



Testimony of Mike Suever: HP Hood LLC

Disorderly Marketing

I must start by saying that I was surprised when USDA announced that it was willing to consider the implementation of a Federal Milk Marketing Order covering California. Over the many years that I have been involved in milk-related regulatory affairs, California's milk regulations were often looked to for ideas of how existing Federal Milk Orders could be brought up to date and become more flexible given the ever changing domestic/international market conditions. In many conversations and panel discussions, California was often cited as the "gold standard" of how a more efficient program could be operated.

It is hard for me to understand, with such a highly evolved and frequently updated State milk regulatory program in place, that anyone can make a legitimate argument that "disorderly milk marketing" conditions exist. I believe that for USDA to recommend that a Federal Milk Order is warranted in CA, that "disorderly marketing" conditions must be proved by the proponents. In preparation for this hearing I spent time trying to see if I could get a clear definition of what constituted "disorderly market conditions" in past proceedings. I was not able to find a singular definition to relate to but was able to find several citations that made reference to "disorderly market" conditions. One such reference noted that disorderly market conditions existed when insufficient raw milk was available to supply fluid milk processing plants. Since Hood's acquisition of the former Crystal Creameries plant in Sacramento seven years ago, we have not had any difficulty or concerns about securing sufficient raw milk to produce our varied dairy products. Another notation in prior proceedings mentioned "disorderly marketing" in connection with raw milk needing to be moved long distances (without sufficient compensation)

to supply a market and also the need to bring supplemental supplies into a market to meet fluid processor needs. During the last seven years while operating our plant in California, I am not aware of raw milk needing to move great distances without proper compensation, nor do I think that raw milk is routinely being brought into California because of insufficient supplies to meet fluid milk processor demand.

I believe that the principle charter for USDA's milk marketing programs to be promulgated to benefit not only the milk producers, but also equal weight is given to the concerns of the fluid milk consuming public. I do not believe that the proponents of Proposal #1 has the consuming public in mind.

The USDA study provided in evidence at this hearing demonstrates that there will likely be an adverse impact on existing Federal Order pooled producers blend prices, if Proposal #1 is enacted. If higher prices in CA leads to supposedly "less disorderly marketing" in CA, I would ask if the resulting lower prices to most of the existing pooled FO producers could lead to "disorderly marketing" conditions in those markets. USDA's study does not go far enough to make a determination of what unintended consequences could be created in the existing FO Marketing areas. I suggest that this research should be conducted before any recommended decision from this hearing be brought forth from USDA.

Another potential consequence of Proposal #1 is that dairy manufacturing plants may find that they can't keep pace with international market dynamics. California is ever so dependent on the movement of dairy products into the international marketplace. Manufactured milk plants could experience dramatic growth of finished inventories and struggle to move these products in the international market. It is true that CWT (Cooperatives Working Together) could help with this issue but the level of producer contributions to this fund would likely need to dramatically

increased. I wonder how receptive pooled FO producers in the rest of the country will be to such a request after their blend prices were reduced by the implementation of Proposal #1.

Proposal #1 seems to rely heavily on the need to pool all milk in CA. This type of requirement is not found in the existing Federal Orders. In fact, it seems that the entirety of Proposal #1 hinges on mandatory pooling. This “need” for mandatory pooling exposes just how precarious Proposal #1 is fundamentally, and for this reason alone USDA should not rule favorably on Proposal #1. We have seen in many of the existing Federal Orders that the ability to de-pool at times by both Coops and processors has been one of principle reasons that orderly marketing has been maintained in the Orders.

If USDA determines that a Federal Order is required in CA, then HP Hood LLC would support Proposal #2. We feel that this proposal is the least disruptive to the overall marketplace and best meets the needs of the entire industry along with consumers.