



**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 10, 2015

**Testimony of Anthony Gonsalves**

In Support of Proposal 3 of the California Producer Handlers Association

Proposal to Establish a Federal Milk Marketing Order for the

State of California

## **INTRODUCTION**

Good morning/afternoon, and thank you for allowing me to share my testimony with you today. My name is Anthony Gonsalves, and I am the President of Joe A. Gonsalves & Son, a lobbying firm specializing in the representation of clients before the California State Legislature. My dad, Joe A. Gonsalves, started the firm in 1975.

I am here to testify in support of the California Producer Handlers Association's Proposal 3, seeking to recognize existing quota value in California, including the value of "regular" and "exempt" quota presently held by a class of producers commonly referred to as "Producer-Handlers" or "Producer-Distributors." While these terms are interchangeable in California, I will call them "Exempt Quota holders" for purposes of this testimony in order to differentiate them from the Producer-Handler definition used in federal orders and as proposed by both the Cooperatives and the Dairy Institute.

I have witnessed behind-the-scenes the legislative efforts involving the Gonsalves Milk Pooling Act and related dairy and quota issues for the past 38 years. The legislative history I will be testifying about today highlights that a class of quota called "Exempt Quota" held by the remaining four Exempt Quota holders has been an integral part of California's quota system since its conception in 1967.

## **JOE A. GONSALVES**

My dad, Joe A. Gonsalves, was a true exemplification of the fulfillment of the American dream. From the humblest beginnings in the farming region of the Imperial Valley, he and his immigrant parents settled in Artesia, where they began

the first of several dairy farms. He ultimately operated his own successful dairy farm. Then, he was elected in 1958 to serve as a City Council member for the then-new City of Dairy Valley (now the City of Cerritos). He then served for two terms as Mayor until 1962, when he was elected to the California State Assembly. When he left to start his career in state office, his dad told him, “Joe, do something for the Dairy Farmers.” And, indeed, from 1963 to 1966, that is exactly what he tried to do, though with little success. Finally, in 1967, he introduced Assembly Bill (“AB”) 910, the Gonsalves Milk Pooling Act, which, after a series of amendments, became law on November 8, 1967.

## **AB 910 – THE GONSALVES MILK POOLING ACT**

### **I. Background**

Prior to the enactment of AB 910, California dairy farmers were often at the mercy of the processors. Too frequently, dairy farmers would be given little notice of changes in the amount of milk the processors would be willing to accept, leaving such farmers with no place to send their milk product and placing them in weak bargaining positions to dispose of their perishable product. A number of milk pooling bills were introduced in the 1960s prior to AB 910, including another bill by my dad. These ultimately proved to be unsuccessful, however, because the dairy industry could not reach agreement upon how to achieve a pooling plan that would be acceptable to all sectors of the industry. Furthermore, before the introduction of AB 910, the Dairy Institute, which of course sought to protect the interests of processors, had an “*iron grip*” on the Dairy and Livestock Committee. These factors often served as impediments to successful pooling legislation.

To overcome obstacles to the successful enactment of pooling legislation, my dad decided to enlist the help of his friend, Assembly Speaker Jesse Unruh, who ultimately changed the dynamics of the Assembly Dairy and Livestock Committee by merging it with the Assembly Agriculture Committee. The increased membership of the newly merged committee resulted in a decrease of the Dairy Institute's influence. This allowed my dad to push AB 910 through this first committee, in which his prior pooling bill previously stalled.

My dad worked tirelessly for each vote and closely shepherded AB 910 through the entire legislative process, including keeping in constant contact with the Governor and his administration to avoid the possibility of a gubernatorial veto. For those of you who do not know, the Governor of California in 1967 was our former President, Ronald Reagan. On Thursday, July 27, 1967 at 11:40 a.m. the Governor signed AB 910 (the Gonsalves Milk Pooling Act). It became law on November 8, 1967. I have a photograph of my dad and Governor Reagan the day he signed AB 910 into law.

