota milk, said the witness. The quota milk pool is determined, said Hilmar, primarily by the pounds of solids-not-fat quota shipped multiplied by the quota premium of \$0.195 per pound of solids-not-fat, which is also equal to \$1.70 per hundredweight. After deducting the value of quota milk from the adjusted solids-not-fat revenue in the pool, the remaining revenue is divided by the total pounds of solids-not-fat to obtain the overbase (product in excess of quota) and the base solids-not-fat price, said the witness. The quota solids-not-fat price, said Hilmar, is equal to the overbase price plus \$0.195 per pound. Under the California milk pooling system, testified Hilmar, all dairy farmers in the pool receive a portion of the revenue from milk sales in all milk classes, even though some dairy farmers

will receive more as quota holders than those who hold less quota or no quota.

Because of this revenue sharing with all producers pooled under the California system, testified the Hilmar witness, the same dairy farmers should not also have the opportunity to pool the same milk on a Federal milk order. The witness found it odd that some producers would seek to capture pool revenue from other parts of the country and, at the same time, collect pool revenue from the California pool. Engaging in this sort of behavior, said the Hilmar witness, results in some undesirable consequences. The witness presented an analysis of a 17-month period (beginning with the implementation of order reform) that compared California milk prices with Federal order milk prices. This analysis revealed, according to the witness, that during the 17-month time period, the California overbase price averaged \$11.21 per hundredweight (cwt), or \$1.03 per cwt over the California Class 4-B (milk used in cheese) milk price. In the Upper Midwest order at Hennepin County (Minneapolis), noted the witness, milk value was only 73 cents higher than the order's Class III price at the reference test. The witness drew attention to the California overbase price averaging nearly 22 cents above the Upper Midwest statistical blend price despite the use of a quota system by California. California overbase dairy farmers, said the witness, already benefit significantly from its diverse product pool, and quota holders benefit in prices received by an additional \$1.70 per cwt of milk.

There is an inequity to Upper Midwest producers, said Hilmar, when California overbase milk is pooled in both California and on the Upper Midwest order. Hilmar compared the producer price differential (PPD) for two different locations in the Upper Midwest marketing area (Chicago and Minneapolis) with a plant located in Glenn County, California (some 90 minutes north of Sacramento), where milk pooled under the Upper Midwest order is received. Hilmar testified that comparison of both the California overbase price and the Federal order PPD on the California milk that is pooled but not delivered to the Upper Midwest results in a 95-cent net higher price for the "double-pooled" California milk than from California milk not pooled on Order 30. According to the Hilmar witness, the double pooling only serves to augment California prices received by producers by drawing money from the Upper Midwest market, which already has milk prices lower than California's.

In light of their analysis, said Hilmar, double dipping is not the type of innovation that creates real value, and double dipping only moves money and distorts and discourages—and ultimately damages—the dairy industry. Hilmar chose not to engage in this behavior.

Additional support for eliminating double dipping was offered by a representative of Marigold Foods. Marigold Foods (Marigold) is a handler that has five regulated distributing plants located within the Upper Midwest order. Marigold is concerned, the witness indicated, about California milk being pooled on the order and reducing dollars paid to their local dairy farmers. According to the Marigold witness, California milk is not leaving the State of California and is not available to serve the fluid market in Order 30. Marigold indicated that they pay a \$1.70 Class I differential on most of their milk purchases as well as over-order premiums to assure a supply of milk. However competitive the over-order premiums, Marigold indicated, they are not enough to assure themselves a supply of milk, noting that several of their suppliers have indicated a financial need to reduce shipments to Marigold's distributing plants. The witness attributed this situation to the ability of California milk to be pooled simultaneously on the California State order and on Order 30.

The Marigold witness testified that the Order 30 PPD was being reduced by 10 to 15 cents per cwt by the pooling of California milk. Marigold indicated that this money was funded by the market's Class I fluid milk processors and that these funds should be going to the dairy farmers who serve, or are available to serve as needed, the Order 30 fluid market. Marigold stressed that they already compete for a supply of milk with handlers who are regulated by another Federal order and with entities who have obtained funds from Order 30 from the pooling of California milk. Competing with California only intensifies an inequitable situation in Marigold's ability to compete for a supply of milk, said the witness.

Marigold stated that it is through a regulatory loophole that producer milk which is not available to serve the fluid market is permitted to receive money from the Order 30 pool when the same milk is already receiving a benefit from marketwide pooling in a State-operated order. The witness said that this situation is unjust and contrary to the purposes of the legislation that authorizes Federal milk marketing orders for bringing forth an adequate supply of milk to meet fluid needs.