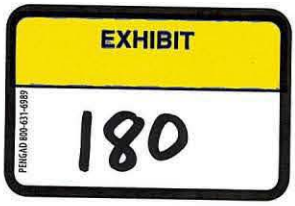

BEFORE THE UNITED STATES DEPARTMENT OF AGRICULTURE AGRICULTURAL MARKETING SERVICE

In the Matter of Milk in California; Notice of Hearing on a Proposal to Establish a Federal Milk Marketing Order	**7 CFR Part 1051 Docket No.: AO-15-0071; AMS-DA-14-0095**

Clovis, California, November 13, 2015

Testimony of Elvin Hollon

(Fifth statement)

(Rebuttal)

In Support of Proposal 1 of California Dairies, Inc.,

Dairy Farmers of America, Inc., and Land O'Lakes, Inc.

Proposal to Establish a Federal Milk Marketing Order for the

State of California

Cooperatives' Exhibit 9

The Value of Regulating Interstate Transactions

We noted in our earlier testimony that one of the reasons the Cooperatives initiated this proposal was to regulate all milk that competes in the marketing area including interstate transactions. Since January 2009, data published by the California Department of Food and Agriculture (CDFA) indicate an average of 54.5 million pounds of milk per month came from farms located outside of the proposed marketing area and were marketed to processing plants located inside the proposed Order boundaries. The same data series indicates that an average of 36 million pounds of milk per month is produced inside the marketing area and sold to plants located outside the marketing area. Including these volumes in the pool will increase the blend prices by an average of 4 cents per hundredweight per month.

A California Federal Milk Marketing Order (FMMO) will enable this milk to be fully pooled. Currently these milk movements escape regulation because the State cannot regulate interstate commerce. Milk delivered to §1051.7(a) or (b) plants, whether the plants are located inside or outside the marketing area, will be fully pooled.

A. Milk Originating Outside the Market and Delivered to Processors Located Inside the Market

Exhibit 61 - CDFA Table Z details the data for milk originating outside the state and delivered to handlers inside the state. This data is reported by the receiving processors and is neither priced nor pooled by the California State Order (CSO). Monthly data is available on the total pounds received and the usage by classification. Regulating this milk in a California FMMO would have resulted in an average blend price improvement of 2.9 cents per hundredweight for the period January 2009 – July 2015.

Cooperatives Table 9.A. (4 pages) "**Added Pool Value With Milk Produced Out of State and Marketed in California Included in the Proposed FMMO Pool**" shows the monthly calculations we made for the period January 2009 – July 2015.

1. Columns C – O are the result of multiplying the pounds by class as reported by CDFA, by the respective FMMO class prices that we determined would apply for each month as noted in Exhibit 64 Table 5.A. Since we do not have exact pounds delivered to specific plant locations, we used the weighted average differential of $1.92 per hundredweight calculated in earlier testimony for the Class I portion of this estimate.
2. The total sum of additional dollars accruing to the pool is posted in Column P.
3. The monthly FMMO blend price we computed in Exhibit 64 Table 5.C multiplied by the existing total CDFA pool pounds yields the total dollars available in the FMMO pool **without** the "Outside" milk included and is shown in Column S.
4. Adding the additional dollars gained (Column P) to the existing pool dollars (Column S) and dividing by the existing pool pounds plus the new pounds resulting from adding the new milk to the pool (Column U) yields a new estimated blend price (Column V).
5. The difference gained from pooling the new volumes is shown in Column W.

For the 79 months shown, the average increase is 2.9 cents per hundredweight. The smallest increase was three tenths of a cent and the largest 10.8 cents. The average monthly increase in pool revenue was $10,213,208.

B. Milk Originating Inside the Market and Delivered to Processors Located Outside the Market

Additionally, an estimate can be made of the impact of milk produced inside the state and marketed to a plant located outside the state, which is expected to be pooled. Two additional assumptions are made for this calculation since the available data is not as complete.

The pounds are available because of data from the producer promotion check-off program. However, because the use classification is not needed for that payment, it is not available. We chose to use the same classification that is available for the milk from outside the state delivered to plants located in the state. This data is shown in Table 9.B. (3 pages), "**Classification Percentage of Milk Produced Out of the State and Marketed in California**".

The destinations of the milk shipments are generally the distributing plants owned by Dean Foods in Las Vegas, NV and the GH Processing and/or the Sarah Farms plants in Yuma, AZ. We have little knowledge of other destinations but acknowledge that there may be some. We expect that the Las Vegas plant will not be fully regulated in a California FMMO but one of the Yuma plants will be fully regulated. So, absent any significant additional information we treated the pounds as shipped equally to the two locations, and to estimate shipments to the Arizona location only, the total volume was reduced by 50%.

Cooperatives Table 9.C. (4 pages) "**Added Pool Value With Milk Produced In the State and Marketed Out of California Included In the Proposed FMMO Pool**" details our estimates. The process follows the same pattern as done for the calculation of milk delivered from farms located outside the state to processors located inside the state with the following adjustments. The Class I differential in Yuma, Arizona of $2.10 was used to calculate the added value of milk used in Class I. A California FMMO would result in an average blend price

improvement of 1.1 cents per hundredweight. The smallest increase was two tenths of a cent and the largest 3.6 cents. The average monthly increase in pool revenue was $3,429,333.

The promulgation of a California FMMO results in a more orderly market. The CSO cannot regulate these interstate transactions. Currently, the out of state producers delivering to California plants are able to extract a higher plant blend price than in-state producers serving the same market. Additionally, the costs of serving and balancing the market are shifted to the in-state producers who are regulated by the state order. Similarly, processors who receive these milk supplies are able to pay lower prices than their competitors. Otherwise, there would be no incentive to purchase the supplies. Likewise, the milk supplied to an out of state plant with the majority of its sales in California that is not currently in the California pool will become part of the California pool. The creation of an FMMO will bring all these transactions into the pool, adding an estimated average of 4 cents per hundredweight to the blend price.