

Testimony of Mike Suever, representing HP Hood LLC

Emergency Class I & II Price Hearing

Reference: Docket No. AO-14-A76, et al.

My name is Michael Suever. I am a Senior Vice President for HP Hood LLC and am responsible for milk procurement, research & development and engineering. Our company has substantial capital invested in facilities that process and package milk into Class I & II products. We operate 14 Class I & II plants in FO #1 and 6 plants in the Upper Midwest. As such, we are keenly interested in the outcome of this proceeding. I have testified at many Federal and State regulatory hearings over the last 25 years in the business.

I must say that I was surprised when USDA announced that it was willing to consider changes of this magnitude on an emergency basis and affording a very short time for the industry to prepare. I am generally an advocate of a rapid process but the substance of this proceeding requires more time for preparation. Class I milk is the principal focus of the federal order system, yet potentially massive changes are being considered on less than three weeks notice. This includes not only a change in the relationship of Classes I and II from III and IV, thereby reversing decades of practices, as well as extremely large increases in the Class I and II prices.

HP Hood LLC is opposed to Proposals 1 through 5 as published and recommends that the Department deny the requested changes. One of the overriding arguments

Exhibit 41
Witness _____
Date _____ Rptr. _____
**Powers
Garrison &
Hughes**

purposely try to reduce the supply and then claim that the (supposed) inadequacy of the supply requires government intervention.

The next area of focus by the proponents is the rising cost of transportation to all markets. As they note, "transportation costs affect all markets" yet they seek compensation from only the Class I & II markets. They note processors achieve savings through the operation of larger plants; but claim that the higher hauling rates and longer hauls that allow these plant savings are imposed upon producers and their cooperatives. Larger plants are not exclusive to facilities that only make Class I & II products. In fact some of the largest dairy plants built in recent times have been Class III plants which in many cases are at least partly owned by Cooperatives. There is no basis to try to shift these transportation costs to the Class I and II markets.

The Federal Order has dealt with transportation costs to serve markets in other ways. For the proponents to ignore the myriad of details involved with transportation and simply state that one change to the price mover is the way to deal with things, or will take care of things, is preposterous. The producers have often looked to USDA for a quick fix. Let's not make that same mistake again for expediency.

The proponents also focus on the existence of voluntarily negotiated, and increasing, Class I premiums as the purported rationale for proposed changes to the "mover". The following table depicts the average Class I premium charged by

CMPC members in the FO 30 Eastern/Chicago market followed by the premiums charged in FO 68 Upper Midwest:

1995	\$1.14/CWT	\$0.72/CWT	(August-December was the only data available)
1996	1.45	1.189	
1997	1.862	1.593	
1998	1.41	0.886	
1999	1.567	1.117	
2000	1.432	1.173	
2001	1.447	1.334	
2002	1.56	1.606	
2003	1.61	1.660	
2004	2.638	2.434	
2005	2.57	2.095	
2006	2.207	1.782	

Data supply by the CMPC.

As you can see from the data, over time the premiums move up and down. The premiums from the two areas do not follow in lock step with each other. In fact the latest data, which includes 2006, shows that premiums have been moving lower from a high in 2004. I do not believe for one moment that these premiums "are an

indication of the inadequacy of the current minimum Class I prices to draw milk to the pool to meet Class I needs". The fluctuation of Class I premiums has been influenced by any number of things within the market or adjacent markets. Some of these factors include the amount of Class I access that various Coops have at any given time and the influx of very large farms just to the east of the region. Even "infighting amongst Coops" has had a significant impact. The assertion that changes in the Class I premiums should be used to make an adjustment to the "mover" is baseless. I have asked our Coop suppliers what will happen to our voluntary premium if a portion of the current premium becomes institutionalized in the Class I price? They have made it clear that they cannot reduce our premium. They claim that their producers have come to expect the current level of premiums in their monthly check.

Another major problem with the proposals is its impact in the Upper Midwest, where HP Hood also has significant operations. Based on my calculations, producers that supply our milk plants in the Upper Midwest will actually end up with less money at the end of the month if this proposal is approved. When I ran a set of numbers using the proposal in conjunction with the expected MILC payments, the producers that supply our Upper Midwest plants would experience a lower total price for their milk.

Class II

The proponents note that the spread between Class II butterfat is \$0.037 to \$0.0393 higher than the butterfat formula for California Class IVA while their proposal would establish a spread of only \$0.027 above the Class IV butterfat formula in the Federal Order areas. They then go on to assert that "substantial substitution of butter, butteroil or anhydrous milkfat for cream has not occurred in California". I did not hear any of the proponents define the term "substantial" in this context. I fail to understand how the market dynamics of California which is a year-round exporter of butterfat in many forms can be compared to the Northeastern market that imports butterfat at least 9 months of the year. The proponents also fail to note that substitution of non milk fat sources can and do occur already. A perfect example is a product called Cream Cheez made with some vegetable oil. This product does not meet the standard of identity for cream cheese but is gaining an ever growing share of the food service historic cream cheese market.

In summary the Cooperatives are looking for a "quick fix" to compensate the producers for any impact due to a change in the Class III & IV make allowances, but their solution has little to do with this alleged problem and would carry significant negative consequences. Their proposal ignores the real problem of a circular manufacturing price formula and location adjustments that should be revisited. We should not change the "movers" just to avoid the real issues concerning milk price calculations.