

Statement
Of
Steven P. Kluesner
on behalf of
Nestlé
at the
United States Department of Agriculture Hearing
on Proposed Federal Milk Marketing Order for California
at Clovis, California, commencing on September 22, 2015

My name is Steven Kluesner. I am the Group Manager for Dairy responsible for Nestlé North American Procurement and today I am representing all Nestlé businesses. In my role, I am responsible for milk and dairy ingredients procurement for Nestlé brands in the United States and Canada. This includes procurement relationships with individual dairy farms, cooperatives and proprietary handlers and manufacturers. Prior to my position I currently hold with Nestlé, I held positions with Nestlé Global Milk Products Procurement, Switzerland; Foremost Farms USA, Wisconsin; and Wells Enterprises, Iowa; I hold a Bachelor's Degree from Iowa State University in Agricultural Studies with emphasis in Dairy Science. I developed today's testimony in cooperation with Nestlé staff and present it today with authorization from Nestlé leadership.

Nestlé in the United States includes Nestlé USA, Nestlé Nutrition, Nestlé Purina Pet Care Company, Nestlé Waters North America and is part of Nestlé S.A. the world's largest food company, headquartered from Vevey, Switzerland. Nestlé S.A. employs over 330,000 globally and operates over 390 manufacturing plants of which Nestlé USA is the largest individual market and employs 23,000 and operates 25 manufacturing facilities and 43 distribution centers focused on making branded food and beverages.

Nestlé USA currently operates plants that utilize fluid dairy products:

- Ice Cream Factories
 - California (2)
 - Indiana
 - Maryland
 - Utah
- Evaporated milk Factory
 - California
- Fluid Beverage Factory
 - Indiana
- Prepared Foods Factories
 - South Carolina

- Arkansas
- Utah
- Ohio
- Nestle Nutrition Factory
 - Wisconsin
- Confections Factories
 - Wisconsin
 - Illinois

1. Currently, in California we are buying fluid dairy ingredients for our two Ice Cream factories and our Baking factory, each receives fluid milk and fluid dairy ingredients as contracted, either from supplying cooperatives or from patron supply. Nestlé is not paying non-cost-justified up charges for the milk we receive. Nestlé is testifying to the current situation of fluid dairy procurement in California as being orderly.
2. I testify today in support of Dairy Institute's Proposal 2, which would operate without mandatory price regulation, allowing us to purchase milk priced in California as Federal Orders currently do in the rest of the U.S. Under the Cooperatives' Proposal 1, Nestlé's plants in California would be required to pay the higher FMMO class prices, while our competitors in other FMMO regions are not required to do so. In the cooperatives' proposal, all plants are pool plants requiring mandatory pooling. In all other federal orders, the handler decides whether to associate with the order pool, if it benefits them financially to do so. If they do not associate with the pool, USDA does not mandate the price plants must pay for Class II, III or IV usage. So, if Nestlé suppliers decide they want to associate with the pool Nestlé will continue to pay the price negotiated with suppliers but Nestlé would not be required to pay the regulated minimum price unless we choose to do so.
3. Mandatory pooling within an order of California would put Nestlé's businesses at a competitive disadvantage to competitors operating in orders that do not have the same pooling requirements. These differences in competitive nature would cause a change in manufacturing strategy potentially resulting in manufacturers evaluating replacing current production with open capacity in other states resulting in less overall demand for dairy products in California. Manufacturing plants need to be competitive with plants in other Federal Orders. By not being consistent with Federal Order rules in all regulated areas and making all plants only in California regulated, would destroy our ability to compete with others located outside of the state. Nestlé has a long history and huge investment in the California dairy industry, with the size and scale of our operations in the state and the low margin nature of the ice cream business, we cannot function in a non-competitive environment. Inconsistent rules across Federal Orders would require a

reevaluation of the current Nestlé manufacturing strategy and bring focus to other parts of the U.S.

4. Nestlé's purchases a large percent of California dairy products from dairy commodities, fluid supplies domestically to powders internationally. The proposals to implement Federal Orders in California would result in higher prices under the cooperatives' proposal also making international purchasing decisions now subject to reevaluation. Procurement decisions have to be driven by the economics and the ability to source product at prices that make our operations financially viable. Enhanced product prices, caused by higher regulated prices that are not present in other regions of the US, or globally, and that are unsupported by market realities, make the purchasing of product from California less likely. The current system that enabled the development of supply for international business over the past ten plus years would not be viable any longer and would cause a shift in focus to other less regulated regions of the world for growth.

We currently have strong relationships with manufacturers in California and we would very much like to continue to procure dairy ingredients in the state. Nestle would like to see a consistent approach to regulations across orders allowing our businesses to continue to be competitive and grow in communities we have establish manufacturing.