



**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

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Fresno, California, November 2015

Testimony of Ted DeGroot

In Support of Proposal 3 of California Producers-Handlers Association

My name is Ted DeGroot. I am a principal and the general manager of Rockview Farms. I grew up at Rockview since my grandfather Pete DeGroot took over the plant in 1966. I<sup>have</sup> worked full time with the company for over 30 years. Our company really started when my grandfather bought his first cow sometime in the 1930s. He emigrated from the Netherlands in the late 1920s and worked very hard to build something for himself. By the 1960s he had several farms in southern California and a growing family.

In 1965 he was operating three dairy farms and sold all his milk to a third-party handler, Rockview. In 1965 Rockview encountered financial trouble, and my grandfather was faced with either taking over the plant or losing everything. He acquired Rockview by purchasing it out of bankruptcy on January 2, 1966. The years following were a struggle, but he built up Class 1 sales for Rockview. When pooling came to California, he and my father, Amos, fought to avoid losing the value of the Class 1 share of the market that they created through pool dilution.

When the Gonsalves Milk Pooling Act was enacted, our farms were issued exempt quota that was reflective of our historical Class 1 production. Currently 100% of the stock in the corporation for both the farm entity and our plant is held by descendants of my grandfather. We have two farms producing the exempt quota milk that is delivered to Rockview each day. The first farm in Ontario, California is "S.D.

Chino.” The second farm near Hanford, California is “Lakeshore Dairy.” The exempt quota is held through certificates of ownership that show our farms are the lawful owners of the exempt quota. Attached in my exhibit 171 is a copy of a certificate of ownership for our exempt quota showing that our farms (SD Chino and Lakeshore Dairy) own our exempt Quota.

These two farms produce the entire exempt quota that goes to Rockview. Exempt quota makes up 40% of the total production from these two farms, and approximately 12% of the total milk received at Rockview. Rockview also purchases milk from Ponderosa in Nevada and a third party cooperative California Dairies Inc. Our California farm and plant are located in southern California which is a deficit milk production area. If we were to lose the exempt quota benefit for our farms, it would be more difficult to source milk into Southern California. Over-order premiums may increase. California regular quota and exempt quota have always been part of the same quota system and each type of quota has unique benefits. While regular quota can participate in the California transportation credit system, exempt quota does not get that benefit.

At the inception of the quota system there were 49 companies who held P/H exempt quota. For many reasons today there are only four. That decline would not have happened if the exempt quota provided the P/Hs such a price advantage that they could displace others within the

market. The price advantage of exempt quota is with our farm and measured as the difference between Class 1 and the price we would receive in Southern California for Quota. Attached as Exh. 176 is a calculation showing the average benefit to our farm over the last 20 years.

A big difference between exempt quota and the federal order producer handler exemptions is that exempt quota must stay within the same family as the exemption was originally issued in the 1960s. As a family we have always made decisions around preserving our exempt quota provisions for our farms. We agonized each time a family member considered leaving our farm, which meant they had to sell the quota to the family in order to preserve the exempt quota. In one instance we decided not to keep the quota within the family, so the quota was converted to regular quota and sold to a third party.

In this corporate world in which we live – where big business is the norm – we believe our family business and the three other exempt quota holders are very special and serve each of our communities well. The way exempt quota is held by our farm and booked as an asset for our farms means any “price advantage” must also go to our farm, not our plant. Our plant does not have any price advantage because it pays the Class 1 price to the farm for all of the raw milk for fluid sales. We pay the same price to our own farms that we pay for the milk we purchase from CDI.

We account for our raw milk cost at the price we pay our farms, the Class 1 price. Because our plant pays the Class 1 price, we must calculate that amount into the manufactured cost of goods for our finished products. When bidding on contracts for fluid milk sales we calculate that raw milk price in our manufactured costs.

Furthermore, CDFA has a below-cost law that prohibits us from selling our products below manufactured cost. That means we cannot use the farm benefit to artificially reduce the raw milk cost that we pay for our milk. If we were to sell below cost, our competitors in the industry would report violators to the CDFA, which would investigate the claims. If there were any real concerns that exempt quota holders were using their exemption to sell below cost, they would have been reported to the CDFA and there would or could have been an investigation. It simply has not been an issue in our market.

As a close family ownership structure allows, we have a tight-knit management team. We communicate well and work to build efficiencies into our business. In my opinion, our family ownership structure gives us a competitive advantage over corporate structures that do not have the same emotional investment in their business. As a family we take pride in our products to ensure that they represent the quality of our brand.

We believe our exempt quota is a part of the entire quota system for which Congress instructed USDA in the Farm Bill to recognize the value. Our proposal is to preserve the exempt quota along with the rest

of the quota system. We do not seek to obtain the benefits under the “federal producer-handler” definition or to be considered to fall within the producer-handler definition proposed by the cooperatives or Dairy Institute. None of the CPHA who holds exempt quota would qualify as a producer-handler under the definition proposed by either the Cooperative or the Dairy Institute.

The quota system, both regular and exempt quota, is a producer benefit. Our farms own our exempt quota, just as regular quota is owned by other farms that do not own a manufacturing facility. Our farms should be able to continue to preserve their exempt quota as part of any preservation of the quota system. The quota system has always included regular quota and exempt quota, and if quota is going to be included in an FMMO, it should also preserve exempt quota.

Thank you for your time and consideration of my testimony.