In light of the spirited debate and numerous compromises that resulted in amendments to AB 910, the bill represented a compromise and unity among all facets of the California dairy industry. Specifically, because a simple revenue pooling system as used under the federal milk marketing orders system would have imposed losses on farmers who held covenant Class 1 contracts, the Gonsalves Milk Pooling Act established the alternative "Quota System." Under California's Quota System, farmers who had a history of Class 1 contracts were assigned enough quota to ensure them the highest price for that portion of their milk that had previously been under contract. Other farmers who did not previously have Class 1 contracts

were assigned the rights to new quota that was created as Class 1 sales expanded, thereby opening the Class 1 market to those who may not otherwise been able to obtain Class 1 contracts (and Class 1 prices for their milk). A further balance was stricken to pass AB 910: the issuance of “Exempt Quota” to a class of producers who were producing raw milk that they processed themselves into a Class 1 finished product. Rather than receiving Regular Quota, these producers were issued Exempt Quota as part of the Quota System. Exempt quota holders were vertically integrated farmers with simultaneous ownership of both production and processing facilities. Because of this, they were not subject to the same pressures of regular farmers who were often at the mercy of milk processors. Thus, much like the compromise that resulted in the allocation of Regular Quota, the Exempt Quota was issued to recognize the lack of financial assistance offered to them by pooling their milk. The Exempt Quota was issued as certificates of ownership to the producer entity, and the handler side, while it still had to report fully to the pool, received a deduction or credit for the volumes of Exempt Quota owned by its own producer.

In addition to the provisions for Regular and Exempt Quota, the Gonsalves Milk Pooling Act required the Director to come up with a formula for a Pooling Plan and submit it in referendum to all eligible market milk producers for their approval or disapproval. The Gonsalves Milk Pooling Act was quite specific in certain permissive and restrictive provisions that the Pooling Plan must contain. After extensive research, revisions and testing, the committee and the department prepared a draft of the proposed Pooling Plan, which went to a public hearing held in several locations throughout the state of California, starting in February 1968.

Testimony at these hearings indicated the proposed Pooling Plan needed adjustments, and the hearings were continued until May 1968 when an amendment was presented. As a result of this hearing, the final proposed Pooling Plan was submitted to producers for vote on September 10, 1968. The votes were counted on November 8, 1968. Producers gave overwhelming approval to the Pooling Plan, far surpassing the required percentage for approval.

## **II. Exempt Quota Provisions**

As I stated earlier, when the Gonsalves Milk Pooling Act was implemented, the Quota System was established to include both Regular and Exempt Quota. In July 1969, there were 49 Exempt Quota holders. For milk falling within Exempt Quota, the Exempt Quota holders pay their farm business units the Class 1 price.

The original Gonsalves Milk Pooling Act stated, however, that in the future any Class 1 sales Exempt Quota holders were able to acquire must have quota for those Class 1 sales, and instead of receiving the Class 1 price for that milk, the Exempt Quota holders would have to share those new Class 1 sales with the pool. That meant that although they sold Class 1 milk, they would receive a blend price for that milk. This was part of the sacrifice that the Exempt Quota holders had to make in conceding to the Gonsalves Milk Pooling Act, and part of the compensation that they gave up in order to receive their Exempt Quota. If they had not voted for the pooling act, they could have continued to grow their Class 1 market and continue to reap the benefits and higher payments for their increased Class 1 sales. By accepting the volume of Exempt Quota assigned to them, they gave up the opportunity for the higher sales.

It is very clear that from the very beginning the legislative intent was that the California producers holding Exempt Quota in 1967 would participate in the Quota System by receiving Exempt Quota assignments in proportion to their historical production.

I have included as exhibits various documents supporting the above legislative history.<sup>1</sup> I believe it is clear in these documents that the legislative intent was that Exempt Quota holders be considered part of the Quota System and the foundation of AB 910.

### **1977 AMENDMENT TO GONSALVES MILK POOLING ACT**

In 1977, AB 1110 was introduced by Assembly Member Barry Keene on behalf of the producers. AB 1110, as introduced, had a requirement forcing Exempt Quota holders to share all their Class 1 sales with the pool, essentially doing away with Exempt Quota. After much debate and negotiation, that proposal was removed. In its place was a provision allowing Exempt Quota holders to buy additional Exempt Quota, reaffirming the commitment to preserve the Exempt Quota as part of the Quota System.

---

**<sup>1</sup> EXHIBIT A INDEX:**

1. AB 910 (Gonsalves) Chapter # 927, dated 07/27/67. Pages 5-6 outline the Producer-Handler provisions at § 62708.
2. Legislative Counsel of California, Question & Answer re Milk Pooling #2387, by Kent L. DeChambeau, Principal Deputy, dated 07/12/67. This document discusses pooling generally.
3. Senate Agriculture Committee Analysis, AB 910 (Gonsalves) as amended 07/21/67. Pages 6-7 discuss generally how Producer-Handlers are treated under AB 910 (Gonsalves).
4. 3 Photographs.

Specifically, in the Assembly Ways and Means Committee, AB 1110 was amended to provide for the Exempt Quota holders to increase their amount of Exempt Quota. In this committee, this amendment was adopted over the sponsors' and the author's objections. The Exempt Quota allowed under this amendment was part of an overall amendment to the Quota System, and the Exempt Quota acquired under this amendment was part of the California Quota System.

