

# Politics Getting Thick in California's "STOP QIP" Effort

by Pete Hardin

The battle involving efforts by 350 California dairy producers to terminate that state's Quota Implementation Program (QIP) has become white-hot in the past couple months.

To summarize this issue:

- QIP replaced the state's prior milk quota program on November 1, 2018. That same day, California's state milk order was terminated and replaced by the new California federal milk marketing order. QIP pays out to quota holders \$1.40 to \$1.70 per hundred lbs. (depending on where they are located) for each per pound of solids non-fat of quota they own. About 57% of California dairy producers hold some amount of quota. However, for the majority of producers holding quota, the money extracted from their milk checks to cover QIP pay-outs exceeds their returns.

- With advent of the federal milk order in late 2018, dairy producers throughout the state finally saw the monthly costs for bankrolling the QIP — listed as a line item on their monthly milk check summaries totaling \$0.38 per hundred pounds of farm milk at 3.5% butterfat content. Important to note: Only about 29 % of quota holders own enough quota to gain a positive payback, after the \$0.38/cwt has been deducted from their milk checks.

- Dissident producers started a "STOP QIP Tax Coalition" movement in late 2018. A petition submitted to CDFA seeking a review of QIP under Chapter 3.0 of CDFA statutes was rejected by state officials. CDFA rejected some signatures on petitions as invalid. But CDFA officials refused to specify which signatures were invalid, nor would those officials detail reasons why rejected signatures were invalid.

- Following rejection of that first petition, leaders of the StopQIP effort recalibrated their efforts. On December 4, 2019, a lawsuit was filed against CDFA Secretary Karen Ross, seeking a cease and desist Order against further collections of the \$0.38/cwt. fee collected to fund payments to quota holders. Basically, the STOP QIP group contends that CDFA's original approval of QIP was illegal, because no formal, required hearing was held. Logic behind the Stop QIP legal challenge is the following: No specific hearing on QIP means the \$0.38 assessment against all Grade A milk producers' production is illegal. The StopQIP legal thrust is going for a knock-out.

CDFA attorneys responded to the StopQIP legal challenge on January 16, 2020 and sought to dismiss the STOP QIP Tax legal challenge. A date in court will likely occur in May 2020.

- On January 29, 2020, the STOP QIP group submitted 352 petitions signed by California Grade A producers that seek a hearing under Chapter 3.5 of California's Food & Agricultural Code. CDFA rules specify that if 25% (or more) of the total number of Grade A producers request a hearing under Chapter 3.5, then the state agriculture department must convene a hearing.

- Attacking QIP by using a Chapter 3.5 hearing process makes it easier for opponents to eliminate the milk quota program. That's because Chapter 3.5 mandates that 50.9 % of producers voting in a referendum must approve continuing the assessment.

## "Haves" vs. "have nots"?

Each day, critics estimate that \$433,000 is extracted from California's Grade A producers' incomes to cover payments to quota holders.

A small percentage of California dairy producers — about 29% actually hold enough quota to enjoy receiving more pay-outs from the QIP program than what they're paying in through the \$0.38/cwt. assessment.

Historically, quota has been an asset that's bought, sold, and **Background:** accepted as collateral by some producers' creditors. Before the STOP QIP effort began, quota was estimated to be worth about \$1.1 billion dollars. However, those values started plunging when the program's critics surfaced. **January 2020 data collated by CDFA shows that three sellers sold quota to two buyers with prices ranging from \$175 to \$260 per pound. — a decline of about 55% from prior to the STOP QIP effort.**

Terminating the QIP program is politically charged in the Golden State ... because producers for whom the QIP deduct is a net loss on their monthly milk check stubs want to recapture some of the "gold" that's being mined from their milk income. California's major dairy cooperatives and organizations are vigorously defending the status quo on the QIP issue. Co-ops such as California Dairies, Inc.; Dairy Farmers of America; and Land O'Lakes are lined up in defense of CDFA's handling of the QIP program. Trade organizations such as Western United Dairymen and the Milk Producers Council are also defending the status quo.

Efforts to reconcile opposing groups have failed. Last year, dairy cooperatives agreed to fund a pair of outside analysts — University of Minnesota dairy economist Marin Bozic and Matt Gould. However, that pair's efforts have run off the rails in recent months. A survey of options gleaned from a survey of 125 Grade A state dairy producers found that "Terminate" was the leading choice. However, Bozic and Gould ignored that option in presenting the supposed "top three" choice to producers. Their "logic" for failing to include "Terminate" as an option to discuss? That option wasn't a consensus builder.

Very recently, systemic interests are building a defense of CDFA Secretary Karen Ross' handling of the QIP matter. It'll be hard for CDFA to defend the administrative process leading to the QIP program, since CDFA failed to hold a formal hearing on the matter — a violation of the regulatory process.

StopQIP proponents assert that the 2017 vote among California dairy producers to authorize the QIP program as packaged as a vote for the federal milk marketing order — with no mention of the QIP assessment from proponents.

At this point, California's major dairy cooperatives and dairy trade groups are defending the status quo — continuing deducts of \$0.38/cwt. on all Grade A milk to sustain payments to QIP holders. Ironically, those same dairy cooperatives were dramatically depooling Class III (cheese) milk during much of 2019's second half. That depooling effectively siphoned untold tens of millions of dollars of money away from those month's federal milk order revenue pools.

"Keep Away" — bleeding producers' milk checks — is the name of the game for the big cooperatives operating in California, whether defending QIP or depooling huge amounts of Class III milk.