Testimony of Michael Newell
Proposed California Federal Milk Marketing Order Hearing
Docket No.: AO-15-0071

Hello, my name is Michael Newell and I am currently employed by HP Hood LLC as a Director of Sales for the western United States. I obtained a Bachelor Degree in Economics from U.C. Berkeley in 1987 and a MBA from the Wharton School of Business in 1991. From 1987 until May of 2007 I worked in a variety of positions at Crystal Cream & Butter Co., my family's milk processing business which was located in Sacramento, CA. Relevant to today's testimony are the positions I held as a Sales and Marketing Analyst from 1991 until 1997, Vice President of Marketing from 1997 until 2003, and Company President from February 2003 through October of 2007. In May of 2007 Crystal's dairy assets were sold to HP Hood and on November 1, 2007 HP Hood sold the Crystal brand and the conventional milk business to Foster Farms Dairy in Modesto, CA. At that time I transitioned to my present position at HP Hood. The purpose of my testimony is to discuss difficulties that Crystal had in balancing its milk supply in the years leading up to the sale of the company and the part that a combination of mandatory pooling and a high whey value played in creating these disorderly market conditions.

<u>Overview of Crystal Cream & Butter Co.</u>

Crystal Cream & Butter Company was founded in Sacramento in 1901. The Hansen family owned the business from 1921 until its sale in 2007. Crystal based its business on core principles of quality, service, integrity and competitive pricing. Crystal built an extremely strong brand name in the Sacramento Valley by consistently advertising on radio, television, and print media from the late 1950s through the early 2000s. A key component of Crystal's success was its high quality milk supply which was almost entirely purchased directly from independent dairy farmers located within 70 miles of the Sacramento processing facilities. We took great pride in having a direct relationship with our local milk producers and felt that working with them to maximize quality help set us apart from our competition.

Between 1990 and 2006 Crystal's annual milk purchases ranged from 45 million to 60 million gallons. During this period Crystal had between 400 and 500 employees. For most of its business life, Crystal was a full line manufacturer producing fluid milk, cultured products, ice cream, butter, and nonfat dried milk. Until 1996, all of these products were produced at Crystal's downtown plant in Sacramento. In 1996 Crystal opened a state-of-the-art milk bottling facility on Belvedere Avenue in Sacramento which also incorporated ESL pasteurization capabilities. Fluid milk accounted for approximately 65% of Crystal's $140 to $180 million of annual sales. Crystal served the full gamut of customers - schools, restaurants, independent distributors, convenience stores, other processors, and grocery stores from San Joaquin County north to the Oregon border.

In the late 1990s, Crystal decided to exit the manufacturing of NFDM due to the age and inefficiency of its powder operations. This decision made balancing the independent raw milk supply a very important part of running our business, especially when schools were out of session during holiday and summer breaks. To balance our raw milk supply our Vice President of Producer Relations created productive relationships with other processors and milk cooperatives in order to place excess milk in times of slow demand or obtain additional milk in times of high demand. Although Crystal's milk supply contracts with the independent dairy farmers had specific volume caps, historically these quantities were never enforced. We would take all the milk that our producer partners could produce. We viewed our producers as a key part of our success and wanted to have the most productive relationship that we could.

As we moved through the early 2000s, it became increasingly difficult to balance our independent milk supply as finding a home for our extra raw milk ~~because~~ became more problematic. The excess production capacity in the northern California market grew progressively tighter as milk production grew. Our V.P. of Producer Relations had to look beyond Northern California to Southern California and out of state to place our excess milk. She related stories of other companies having similar difficulties and of milk moving out of state to Idaho and beyond. Finally before the summer of 2006, we made the difficult decision to enforce the volume caps in our milk supply contracts. The tight capacity situation in northern California left us no choice. Those producers which exceeded their contracted volume had to find another home for their extra milk. This created quite a stir in the producer community. I recall attending a Dairy Council meeting in June of 2006 and one of the longtime producer board members approached me and wanted to know "what in the hell we were doing" by capping our producers. I didn't realize the significance of our decision at that time, but we were really on the leading edge of a change in the marketplace. Within a year or two, the oversupply conditions in the state had reached the point that the large cooperatives had to institute their own base plans because they themselves did not have processing capacity for the milk produced by their members.

At the time Crystal experienced its milk balancing challenges and had to take drastic steps to limit its milk supply, I viewed it as a Crystal issue and did not realize the macro causes. With hindsight and the discussion around adopting a Federal Order in California, I have come to appreciate the part that our mandatory minimum regulated pricing policy played in creating those conditions. The adoption of the whey factor formula by the California pricing system in 2003 and the escalation of the value of the whey factor from less than $.50 per hundred weight in late 2004 to over $3.00 per hundredweight in mid-2007 helped encouraged the rapid milk supply increases which strained the capacity of California's production assets. In late 2007, the CDFA fixed the value of whey factor at a much lower value in effort to protect its small cheese makers and to make its milk market perform in a more orderly fashion. I firmly believe if a FMMO were adopted in California that included mandatory pooling, the industry would ~~be~~ again be setting itself up for an oversupply situation like we faced in the mid-to-late 2000s. This situation could be exacerbated by cheese manufacturers deciding not to reinvest in the manufacturing assets they have in the state. I encourage the USDA to incorporate in a California FMMO the ability for the lower classes of milk to de-pool to help to create a stable, orderly market for raw milk. De-pooling is a mechanism that helps stabilize other FMMO regions and, based on past history in California, it seems that it will be greatly needed in California should a FMMO with higher whey value be adopted.