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Testimony of Charles Sharpe, Heartland Creamery**May 2009 Federal Milk Marketing Order Hearing****Docket No. AO-14-A78, et al.**

Heartland Creamery is a unique producer-handler located in northeast Missouri, about 3 hours north of St. Louis. Heartland Creamery is owned by Sharpe Holdings, Inc. and, while organized as a for-profit corporation, supports the mission and operations of CNS International Ministries.

Heartland Ministries

I founded the ministry approximately 13 years ago as a Christian ministry engaged in outreach to at-risk people in need of assistance in dealing with substance abuse (drug and alcohol) and other issues. Heartland is an intentional community designed to help hurting people get a fresh start in life. The Heartland Community provides dedicated high school and college facilities on site in addition to counseling and other services. The Heartland program includes teaching job skills and providing work experience to assist with transition back into the larger community when program participants leave Heartland's physical environment. The Ministry has also become a center of economic activity in a very depressed rural area, providing numerous jobs to a region in need of them.

We first began operating a working dairy farm, Heartland Dairy, to provide jobs and training opportunities to our residents. Later, we added a milk processing plant, Heartland Creamery, and the creamery provides the same training and employment opportunities that our farm does.

Heartland Creamery

The Heartland Creamery is a for-profit business, the profits of which help support the Ministry. Our farm is located in Newark, Missouri and the creamery in LaBelle, Missouri, about 15 miles apart. Heartland Dairy is now milking approximately 3,000 cows. All of our calves, heifers, and dry cows are also raised on-site. We also have a goat herd and produce goat milk and goat cheese. The combination of our cow herd, goat herd, and processing plant makes our operation among the most unique in the country.

Heartland Creamery produces great milk. It is fresh, rBST free and reliably produced on a single farm. Our processing plant is very small, but we have distribution in multiple states, including Missouri, Kansas, Iowa, and Illinois. We produce milk in glass bottles in pints, quarts and half gallons, as well as milk in plastic gallons. Given our small size, we must purchase our milk jugs. Our volumes are not high enough to justify purchasing our own blow-molding equipment.

Our customers are supermarkets, both chains and independents. Our goal is to grow in tandem with the Heartland Community.

Heartland Creamery Is Not a Disruptive Force in the Marketplace

Heartland does not believe that we are having any disruptive impact on the market, either in terms of effect on blend price to the farmers or through an unfair competitive advantage against fully regulated processing plants. We get our milk at our cost of production, not at the blend price. It is apparent that in the current market this puts us at a substantial disadvantage compared with regulated processors who are paying Class I prices. We would note that Dean Foods, for example, reported record-breaking profits last fall, crediting the low price of milk. That was not the situation for Heartland Creamery.

We are also aware that several witnesses here have alleged that we have won business that they would like to have based on the alleged unfair price advantage we have as a producer-handler. This is nonsense. Heartland Creamery has no unfair price advantage and anyone who comes to our operation can see that very plainly. We are an extremely small operation. The General Manager of our Creamery, Tim Button, is here with me, and will provide more detail on our operation and the specific business that others have referred to in this hearing. Tim spent his career working for Crowley Foods in upstate New York and for H.P. Hood in its bottling operation. He laughed when he saw our little bottling operation. We have no advantage of size and scale comparable to the dominant processors.

I find it interesting that Gary Lee of Prairie Farms testified about the pressing competition from Heartland. But in any event, the record should reflect the fact that the business won by Heartland Creamery referenced by Mr. Lee was won in 2007, when we were a member of DFA and the cooperative community for which Mr. Lee expressed his support. Heartland Creamery did not become a producer-handler until January 1, 2008.

I also find it interesting that Warren Erickson of Anderson-Erickson complained of Heartland winning an account from them. I don't think any producer-handler should have to apologize for winning any customer. Customer contracts are awarded on the basis of quality, service and price. We provide a winning combination of each. But in that instance also, the business that Mr. Erickson discussed was won principally when Heartland was not a producer-handler.

Competition is a two-way street as anyone in the business of selling anything understands very well. As a producer-handler, we at Heartland Creamery have competitive constraints that the regulated market does not, and vice versa. There is nothing whatsoever wrong with that – any more than there is anything wrong with partnerships competing against corporations. Different business models have different advantages and disadvantages – and that is a strength of free enterprise.

It is simply not possible to look at the present situation in the dairy industry and conclude that producer handlers have any unfair advantage over cooperatives and processors. For example, I cannot buy milk if anything goes wrong with our cows or our farm supply. The regulated market can. We have to find our own customers for our own milk; pool producers do not have that burden. We have to haul our own milk to our bottling plant; pool producers do not

have that burden. We each pay for the service in different ways but that does not mean that our competitive positions are inequitable.

I do not believe that national policy should eliminate choice of business model. I believe it should maintain them. We need to keep all options open to move agricultural businesses away from government support to independent viability. I oppose elimination of the producer-handler status as I believe that it provides opportunity for building new types of productive economic activity in areas that need them greatly. Our area of Northeast Missouri is one such area.

