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**Before the**  
**AGRICULTURAL MARKETING SERVICE**  
**UNITED STATES DEPARTMENT OF AGRICULTURE**  
**Bloomington, Minnesota**  
**June 26, 2001**

With Respect to  
Docket No. AO-361-A35; DA-01-03  
Milk in the Upper Midwest Marketing Area  
Hearing on Proposed Amendments to Tentative Marketing Agreements and Orders

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Testimony of John Jeter  
**Chief Executive Officer and President  
Hilmar Cheese Company, Inc.**

My name is John Jeter. I am Chief Executive Officer and President of Hilmar Cheese Company, Inc., whom I represent today at this hearing. Hilmar Cheese Company operates a cheese and whey products facility in Hilmar, California. The majority of Hilmar Cheese Company's production is American natural cheeses, including Cheddar, Monterey Jack, Colby and Pepper Jack. We market cheese throughout the United States.

I am testifying today in support of the proposals to limit the ability of handlers to pool milk under the Upper Midwest Order that is already pooled on a state order. Federal Orders prohibit "double dipping" between orders. They should also prohibit the practice between federal and state orders.

Dairymen in California already participate in a market pool. California dairy producers, by their own choice, have a regulated milk pricing and pooling system that includes quota. That does not mean, however, that non-quota dairymen do not share in all markets. Let me explain how the California milk pooling system works:

All dairymen producing Grade A milk for sale to a pool plant are associated with the pool and share in revenues generated from sales of milk in all classes. Pool plants are those plants with either direct or derived usage in Class 1 (fluid products) and 2 (cultured products). Plants that manufacture products in Class 3 (frozen products), Class 4a (butter and milk powder), or Class 4b (cheese) are not required to be pooled; however, most of the plants elect to participate in the pool so that their shippers can participate in pool

proceeds coming to them through the overbase and quota prices. These plants become part of the pool by diverting some of their plant milk receipts to Class 1 or Class 2 uses.

Producers are paid on the basis of the milk components they ship and on the proportion of their milk sales that are covered by their holdings of pool quota. Separate pool prices are established for fat and solids not fat. The calculation of pool fat prices is quite straightforward. The total butterfat revenue from all milk classes is adjusted for transportation credits, which apply to certain plant to plant milk shipments. The revenue that remains after the adjustment is then divided by the total butterfat pounds in the pool. The resulting price becomes the quota, base, and overbase fat price for the month. Thus all producers share equally in the milkfat revenues generated by sales in the various milk classes.

The calculation of prices for nonfat solids is slightly more complicated. The total revenue generated from solids not fat sales in all classes (including revenue from Class 1 fluid carrier) is first adjusted to pay for transportation allowances and credits. The remaining revenue is reduced by the total value of the quota premium pool. The quota premium pool value is determined primarily by the pounds of solids-not-fat quota shipped multiplied by a quota premium of \$0.195 per pound of nonfat solids (an amount equal to \$1.70 per hundredweight of milk). After deducting the value of the quota premium pool from the adjusted solids not fat pool revenue, the remaining revenue is divided by total pounds of solids not fat to obtain the overbase and base solids not fat price. The quota solids not fat price is equal to the overbase price plus \$0.195 per pound.

Under the California milk pooling system, all dairymen in the pool receive a portion of the revenue from milk sales in all classes. While dairymen who hold

significant quantities of quota receive more dollars than those who hold little quota, all dairymen share to some degree in the revenues generated by milk sales in the higher classes. Those dairymen should not then also have the opportunity to share in pool dollars from a federal order.

If some California dairymen or their cooperatives feel that they are “mistreated” by the California pooling system, we point out that our system was put in place with the consent of the dairymen in the state. Our system is not new. California’s pooling laws have been effective since 1969. The current method by which revenues from the various milk classes are shared has been in place since 1993. Our pooling system is part of the dairy industry landscape that we all deal with, so it seems odd to us that some would seek to capture milk pool revenues from another part of the country, while at the same time collecting pool revenues in California.

We have attached two tables to this testimony to further illustrate our reasons for opposing ~~this testimony.~~ <sup>Double dipping</sup> Appendix A compares the California overbase price to the California 4b, or cheese price. It also compares the Upper Midwest blend price for Hennepin County Minnesota (Minneapolis) with the Federal Order Class III, or cheese milk price. For the 17 month period starting with the new reformed orders, the overbase price has averaged \$11.21, \$1.03 over the California 4b milk price. However, the Upper Midwest Price for Hennepin County is only 73 cents higher than the Federal Order Class III price at reference test. Note that the California overbase price has averaged nearly 22 cents above the Upper Midwest Statistical Blend Price, despite the use of a quota system in California. As you can see, California overbase producers already benefit significantly

from a diverse product pool. For quota milk, the California price advantage is an additional \$1.70 higher per cwt.

