

# 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

3

**California Producer Handlers Association**

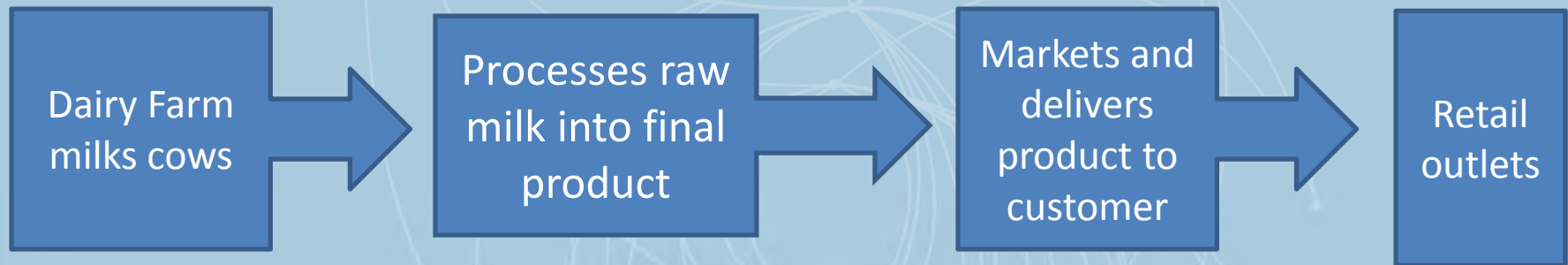
May 2015, California, USDA Public Outreach Sessions