During the discussion about the proposed amendment, there was some opposition from the dairy industry to allowing Exempt Quota holders to buy more Exempt Quota. Director Richard Rominger, from the Department of Food and Agriculture, wrote a letter calling for a meeting to help mediate the dairy industry's differences. If they came to an agreement, AB 1110 would be able to move forward in the legislative process.

After the meeting at the Department of Food and Agriculture, and after all parties involved in those discussion reached a compromise position, the dairy industry agreed to support AB 1110, which included the continued allowance of Exempt Quota. As you will see in Exhibit B-5, my dad composed a letter showing they had come to a consensus and AB 1110 was signed into law three months after the Rominger meeting. As with the initial enactment of the Gonsalves Milk Pooling Act, the Quota System discussions, negotiations and amendments always included the Exempt Quota.

I have included as exhibits various documents demonstrating the legislature's intent with respect to the 1977 amendments.<sup>2</sup>

---

<sup>2</sup> EXHIBIT B INDEX:



## 1993 AMENDMENT TO THE GONSALVES MILK POOLING ACT

In 1993, Senator Dan McCorquodale introduced Senate Bill (“SB”) 688. SB 688 revised the milk pooling statutes to produce a fixed differential of \$1.70 between quota and overbase. SB 688 also increased the ability of producers holding Exempt Quota to capture the Class 1 price on more of their production through additional Exempt Quota purchases.

My dad and I became involved in SB 688 when it was heard in a subcommittee of Senate appropriations hearing bills that were on the suspense file. My dad presented an amendment, and it was accepted by the proponents and entered as an author’s amendment by Senator McCorquodale. SB 688 then went to the Agriculture Committee and through the rest of the legislative process with our complete support.

This bill was overwhelmingly supported by all the legislative policy and fiscal committees, as well as both floors prior to the Governor’s signature. SB 688 became law in 1993 because all of the dairy industry gave its support and was satisfied that AB 1285 would be introduced the following year.

- 
1. AB 1110 (Keene) Chapter # 1192, dated 10/01/77. Pages 36-38 outline the Producer-Handler provisions, specifying use of the term to “Producer-Handler” at § 62708, limiting transfer of ownership at § 62708.5, and allowing conversion of Regular Quota to Exempt Quota at § 62708.5.
  2. Legislative Analyst Analysis of AB 1110 (Keene) as amended 05/16/77, dated 06/10/77.
  3. Letter from Director Richard Rominger, Director of California Department of Food and Agriculture, dated 06/29/77, inviting stakeholders (including my father) to a meeting to mediate the differences between stakeholders.
  4. Senate Agriculture and Water Committee Analysis, AB 1110 (Keene), as amended 8/01/77, dated 08/02/77. Pages 4-5, section D (operation outside the pool increase).
  5. Memo from Joe A. Gonsalves to Members of the Senate Finance Committee, dated 08/09/77 (urging support, after the Food and Agriculture meeting, which indicated the industry had come to an agreement).

In 1994, Assembly Member Sal Cannella introduced AB 1285 to address the sunset clause contained in SB 688 (which was to expire January 1, 1995). That sunset clause, however, did not affect the additional Exempt Quota allowed to Producer-Handlers.

I have included as exhibits to my testimony legislative documentation concerning SB 688<sup>3</sup> and AB 1285<sup>4</sup>. I believe my exhibits clearly show the legislature's intent on including the Exempt Quota amendments. Through substantive amendments, negotiations, compromises and debates, the Quota System

---

<sup>3</sup> **EXHIBIT C INDEX:**

1. SB 688 (McCorquodale) Chapter # 1112, dated 10/11/93. Pages 3-4, Producer-Handler provisions ongoing.
2. SB 688 (McCorquodale) Legislative Counsel of California, Question & Answer re: Milk: Stabilization and Marketing Plans # 32529 by Frances S. Dorbin, Deputy Legislative Counsel, dated 12/16/93. Producer-Handler provisions ongoing.
3. SB 688 (McCorquodale) letter from Joe A. Gonsalves to Senator Dan McCorquodale re: requesting amendments, dated 05/24/93.
4. SB 688 (McCorquodale) Assembly Agriculture Committee Analysis, dated 08/23/93. Page 2, considering the allowance of additional Exempt Quota a "minor technical amendment."
5. SB 688 (McCorquodale) Senate Rules Committee Analysis, dated 11/03/93. Page 3, explaining that new bill would permit Exempt Quota holders to treat existing quota and any quota subsequently purchased as "Exempt Quota."
6. SB 688 (McCorquodale) Senate Third Reading Analysis, dated 10/24/94. Page 2, explaining SB 688 would allow Producer-Handlers to "keep more of their milk outside the milk pooling system."

