UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE SECRETARY OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

In re:	7 CFR Parts 1000 *et seq.*
Milk in the Northeast and Other Marketing Areas	Docket No. 23-J-0067; AMS-DA-23-0031

CARMEL, INDIANA
AUGUST 2023

TESTIMONY OF HP HOOD, LLC, PART 2 REGARDING NATIONAL HEARING ON FEDERAL MILK MARKETING ORDER PROPOSALS

September 16, 2023

I. BACKGROUND

A. PERSONAL BACKGROUND

My name is Michael Newell and I am a Sales Director for HP Hood LLC ("Hood"). I am also responsible for industry relations in California and serve on the Board of the Dairy Institute of California, the California Milk Processor Board, and the Dairy Council of California. In my role as Sales Director, I am responsible for the sale of Hood brands and licensed brands in Northern California and the Pacific Northwest. From 2011- 2015 I was also responsible for international sales and was Hood's representative of the U.S. Dairy Export Council Board. I came to Hood when they acquired Crystal Cream & Butter Company in 2007. At Crystal I served in various positions between 1987 - 2007 including Operations Trainee, Sales Analyst, V.P. of Sales & Marketing, and President. As V.P. of Sales & Marketing at Crystal, I oversaw pricing policy and participated in a number of California Department of Food and Agriculture milk price hearings. I graduated from U.C. Berkeley in 1987 with a BA in Economics and received an MBA from the Wharton School of the University of Pennsylvania in 1991.

B. COMPANY BACKGROUND

HP Hood was founded in 1846 and is one of the largest family-owned fluid milk bottling companies in the United Sates, with annual sales in excess of $3 Billion in 2022. Hood currently operates five ESL plants and four HTST plants, all of which process Class I milk. Hood's ESL plants are located in Philadelphia, PA (FMMO 1); Winchester, VA (FMMO 1); Oneida, NY (FMMO 1); Batavia, NY (FMMO 1); and Sacramento, CA (FMMO 51). Hood has a sale agreement in place for the Philadelphia facility which should close in the second half of 2023. Hood's HTST/DSD Plants are located in Agawam, MA (FMMO 1); Barre, VT (FMMO 1); Concord, NH (FMMO 1), and Portland, ME (FMMO 1). In addition to Class I Products, Hood produces cream, half & half, and a variety of cultured products, ice cream, and several non-dairy ESL beverages, including Almond Breeze and Planet Oat brands. Hood operates culture plants in Vernon, NY, Lafargeville, NY and Arkport, NY and an ice cream plant in Suffield, CT. For 2022, Hood had Class I utilization rate of over 87% for both its ESL and HTST bottling plants.

Hood's ESL business is the largest segment of our business and we distribute major ESL brands nationally. Hood markets its national brands as consumer products. Annual marketing and trade plans are rigorously developed and wholesale price changes take place infrequently (over the past 10 years the average is less than annually). Hood's largest brand is Lactaid Lactose Free Milk which is produced under a license from McNeil Nutritionals. According to market analytics firm Circana, Lactaid's Class I lactose free milk's Total U.S. Multi Outlet sales exceeded 108 million gallons for the 52 weeks ending July 30, 2023, making it the largest Specialty Milk brand in the U.S. Hood also exports a significant amount of Class I ESL milk to Asia from its Sacramento, CA Plant.

HP Hood's Class I HTST business is regionally confined to the New England Market. Hood's Class I sales occur under several brands including HP Hood, Crowley Foods, Booth Brothers, and assorted private labels. Hood's Class I products are primarily delivered directly to stores, food service accounts, and schools. Wholesale prices of Class I typically change monthly in alignment with the FMMO Class I changes. According to Circana (based on public data), the HP Hood brand is the largest brand in the New England market with a 12.5 volume share. Private label has the largest share of the New England markets with a 74.7 volume share.

II. SUPPORT FOR MIG PROPOSALS

Hood is a member of the Milk Innovation Group ("MIG") and supports its proposals at this hearing. I am here today to testify on MIG's Proposal 20.