 **STOEL RIVES** LLP  
ATTORNEYS AT LAW



# Producer-Handlers' Business


---



# 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

5

# 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

6



# 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

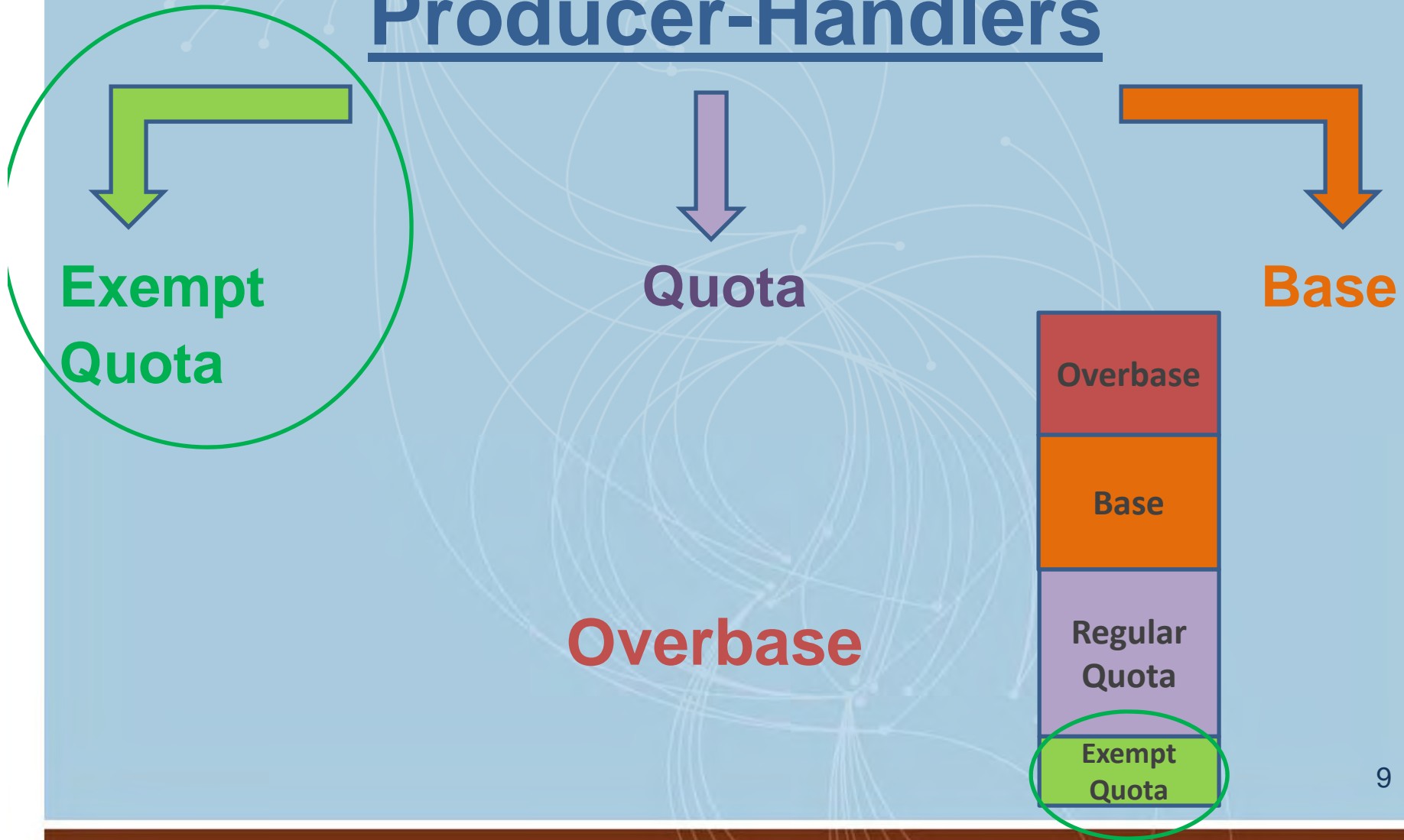
---

- 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

8



# Producer-Handlers



# 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** 10

# 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

11



# 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

12

# 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

13

# Preserve Exempt Quota Treatment

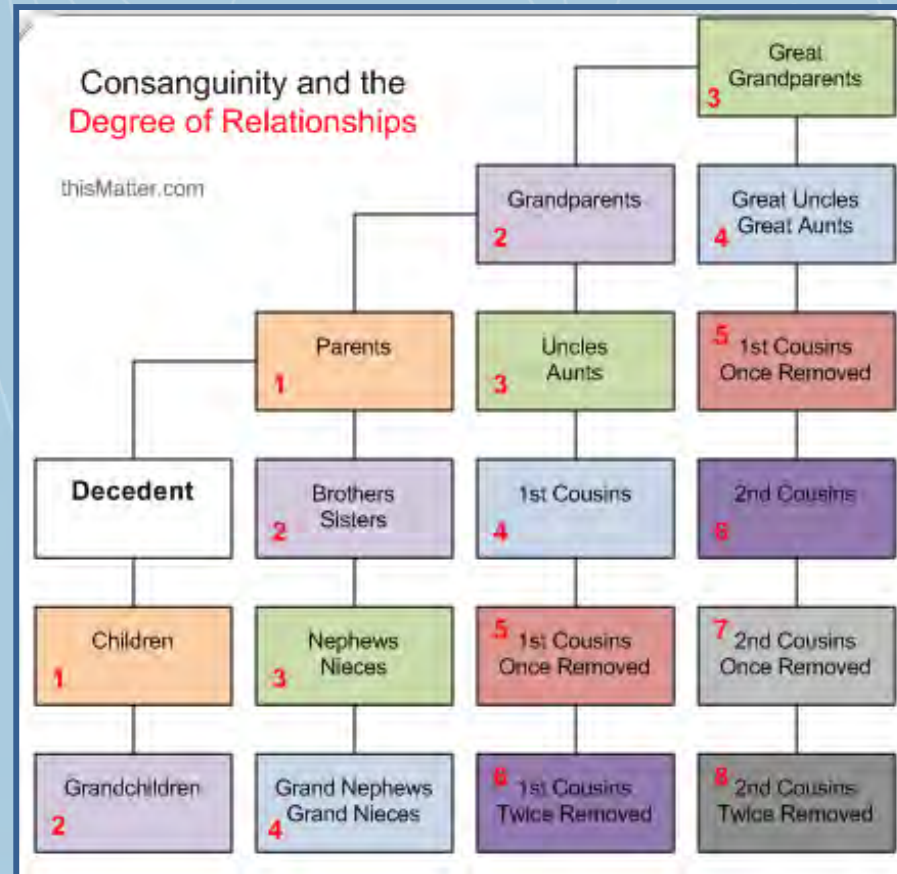
---

- 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

14



# Degrees of Consanguinity



# Contact Information

---

**Nicole C. Hancock**

Attorney

101 S Capitol Boulevard, Suite 1900

Boise, Idaho 83702

208-387-4231

nchancock@stoel.com

16

**California Producer Handlers Association**

May 2015, California, USDA Public Outreach Sessions

