

**Testimony of
Joseph W. Weis**

In Support of Proposal No. 1

**On behalf of
Foremost Farms USA Cooperative**

**United States Department of Agriculture
Agricultural Marketing Service
Public Hearing
Docket No. AO-14-A74, et al.; DA-06-01
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Alexandria, VA**

My name is Joseph W. Weis. I am employed by Foremost Farms USA Cooperative (Foremost) as Vice President-Consumer Products Division. My business address is E10889A Penny Lane, P.O. Box 111, Baraboo, WI, 53913. This testimony is given on behalf of Foremost Farms USA Cooperative.

Foremost Farms USA is dairy farmer-owned Capper-Volstead cooperative representing 3476 member-owner milk producers located in 7 states. In 2005, Foremost's member-owners located in Wisconsin, Minnesota, Iowa, Illinois, Indiana, Ohio and Michigan marketed 5.05 billion pounds of milk through their cooperative.

Foremost owns and operates ten Cheese Division plants located in Alma Center, Appleton, Chilton, Clayton, Lancaster, Marshfield, Milan, Richland Center, Waumandee and Wilson, Wisconsin, producing over 500 million pounds of cheese annually. Our Ingredient Division plants located in Preston, Minnesota, Waukon, Iowa, and Plover, Rothschild and Reedsburg, Wisconsin, serve the dual roles of further processing the whey solids from our Cheese Division plants while balancing the surplus butterfat and skim solids from our member-owner milk supply by producing butter, condensed skim milk and occasionally nonfat dry milk. In addition to supplying milk to our own distributing plants in DePere and Waukesha, Wisconsin, we also supply Grade A bulk milk to distributing plants located in Federal Orders 5, 30, 32 and 33.

Foremost Farms USA supports Proposal No. 1 as set forth by Robert Wellington of Agri-Mark Dairy Cooperative in his testimony at this hearing marked Exhibit #29.

As previously described at this hearing, current manufacturing allowances used to compute Class III and Class IV milk and component prices were established on the basis of cost surveys from cooperative manufacturing plants in 1998/1999, as well as California plant survey costs from 1999. Dairy product manufacturing costs have risen dramatically since that time, resulting in substantial losses at manufacturing plants that purchase and process Federal Order Class III and IV milk.

In the face of rising manufacturing costs, Foremost has taken number of steps since the year 2000 to increase our competitiveness and efficiency in converting our member-owners' milk into an assortment of dairy products that are desired by today's marketplace. Some of these include; the 2001 conversion of our barrel Cheddar cheese plant at Richland Center, Wisconsin to Mozzarella production; the further rationalization of our product mix and the utilization of our multiple manufacturing plant system by the 2003 closings of three cheese plants (two American style plants and one specialty cheese plant), a whey processing plant, a dry products storage and distribution facility, and a milk reload station; increasing employee contributions toward their health insurance costs; and the implementation of a formal Corporate Purchasing function in 2003 to better enable the cooperative to leverage the negotiation of prices paid for our collective volume of packaging, ingredients, and other goods and services needed to operate our plants efficiently. All of these cost savings initiatives have delivered their intended results including increasing our manufacturing plant capacity utilization levels to near 97%. Unfortunately, these cost savings measures alone are not enough to offset the impact of rising costs, particularly in the areas of employee health insurance costs,

property and casualty insurance, packaging materials and, in particular, electricity and natural gas.

Where possible, in the face of increasing competition for markets from products produced in lower cost milk production regions as well as competition from other non-dairy commodities, we have increased product prices or premiums in an attempt to offset these increasing costs while maintaining our market share. Like other manufacturers, when we are successful in increasing product prices, to the extent that these prices are reflected in the NASS Dairy Product Prices surveys, the result is higher minimum classified prices for manufacturing milk, offsetting the higher prices received for the finished products. That did not deter us, however from passing along increased costs wherever the marketplace would allow.

Foremost's Lancaster, Wisconsin plant manufacturing cost data was supplied by our corporate cost accounting department staff for Dr. Ling's Rural Business and Cooperatives Service (RBCS) Dairy Product Manufacturing Costs 2004 survey. Our cost accounting staff also prepared an analysis of our manufacturing costs at this plant in 1999 and 2005 for comparative purposes. This plant produces 640 lb. block of cheddar cheese and condensed whey for further processing at one of our ingredient plants. In 2004, our total surveyed manufacturing costs per pound of cheese were 25.6% higher than in 1999 while total pounds of cheese manufactured at Lancaster were up by 3.3%. Using Dr. Ling's cost categories, the major drivers of our cost increases were natural gas up 64.1%, electricity up 70.3%, employee fringe benefits (driven by increasing health insurance

costs) up 57%. All cost categories surveyed for 2004 increased with the exception of ingredient costs down 2.8%, taxes down 15.2% and water and sewer down 30% resulting from the installation of our own private wastewater treatment plant during 2004 as opposed to the costs for the use of the Lancaster municipal wastewater treatment facility in 1999. However, there were some offsetting cost increases in energy, depreciation, repairs and maintenance, and insurance resulting from this investment. Condensed whey processing costs per pound of solids increased 51.4% in 2004 at Lancaster compared to 1999, with the same major cost drivers being responsible as previously reported for cheese, while total solids processed increased 7.35%.

Foremost further supports the portion of Mr. Wellington's proposal detailed on page ten of his testimony, exhibit# 29, entitled "Adjusting Manufacturing Allowances to Include 2005 Energy Costs." We cannot afford to continue to absorb the impacts of last year's increase in energy prices without eroding our member-owner's balance sheet.

Foremost's cost data for Lancaster comparing 2005 to 2004 shows that total costs per pound of cheese increased by 14.1%, while natural gas increased 28.3% and electricity increased 17.8%. All other cost categories increased with the exception of insurance down 1.1% and water and sewer down 40.5% as a result of 2005's costs reflecting a full year of our private wastewater treatment plant's operation compared to a partial year in 2004. Total cheese production was down slightly, 1.9%, at Lancaster in 2005 compared to 2004. Total whey solids processed were down .31% in 2005 while costs per pound of solids were up 13.4%, again driven by the same cost categories, primarily natural gas and electricity, up 28.26% and 13.07% respectively.

We are familiar with the proposal that will be brought forth by National Milk Producers Federation at this hearing to utilize an ongoing energy index to adjust manufacturing allowances on an ongoing basis. Due to the critical need for relief from the impacts of higher manufacturing costs, such that when we are able to recover them from the marketplace they result in higher Class III and IV minimum prices, we support Agri-Mark's call for an interim emergency decision using 2004 RBCS and CDFA survey data adjusted for 2005 energy costs to increase dairy commodity manufacturing allowances for cheese, butter, nonfat dry milk and dried whey. This can be followed by a thorough comment and review period before issuing a decision for the on-going energy index adjuster to the manufacturing allowances as proposed by National Milk Producers Federation.

We appreciate the cooperation of USDA Agricultural Marketing Service personnel in holding this hearing and ask that the Department consider the evidence regarding the urgency of this situation in rendering a timely interim emergency decision. Thank you.