A. Proposal 20: MIG's Class I Differential

1. Grade A Milk ($.40)

As a processor of ESL Milk, HTST Milk, Cultured Products, and Ice Cream HP Hood cannot utilize Grade B milk and does not receive it. Grade A milk is virtually the only milk available on the market, so it no longer makes sense for the base Class I differential to include $0.40 for maintaining Grade A status as Grade A milk is the industry standard.

2. Cost of Balancing ($.60)

Hood procures milk from a combination of independent dairies and four different cooperatives based on the location of the facility. We also purchase milk on a regular basis from a milk broker. The large majority of the milk we utilize comes from cooperatives. Currently Hood bears some of the cost of balancing its milk supply as we receive all Class I milk directly from the farms, not balancing plants. We also pay most of our co-ops a handling charge to cover the cost of balancing. It seems unreasonable and duplicative for the FMMO to include a $0.60 charge on top of an operational cost we currently bear. We also have invested significantly in ESL facilities, including more processing capacity and automated storage and retrieval systems (ASRS), all of which are geared towards balancing efforts. For example, on August 31, 2023, Hood announced that it is investing $120 million in an expansion of its Batavia facility. This investment includes two additional receiving bays and two additional milk silos, which also will support balancing efforts.

3. Incentive to Serve Class I Market ($.60)

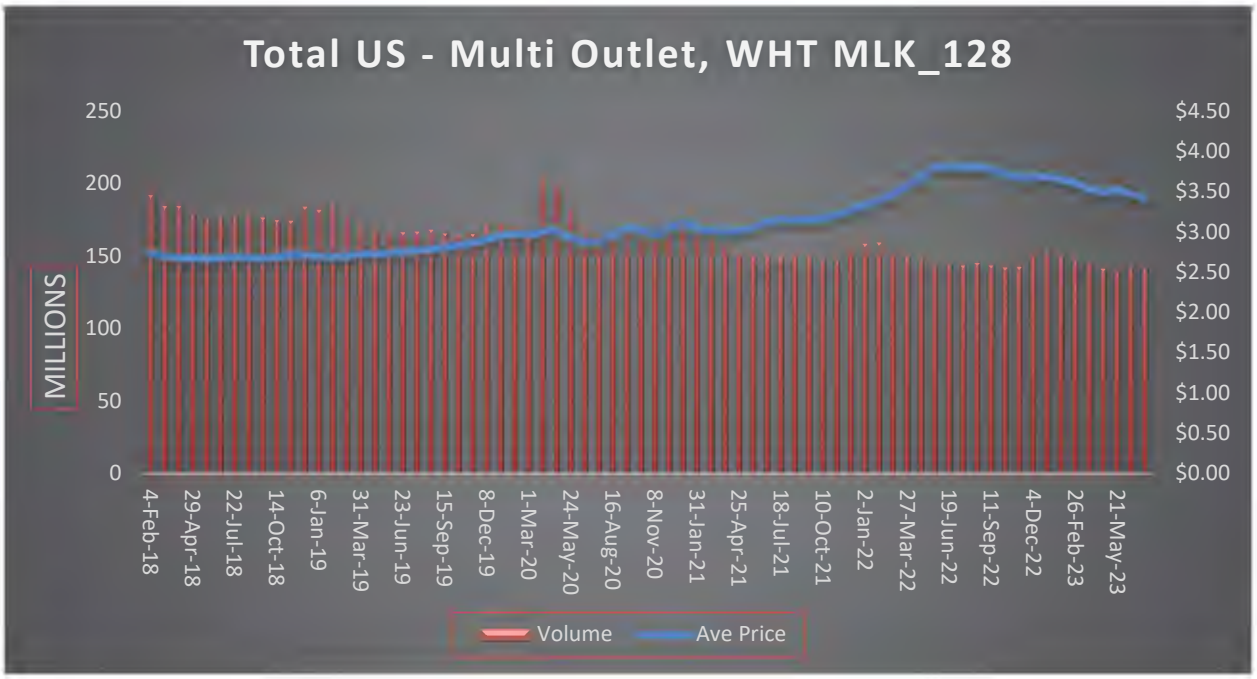
Hood has not experienced any issues attracting milk to its plants. Currently Hood pays over order premiums on all of our milk. There is ample milk to supply all of Hood's plants. If Hood were to ever have difficulty attracting milk to its plants, then it would be more equitable and effective to pay this incentive directly to our milk suppliers than to have it diluted in the pool.

