

Testimony of HP Hood LLC  
April 2007 Federal Milk Order Hearing  
Docket No. AO-14-A77, et al; DA-07-02

This testimony is submitted on behalf of HP Hood LLC. We are a super-regional and national distributor of high quality Class I and II dairy products. My name is Gary G. Latta and I am a Senior Marketing Analyst with the company. HP Hood has invested substantial capital in dairy product manufacturing and processing facilities in the eastern half of the United States, particularly the northeast. With Class III and IV as the bedrock for Class I and II milk prices we have a keen interest in the outcome of this hearing.

We feel that as the United States becomes an even more significant player in global dairy markets, we are at a crossroads of opportunity. Some say we are the breadbasket of the world. If this is our future, then we need to expand production, not reduce our herds. Through the opportunities presented to us by the Farm Bill, we should explore improvements to the U.S. dairy system that will propel us into the future. Having the right dairy policy in place will encourage investment with both producers and processors. The right dairy policy will guarantee that U.S. milk production can continue to profitably expand as we become the dominant player in world markets.

HP Hood is opposed to proposals 1 through 3. These proposals ask for changes to the Federal Order that specifically address make allowances. This hearing was called to address Class III and IV milk pricing formulas. We find it difficult to support proposals

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that will later be used against Class I and II processors. Experience has taught us that we will likely find ourselves right back at another Federal Order hearing addressing Class I and II markets for relief.

We are opposed to the suggestion that any formula, or portion of, be subject to automatic adjustment or periodic updates. We believe that any adjustments or updating be subject to the hearing process. With this in mind, we ask that USDA remain sensitive to the needs of our industry and streamline the hearing process to expedite decisions.

Proposal 20 attempts to address the circular nature of our price formulas, but we cannot support it because it advocates the use of CME butter and cheese prices as a replacement for NASS butter and cheese prices. We feel prices at the CME are too thinly traded.

Proposal 20 also suggests that periodic updates could be performed without a hearing. We are opposed to this process.

Be aware that the industry must be cautious of implementing change that is programmed to depress demand, even for a short time, in trade for higher producer prices. Despite the fact that we have economic models that forecast supply-demand impacts, we should remind ourselves that competition from non-dairy segments of the food and beverage industry are relentlessly pursuing the consumer dollar. Relying on dairy product demand to always adjust back after higher prices can be risky in today's marketplace where so many non-dairy food and beverage alternatives are available and growing.

We understand that Proposals 4 and 5 have been withdrawn.

We are opposed to Proposals 6, 7 & 8 that seek changes to yield factors that are not representative of actual industry data as already put forth into the record by IDFA. A degree of shrinkage and plant loss is a reality of processing and manufacturing. Our cost accounting personnel claim that on average we lose 1.5% on our Market Administrator reports.

We support the continued use of NASS prices, and that both blocks and barrels remain in the formulas. It is important that we capture as many pounds of NASS cheese and other NASS products as possible in USDA surveys. All NASS prices and volumes should be subject to mandatory and audited reporting.

As previously mentioned, we do not support proposals that advocate the use of CME prices or any combination of CME and NASS prices. We do understand the lag concerns associated with NASS prices. We would suggest that USDA explore the possibility of modern electronic reporting for increased speed and perhaps frequency of reporting. USDA should seek ways we can improve price discovery by making NASS reporting mandatory and even daily.

We do not support proposals like 17 that make automatic adjustments to energy costs or other input costs. It is challenging enough for our sales managers and our customers to handle the rigors of milk pricing and promotion planning. Additional factors and elements that make milk pricing even more mysterious and challenging for customers is not advised.

We are opposed to Proposal 18 because there seems to be a lack of USDA analysis on this proposal that we have been able to examine. USDA Dairy Programs claimed it was

unable to perform an economic impact analysis on this proposal.

We are in support of Proposals 9, 10, 12.

We ask that as USDA examines these proposals that it take time to examine the competitive relationships between Federal and non-Federal regulated areas such as Federal Order 1 and the Western New York State Order. USDA should support proper price alignment and equity with respect to dairy price formulas and producer prices between such areas .

We thank you for the opportunity to comment.