The inequity to Upper Midwest producers resulting from the pooling of California milk in both the California state order and the Upper Midwest Federal Order is further demonstrated in the Attachment B to this testimony. This table shows the dramatic advantage that ~~demonstrates~~ California overbase milk has when pooled both in California and the Upper Midwest.

The first section compares the Upper Midwest Federal Order producer price differential (PPD) for Cook County (Chicago) Illinois, Hennepin County (Minneapolis) Minnesota, and Glenn County, California. Glenn County is 90 minutes north of Sacramento, and happens to be the location for a dairy plant that has pooled on the Upper Midwest Federal Order. Both Hennepin County and Glenn County have had the same Producer Price differentials, because their Class I differential of \$1.70 is the same in both markets and a dime lower than the Chicago differential of \$1.80. Under Federal Order rules, the PPD is adjusted by the difference in Class I differential between the two counties being compared. In the case of both Hennepin and Glenn counties, that equals 10 cents less than Chicago, the base point for the Upper Midwest FMMO.

The fourth and fifth columns on this table lists the California overbase price and the double-pooled milk price for Glenn County. The final three columns show the Upper MW blend price for Hennepin county, and the comparisons to the overbase and double-pooled milk price. The collection of both the California overbase price and the Federal Order PPD on this California milk that is pooled but not delivered on the Upper Midwest FMMO results in a net price on this California milk that is 95 cents higher than the Upper

Midwest blend price. The “second” pooling of this already-pooled milk has only further augmented the already higher average price of the California overbase milk, by drawing money from a market with already lower milk prices, and at the expense of these Upper Midwest producers.

Hilmar Cheese Company is an innovative company. We have developed a reputation for challenging the system, creating competition, and ultimately adding real value to the benefit of everyone involved. “Double- dipping” is not the type of innovation that creates real value. It moves money, distorts, discourages, and ultimately damages the industry.

We at Hilmar Cheese Company have had the opportunity to “double dip” in Federal Order pools. We have the largest private supply of milk in the western United States. Although it could have meant millions of dollars of additional revenue, we have chosen not to “double dip” because our board of directors feels that it is not logical and it is not fair.

Therefore, we support eliminating the ability of handlers to pool milk that is already being pooled in a state order from pooling it in a Federal Order.

-end-

**Attachment A**

**Comparison of CA Overbase  
& CA 4b Prices**

**Comparison of Upper Midwest  
Blend and Class III Prices**

**Comparison of CA Overbase  
And Upper MW Blend Price**

	CA Grade A Overbase 3.5%F <u>8.7% SNF</u>	California 4b Price 3.5% Fat 8.7% SNF	Difference: Overbase Minus <u>CA 4b</u>	UMW Blend Hennepin <u>Co.</u>	FMMO III 3.5% Fat 2.99% TP 5.69% OS	Difference: UMW Blend Minus <u>FMMO III</u>	CA Grade A Overbase 3.5%F <u>8.7% SNF</u>	UMW Blend Hennepin <u>Co.</u>	Difference: CA Overbase Minus <u>UMW Blend</u>
<b>January, 2000</b>	\$10.05	\$9.58	\$0.47	\$10.38	\$10.05	\$0.33	\$10.05	\$10.38	-\$0.33
<b>February</b>	\$9.95	\$9.28	\$0.67	\$10.00	\$9.54	\$0.46	\$9.95	\$10.00	-\$0.05
<b>March</b>	\$10.03	\$9.34	\$0.69	\$10.08	\$9.54	\$0.54	\$10.03	\$10.08	-\$0.05
<b>April</b>	\$10.36	\$9.27	\$1.09	\$10.05	\$9.41	\$0.64	\$10.36	\$10.05	\$0.31
<b>May</b>	\$10.54	\$9.17	\$1.37	\$10.17	\$9.37	\$0.80	\$10.54	\$10.17	\$0.37
<b>June</b>	\$11.08	\$9.98	\$1.10	\$10.33	\$9.46	\$0.87	\$11.08	\$10.33	\$0.75
<b>July</b>	\$11.30	\$10.64	\$0.66	\$11.26	\$10.66	\$0.60	\$11.30	\$11.26	\$0.04
<b>August</b>	\$11.32	\$10.57	\$0.75	\$10.87	\$10.13	\$0.74	\$11.32	\$10.87	\$0.45
<b>September</b>	\$11.61	\$11.32	\$0.29	\$11.36	\$10.76	\$0.60	\$11.61	\$11.36	\$0.25
<b>October</b>	\$10.59	\$9.01	\$1.58	\$10.78	\$10.02	\$0.76	\$10.59	\$10.78	-\$0.19
<b>November</b>	\$10.99	\$8.71	\$2.28	\$9.90	\$8.57	\$1.33	\$10.99	\$9.90	\$1.09
<b>December</b>	\$11.28	\$9.39	\$1.89	\$10.50	\$9.37	\$1.13	\$11.28	\$10.50	\$0.78
<b>January, 2001</b>	\$11.03	\$9.22	\$1.81	\$10.92	\$9.99	\$0.93	\$11.03	\$10.92	\$0.11
<b>February</b>	\$11.34	\$10.05	\$1.29	\$11.05	\$10.27	\$0.78	\$11.34	\$11.05	\$0.29
<b>March</b>	\$12.18	\$11.34	\$0.84	\$12.10	\$11.42	\$0.68	\$12.18	\$12.10	\$0.08
<b>April</b>	\$12.95	\$12.12	\$0.83	\$12.79	\$12.06	\$0.73	\$12.95	\$12.79	\$0.16
<b>May</b>	<u>\$14.00</u>	<u>\$14.16</u>	<u>-\$0.16</u>	<u>\$14.40</u>	<u>\$13.83</u>	<u>\$0.57</u>	<u>\$14.00</u>	<u>\$14.40</u>	<u>-\$0.40</u>
<b>17 Mo. Average</b>	\$11.21	\$10.19	\$1.03	\$11.00	\$10.26	\$0.73	\$11.21	\$11.00	\$0.22