Failure to relieve Class I prices (or, to raise them) will continue to put pressure on the already declining Class I market and accelerate the decline in Class I volume. Declining volume will put greater financial pressures on Class I processors and could lead to additional bankruptcies of Class I processors. This situation would favor the Co-op owned Class I plants and, to a lesser extent Producer-Handlers.

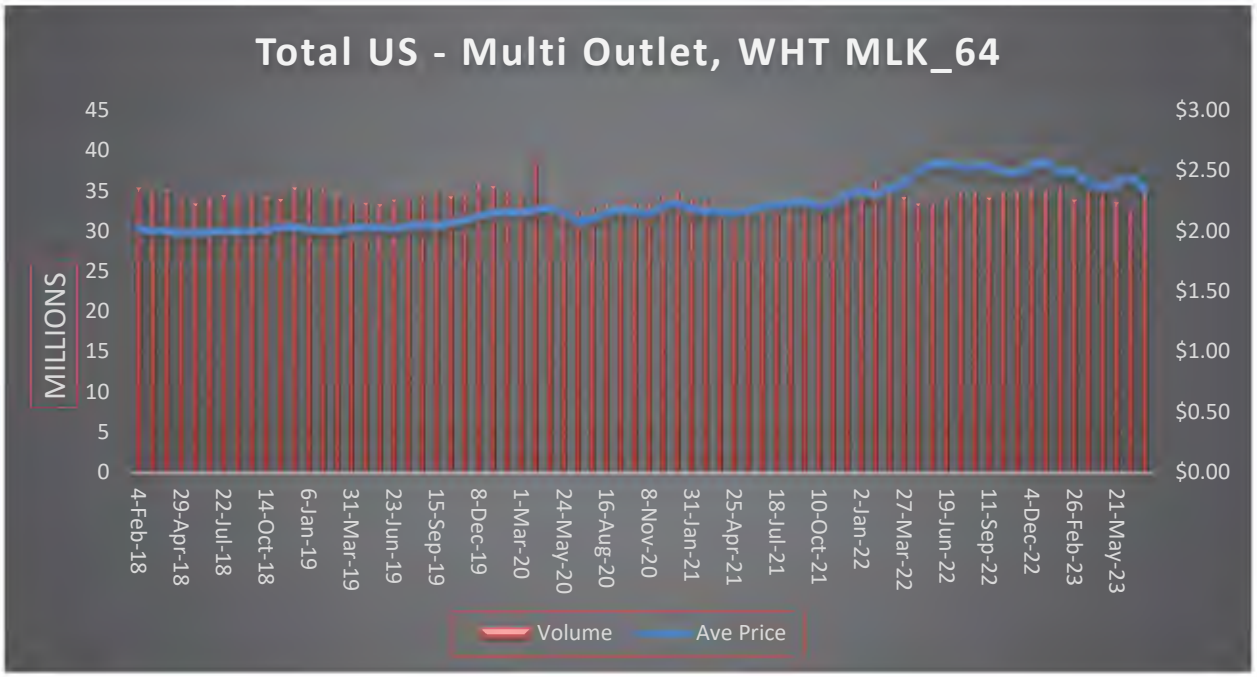
Recent higher Class I prices have had a significant impact on Class I volume sales. Hood's Category Development Team utilized its Circana database subscription to analyze US Multi Outlet of White Fluid Milk (WFM) volume sales and pricing data for Gallon and Half Gallon sizes from early 2018 through July 2023. With the price inflation in 2022, volume Gallon sales declined

significantly on this "bump chart" while the sales on the Half Gallon bump chart held up reasonably well. This is likely due to some consumers opting for a lower unit price of a half-gallon in an effort to save money.

