



BEFORE THE UNITED STATES DEPARTMENT
OF AGRICULTURE
AGRICULTURE 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 2015

Testimony of Alan Zolin

Part 5

Introduction

My name is Alan Zolin. I have been retained by Hilmar Cheese Company (HCC) to work with Dairy Institute of California (DIC) to develop an alternative proposal to Cooperative Proposal 1. I have worked with a task force made up of a number of representatives from DIC member companies in order to develop and submit Proposal 2.

Description of Proposal 2 Deduction for Marketing Assessment

In Proposal 2 DIC has proposed to adopt the Section 1000.86 language for the deduction for marketing services. Mr. Mykrantz provided testimony on the operational aspects of the provision and what services are provided by the Market Administrator (MA) for nonmember producers. Basically, the MA provides market information and dairy industry news to nonmember producers. The MA also provides the verification of the component tests that is utilized in the payment of nonmember producers.

Description of HCC Producer Information and General Background

HCC is the largest buyer of nonmember milk in the state of California. And as a farmer owned company, HCC has developed extensive market information tools for the direct shipper to help run their dairy business. I have included the screen shots of the HCC producer services web site. These screen shots are meant as an example of the type of information that is provided to the direct shippers (and the owners as well). HCC provides numerous web site links to public information sites. These include links to the CME website, Cheese Market News website, Dairy Market News (publication from USDA) etc.

HCC produces a monthly newsletter called Producer Connection that provides both HCC-specific information and general industry information to the direct shippers. This HCC-specific information would include Quality Award winners, Cheese Yield award winners, news about the Turlock, California powder plant, producer annual meeting luncheons, and details about specific pricing programs that HCC offers to its direct shippers. The general market information would be, for example, information about the FMMO hearing in California. The Producer Connection is posted to the HCC website, it is mailed to every direct shipper through the USPS, and faxed to every direct shipper that has a fax machine.

HCC contracts with an outside firm to conduct the entire laboratory testing of the components in the direct shippers milk supply. It is the test results from the outside firm that HCC uses in its producer payroll system to make payment to the direct shippers. Part of the deduction for nonmember assessment is for verification of tests. The concern as I understood it that underlies the present assessment concept was that the MA was assuring that the tests that a proprietary plant uses for payment to its producers were accurate. With the use of third party testing companies in California being common place, perhaps the need for and cost of test verification can be reduced.

HCC Concerns about the Rate Charged for Marketing Services

Section 1000.86 allows the MA to set the rate to be charged nonmember producers at no more than 7 cents per cwt. HCC requests that the MA research what proprietary plants programs are made available to direct shippers, and through that investigation determine if the information provided could be a substitute for the MA information provided or, at a minimum, utilized to reduce the cost of the MA services being provided. In the determination of the rate to be charged HCC requests that the rate be set at a level that is reflective of the services provided. I am aware that the deduction for nonmember services does vary between orders. ~~I am also aware that from time to time the deduction has been waived by the MA. (Central Order 32).~~ HCC appreciates the diligence the MA's utilize to keep costs in line, but HCC believes that the current California dairy industry may present a different producer dynamic than found in most other Federal Orders.

In the Upper Midwest Order 30 there are very few nonmember producers. The reason is that the 7 cent per cwt charge to nonmember producers is onerous. What has occurred in the market place is marketing coops have been created and most nonmembers have joined these cooperatives. In my opinion, the sole reason for these cooperatives' existence is to allow the dairy farmer to avoid the full 7 cent charge. These marketing cooperatives charge their producer members one and one half cents (1 ½ cents per cwt). The dairy farmer owners of HCC would seriously consider the option of joining a marketing cooperative for themselves and the other direct shippers to Hilmar, if the rate set for the nonmember deduction is too high.

This concludes my testimony.