

**Statement of Terry J. Brockman**  
**Saputo Cheese USA Inc.**  
**At the**  
**Federal Milk Marketing Order Hearing**  
**Carmel, Indiana**  
**August 2023**

**Introduction**

I am Terry Brockman, Senior Vice President Dairy of Procurement, Ingredients and Industry Affairs for Saputo USA, headquartered in Milwaukee, Wisconsin. Our business address is 10700 Research Drive - Suite 400, Milwaukee, Wisconsin 53226. Saputo USA operates 29 plants in the United States, manufacturing and packaging a variety of cheeses, cultured dairy products, whey ingredients and extended shelf-life and aseptic dairy products. We employ approximately 7,900 employees in the United States. We are among the top 3 cheese manufacturers and one of the largest producers of extended shelf-life fluid products. Twenty-two of the twenty-nine plants in the United States process milk, and receive milk pooled in seven different Federal Milk Marketing Orders. Most of the milk we buy is regulated by the Federal order system and extends at least to some degree to all classes of milk. Therefore, Saputo has a strong interest in the decision by the USDA as a result of this hearing.

**Background**

As Senior Vice President for Dairy Procurement, Ingredients and Industry Affairs at Saputo USA, my responsibilities, among other things, include milk and cream procurement for all the company's U.S. manufacturing facilities. Another one of my responsibilities is to represent Saputo USA and participate as a member in several industry associations. I am currently serving as Secretary of the International Dairy Foods Association (IDFA) Executive Council. I also serve on two segment boards within IDFA, which are the Cheese and Ingredients Segment Boards. Additionally, I sit on the Executive Board of American Dairy Products Institute (ADPI). Saputo is also a member and supporter of several other key industry associations. We actively participate as a member of the Wisconsin Cheesemaker's Association (WCMA), the Dairy Institute of California, The Cheese Importers Association and United States Dairy Export Council (USDEC) to name a few.

I have been part of the dairy industry since August 1997, working Saputo USA for that entire 26-year period, minus a few months. I have held various roles within Saputo USA, with the longest in duration being President and Chief Operating Officer for our US Cheese Division for fourteen (14) years. My educational background includes a Bachelor of Science Degree from the University Wisconsin – La Crosse in Political Science and graduate course work at the University Wisconsin – Green Bay.

### **Saputo's Position**

We have reviewed and support the testimony of Mr. Mike Brown representing the International Dairy Foods Association. I specifically want to testify on proposal numbered 3, 6, 8 and 9.

**Proposal 3**, submitted by National Milk Producers Federation to remove 500-pound cheddar barrel pricing from NDPSR Price used to calculate Class III Protein should be rejected. Cheddar barrels make up approximately 50% of the cheese surveyed each week. This proposal would create even more price disparity between the Cheddar Barrel CME market price and Class III pricing. They would be completely disconnected. In my opinion, this would create even greater margin volatility for 500-pound cheddar barrel manufacturers. This proposal has been rejected in the past by USDA, and it should be rejected again for the same reasons.

**Proposal 6**, submitted by the California Dairy Campaign to include Mozzarella Cheese in the product price surveys should be rejected. Without more clear and concise information on how this would be accomplished, we cannot support this proposal. As the second largest Mozzarella manufacturer in the United States, Saputo USA's Mozzarella facilities are all unique. The processes and equipment utilized are designed to make finished product that meets customer and consumer expectations. Recipes are designed to achieve finished good analytical data (i.e., fat, solids/non-fat, moisture, salt) that meet specific customer needs and consumer expectations.

Our Low Moisture Part-Skim Mozzarella string cheese plants are very different and have a much higher cost structures than our Low Moisture Part-Skim Mozzarella loaf plants that service our Foodservice and Industrial customers. The multitude of Mozzarella recipes, finished product analytical data, packaging formats and production processes all vary greatly based upon customer and consumer expectations. For these reasons, Mozzarella should not be included in product price surveys used to establish minimum Class III prices.

