

Testimony at Emergency USDA Hearing on Make Allowances  
January 25, 2006

My name is Richard Scheuerman. I am the President and CEO of Alto Dairy Cooperative. Alto is a Wisconsin-based coop, owned by farm families from across the state and the upper peninsula of Michigan that provide our cheese operations with over 1.5 billion pounds of milk annually. We operate two cheese plants in Wisconsin and pool our milk in Order 30. In these plants we convert our member milk into 200 million pounds of commodity and specialty cheese. Our cheese and its associated byproducts are distributed nationally through the foodservice, industrial and retail markets. Alto has 500 hard working employees. The largest of our two cheese plants in Waupun, Wisconsin is the largest cheese plant east of the Mississippi.

The health of U.S. Dairy producers is tied directly to a healthy dairy processing industry. Our ability to convert their milk into quality products is in turn dependent on our ability to earn a fair return on the investments we employ in the conversion process. As a leader of a cooperative, it is very important to me that the milk pricing system treats both processor and producer fairly. It is clear to me that current make allowances tip that balance towards producers and to the disadvantage of cheese manufacturers.

I am testifying today in support of the proposal introduced by the National Cheese Institute to adjust make allowances. Like most cheesemakers, the cost of milk represents between 85% and 90% of our total costs. As you know, these make allowances used to price this milk are at least five years old. During this time, the non-dairy ingredient cost of cheese manufacturing has risen significantly. Some examples include the cost of natural gas, which has almost tripled in the last three years. Energy cost increases show up in many other cost elements, including packaging film, cleaning chemicals, and freight surcharges on inbound and outbound goods. Similarly, medical premiums have risen by 44% in the last three years, despite making health plan changes that reduce coverage. The total impact of these inflationary increases, even after significant productivity initiatives, is an increase in Alto's cheese cost of production of over three cents per pound. We currently produce cheese at a cost significantly higher than the make allowances in today's Class III formula.

I worry daily about the member and employee families that rely on Alto for their livelihood. Our ability to provide our members with a long term home for their milk and our employees with a long-term source of income is dependent on being able to produce our products profitably. We work hard to control our non-milk costs, but are pressured like all industries by rapidly escalating utility, wage and benefit costs. While we increase efficiencies every day and leverage the size of our manufacturing facilities, these industry-wide cost pressures along with the shrinking milk-to-cheese spread which resulted from the last round of dairy

reform have made earning an adequate return on our member's equity very difficult, if not impossible. We announced that our cooperative lost money in our last fiscal year.

I urge USDA to move swiftly and decisively to provide immediate relief to the U.S. cheese processing industry. At current margins, many companies will measure their future in months instead of years. If cheese companies are not permitted to be financially solvent, then the long term outlook for producers will be equally bleak.

Thank you for your consideration.