Sources: California Department of Food and Agriculture and USDA Agricultural Marketing Service

**Attachment B**

**Comparisons of Upper Midwest Federal Order Statistical Blend  
With the California Overbase Price**

	Upper MW Federal Order Producer Price Differential (PPD)			California Overbase 3.5%F 8.7% SNF	California Overbase Hennepin FMMO PPD	Upper Midwest Statistical Blend		
	Cook Co. Chicago	Hennepin Co. Minnesota	Glenn Co. California			Hennepin County Minnesota	Difference From California Overbase	Overbase + Glenn PPD
<b>January, 2000</b>	\$0.43	\$0.33	\$0.33	\$10.05	\$10.38	\$10.38	\$0.33	\$0.00
<b>February</b>	\$0.56	\$0.46	\$0.46	\$9.95	\$10.41	\$10.00	\$0.05	-\$0.41
<b>March</b>	\$0.64	\$0.54	\$0.54	\$10.03	\$10.57	\$10.08	\$0.05	-\$0.49
<b>April</b>	\$0.74	\$0.64	\$0.64	\$10.36	\$11.00	\$10.05	-\$0.31	-\$0.95
<b>May</b>	\$0.90	\$0.80	\$0.80	\$10.54	\$11.34	\$10.17	-\$0.37	-\$1.17
<b>June</b>	\$0.97	\$0.87	\$0.87	\$11.08	\$11.95	\$10.33	-\$0.75	-\$1.62
<b>July</b>	\$0.70	\$0.60	\$0.60	\$11.30	\$11.90	\$11.26	-\$0.04	-\$0.64
<b>August</b>	\$0.84	\$0.74	\$0.74	\$11.32	\$12.06	\$10.87	-\$0.45	-\$1.19
<b>September</b>	\$0.70	\$0.60	\$0.60	\$11.61	\$12.21	\$11.36	-\$0.25	-\$0.85
<b>October</b>	\$0.86	\$0.76	\$0.76	\$10.59	\$11.35	\$10.78	\$0.19	-\$0.57
<b>November</b>	\$1.43	\$1.33	\$1.33	\$10.99	\$12.32	\$9.90	-\$1.09	-\$2.42
<b>December</b>	\$1.23	\$1.13	\$1.13	\$11.28	\$12.41	\$10.50	-\$0.78	-\$1.91
<b>January, 2001</b>	\$1.03	\$0.93	\$0.93	\$11.03	\$11.96	\$10.92	-\$0.11	-\$1.04
<b>February</b>	\$0.88	\$0.78	\$0.78	\$11.34	\$12.12	\$11.05	-\$0.29	-\$1.07
<b>March</b>	\$0.78	\$0.68	\$0.68	\$12.18	\$12.86	\$12.10	-\$0.08	-\$0.76
<b>April</b>	\$0.83	\$0.73	\$0.73	\$12.95	\$13.68	\$12.79	-\$0.16	-\$0.89
<b>May</b>	\$0.67	\$0.57	\$0.57	\$14.00	\$14.57	\$14.40	\$0.40	-\$0.17
<b>17 Mo. Average</b>	\$0.83	\$0.73	\$0.73	\$11.21	\$11.95	\$11.00	-\$0.22	-\$0.95

Sources: California Department of Food and Agriculture and USDA Agricultural Marketing Service