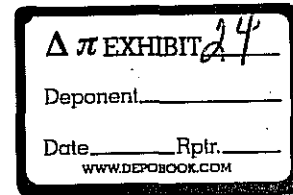


Exhibit \_\_\_\_\_

Statement  
of  
Patricia D. Stroup  
on behalf of  
Nestlé USA  
at the

Federal Milk Marketing Order 33 Hearing  
at Cincinnati, Ohio, commencing on August 19, 2008  
Docket No. AO-166-A77: DA-08-06



My name is Patricia Stroup. I am the Group Manager for Dairy for Nestlé Business Services (NBS) and today I am representing Nestlé USA. In my role with NBS, I am responsible for milk and dairy ingredients procurement for Nestlé brands in the United States and Canada.

I testify today in opposition to the cooperatives' proposal to increase Class I differentials in Order 33. Nestlé operates a beverage facility in Anderson, Indiana, where we make Nesquik® Ready to Drink flavored milk beverages. Anderson, Indiana, is located in Madison County, for which the cooperatives propose a 15-cent increase in differential. The proponents indicate that that these increases are necessary because providing an adequate milk supply for Order 33 is "difficult." This is not consistent with what our supplier has indicated to us. As we went through the process of deciding where to site our Anderson facility, we researched the current and potential milk supply in the region. We discussed milk supply availability and viability with many sources, including some of the proponents of this proposal. Not only were we given assurance that milk was readily available in the Order, but we were encouraged to site our plant in the Order and, when we asked our current supplier if Madison County, Indiana, was a viable site for milk supply, we were assured that there would be no problems in serving that site.

In preliminary work on our new facility in Anderson, Indiana, we had discussions with five different milk suppliers interested in servicing that plant. Four of those contacts were

unsolicited by us. In fact, while our Anderson plant is currently supplied by one of the proponents of this increase, we have been approached again as recently as this year by another one of the proponents asking to submit a proposal to us for supplying our plant. We also have standing offers from other cooperatives and individuals to supply our Anderson plant.

In the proponent's Attachment 7, "Hauling Cost minus Location Adjustment," the chart lists the average cost to supply Anderson, Indiana, at \$1.60 and the median cost at \$1.44. As part of our agreement with our supplier and the Marketing Agency, our average over-order premium for milk delivered into Anderson is already in excess of this amount and already includes a fuel surcharge for delivering milk to our plant.

As we decide where to manufacture our milk-based beverages, the cost of milk is obviously a major consideration. Increasing our costs by 15 cents per hundredweight in Anderson would make us re-examine our investment and capacity decisions. The demand for flavored milk, which is the bulk of our current production at Anderson, is extremely sensitive to changes in price. Nestlé's attitude and usage study indicates that the main competition for Nesquik® are not dairy-based beverages. The top competition for flavored milks are, in this order, soft drinks, bottled water and refrigerated pre-mixed orange juice. Only after those products do survey respondents list other milks. In fact, even non-beverages compete with flavored milks. Over half of the respondents indicated that they replace flavored milks with fruit or vegetable snacks, salty snacks, chocolate candy and snack bars.

One of the principles of price elasticity is that products with few substitutes generally have low price sensitivity. Unfortunately, we have found that flavored milks have many substitutes. Price becomes a major factor for consumers in deciding how to satisfy their snack cravings. And, when we need to "sell in" a price increase to retailers, we need to consider the margin that those retailers will likely make on the whole range of competing products and not just other milks.

Our elasticity studies, using current scanner data, finds that flavored milks exhibit above-average price elasticities to price changes compared to other refrigerated items. Results indicate that price increases that we try to pass through to retailers result in volume decreases greater than price increases (elasticities of greater than -1.0). In fact, July 2008 elasticities for Nesquik calculated at over -2.5. Because we market Nesquik nationwide, an increase in differential at Anderson will put us at a distinct competitive disadvantage to flavored milks manufactured in counties that are not facing an increase. This is one reason that we believe differentials cannot be considered on an order-by-order basis but should, instead, be dealt with on a nationwide basis.

As a total category, July 2008 elasticities for flavored milk come in at -2.0. Coupled with what we know about consumer preferences, we know that much of that decrease in volume did not go to other dairy products. Those consumer dollars have gone to non-dairy beverages and snack foods. An increase in costs to our Anderson plant, measured in cost of goods per unit, cost in the net price impact to dairy farmers and cost in competitiveness of the industry on the store shelf, is not good for consumers, processors or even dairy farmers.

For these reasons – because we are not experiencing milk shortages and because a price increase will result in decreased demand - we oppose any increase to Class I differentials in Order 33. Thank you for this opportunity to share Nestlé's position in this matter.

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