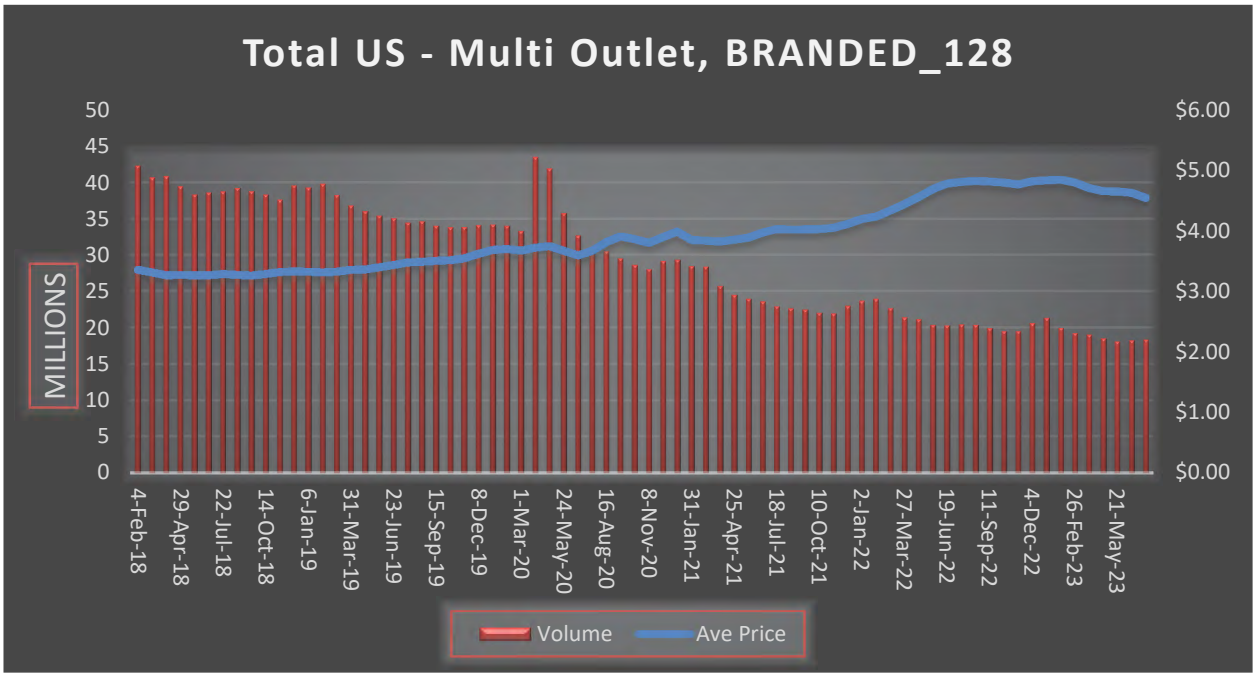
Compare gallon milk sales:



With half gallon milk sales:



We also examined volume sales data on more premium priced branded Gallon white fluid milk, which factored out lower-priced private label. The volume declines were even more drastic on this chart showing that there is a price elasticity to milk. Price does matter and inflation drives consumers to change their shopping behavior:



This volume decline in branded milk products in the face of higher prices does not bode well for independent dairy bottlers and points to further commoditization of the white fluid milk market as more consumers move from branded Class I products to private label. This trend favors co-operative owned bottlers as they are in a better cost position to win the private label bids of large retail customers as well as captive bottlers that are in business primarily to serve the retailers that own them.

III. CONCLUSION

Hood asks that the USDA adopt MIG proposal 20. Over the past 30 years the growth in milk production has been to support the growth of manufacturing class products while Class I volume has been on a steady decline. As stated earlier in my testimony Grade A Milk is abundant and available to Class I processors. Further, the logic behind the components that make up $1.60 base Class I differential is no longer applicable. The shrinking Class I market should no longer be

burdened with these costs and should be given the freedom to encourage innovation and better serve consumers and the dairy industry as a whole.

DATED this 16th day of September, 2023.

By */s/Michael Newell*
MICHAEL NEWELL