<sup>4</sup> **EXHIBIT D INDEX:**

1. AB 1285 (Cannella) Chapter # 1112, dated 10/11/94.
2. AB 1285 (Cannella) Senate Agriculture and Water Resources Hearing Committee Analysis as amended 07/06/93, dated 07/13/93. Page 5, discussing the Producer-Handler provisions.
3. AB 1285 (Cannella) Legislative Counsel of California, Question & Answer re: Milk Pooling Plans AB 1285 (Cannella) # 19990 by Frances S. Dorbin, Deputy Legislative Counsel, dated 06/21/94. Page 2, discussing the Producer-Handler provisions.
4. AB 1285 (Cannella) Request for Signature Letter from Senate Republican Floor Leader Kenneth L. Maddy to Governor Peter Wilson, dated 08/26/94. Page 2, confirming that the Producer-Handler provision is not subject to sunset provisions of SB 688.

that included both Regular and Exempt Quota were yet again approved by the industry.

### **ATTEMPTS TO ELIMINATE EXEMPT QUOTA FAILED**

In 1995, Senator David Kelley introduced SB 105. This bill was introduced on behalf of a co-op, otherwise known as “California Milk Producers.” They were attempting to reverse what was already agreed upon previously in the SB 688 and AB 1285 package. SB 105 as introduced would have based the amount of Exempt Quota held by producers based upon 1978 figures. This bill was soundly defeated on the Senate floor on May 1, 1995 with a vote of *Ayes 10 Noes 20*. In order for it to pass, SB 105 needed 21 aye votes; it came up 11 short and was at a standstill. It was the legislative intent to preserve Exempt Quota as part of the Quota System.

Shortly after the Senate floor vote and at the request of Exempt Quota holders, a meeting was called within the dairy industry. In an effort to have unity in the dairy industry, the Exempt Quota holders offered a compromise to cap their ability to purchase Exempt Quota and roll back the purchase date to March 1, 1995. After this date, the Exempt Quota volumes were frozen and producers could no longer acquire or purchase any further Exempt Quota. Any quota acquired after that date was acquired as Regular Quota. The Exempt Quota would naturally sunset or expire with the tables of consanguinity when the generational limitations were met. Since that date, the Quota System has continued to operate with Regular Quota and Exempt Quota, as well as the other pooling calculations for base and overbase production payments.

I have included as exhibits the legislative history on SB 105.<sup>5</sup>

## CONCLUSION

Throughout the legislative history of the Gonsalves Milk Pooling Act, the Quota System has had many aspects beyond the Regular Quota held by any producer. The entirety of the Quota System in California included both Regular Quota and Exempt Quota. Out-of-state milk was not subject to the pool in exchange for not receiving the benefits of the Quota System. Together, all of these aspects make up the Quota System since its inception in 1967.

When the USDA considers the Quota System in California and the investment made by all quota holders, I respectfully request the investments of Exempt Quota holders be included in the Federal Milk Marketing Act for California and the overall aspects of the Quota System be preserve in its entirety.

---

### <sup>5</sup> EXHIBIT E INDEX:

1. SB 105 (Kelley) as introduced, repealing § 62708.5 of the Food and Agricultural Code, dated 01/12/95. Page 5, permitting Producer-Handler that has sold quota to deduct from pool contribution only quota purchased up to 1978, § 62708.5(c)(2).
2. SB 105 (Kelley) as amended on May 4, 1995. Page 3, permitting Producer-Handler that has sold quota to deduct from pool contribution only quota purchased up to 1995, § 62708.5(c)(2).
3. SB 105 (Kelley) Chapter # 174, dated 07/24/95.
4. SB 105 (Kelley) Opposition Letter from Milk Producers Council to Senate Agriculture and Water Committee Chairman, dated 03/20/95.
5. SB 105 (Kelley) Opposition Memo from Joe A. Gonsalves on behalf of California Producer Handlers Association to Senate Agriculture and Water Committee, dated 04/01/95.
6. SB 105 (Kelley) Opposition Memo from Joe A. Gonsalves and Son on behalf of California Producer Handlers Association to all Members of the Senate, dated 05/01/95.
7. SB 105 (Kelley) Senator Floor Roll Call failed on 05/01/95 (Ayes 10, Noes 20); passed on 05/11/95 (Ayes 33, Noes 1).
8. Producer – Distributor Outline, dated 1995.

I am available to answer questions concerning the Gonsalves Milk Pooling Act and/or the Exempt Quota that is outlined in California Food and Agricultural Code.