**Proposals 8 & 9** are addressing Class III and Class IV make allowance increases. Saputo USA supports the make allowance proposals from the Wisconsin Cheese Makers Association (WCMA) and the International Dairy Foods Association (IDFA). The WMCA and IDFA proposal uses an average of the Dr. Schiek study (which uses the 2016 California Department of Agriculture audited manufacturing cost study adjusted with inflation indexes) and the last manufacturing cost survey from Dr. Mark Stephenson using 2022 plant survey data.

Saputo USA participated in Dr. Stephenson's 2022 cost survey. We submitted Whey drying cost data from our Las Cruces, New Mexico plant. We don't make commodity Cheddar; therefore, we did not submit manufacturing cost data for Cheddar.

Updating the current manufacturing allowances are a must. The manufacturing allowances in the Class III and Class IV milk pricing formulas don't reflect current processing costs for Cheddar, Whey, NFDM and Butter.

Saputo USA's cost to process raw milk into finished product is comprised of the following general cost categories:

- Overhead
- Direct Raw Materials
- Direct Labor

These three categories, when excluding milk, comprise approximately 20% of the total cost to process raw milk into a finished cheese. In reviewing the cost history of categories listed above, we focused primarily on the below subsets of these categories as they are large contributors to the categories.

- Overhead: Energy (Electricity) and Repair and Maintenance Costs
- Direct Raw Materials: Resin-based Materials & Corrugate Packaging
- Direct Labor: Manufacturing Hourly Rates

Significant increases have occurred across all major categories that make-up the cost of processing raw milk into finished product. While the information below reflects Producer Price Index (PPI) market information, Saputo has experienced similar increases over the identified time periods.

## Overhead Impact

Over the period of January 2006 through July 2023, energy costs in particular have increased. The Producer Price Index (PPI) for Industrial Electric Power and Industrial Machinery and Equipment Repair and Maintenance used for support are compiled by the US Bureau of Labor Statistics (BLS). The annual average price index of Electric Power has risen 74% and Repair and Maintenance has risen 53% since 2006.

References and Data Sources: <https://fred.stlouisfed.org/series/WPU551> | <https://fred.stlouisfed.org/series/WPS054321>

## Direct Raw Materials: Packaging Impact

The annual average price index of Plastics Material and Resin Manufacturing has risen 42% and Corrugated Paperboard in Sheets and Rolls has risen 78% since 2006.

References and Data Sources: <https://fred.stlouisfed.org/series/PCU325211325211> | <https://fred.stlouisfed.org/series/WPU091405>

## Manufacturing Labor Impact

The annual average price index of Average Hourly Earnings of Production and Nonsupervisory Employees, Manufacturing has risen 55% since 2006.

References and Data Sources: <https://fred.stlouisfed.org/series/AHEMAN>

Over this same time period, Saputo USA has focused on offsetting these significant cost increases through better efficiencies at all of our plants. We consolidated our operational footprint to gain scale and improve efficiency. Additionally, we invested hundreds of millions of dollars to improve our processing equipment, installed packaging automation systems at the end of our production lines, deployed new technology to reduce energy consumption, and implemented waste reduction initiatives to decrease wastewater costs. This was done throughout our operational network in the United States and yet we have been unable to offset the increases in manufacturing costs.

Having accurate manufacturing allowances are an important aspect of the FMMO. The FMMO system relies on these make allowances to set minimum pricing and distribute pool revenues. Dairy manufacturers need FMMO make allowances to accurately reflect the costs to produce Cheddar, Whey, NFDM and Butter. Without this, manufacturers will be sent wrong financial signals impacting investment, capital disbursement and FMMO pooling decisions.

It has been over 15 years since make allowances were last updated and it was based on data from 2006. I am going to reiterate a point Mike Brown, IDFA's Chief Economist, made in his testimony regarding these proposals, "The cheese, butter, whey, and nonfat dry milk manufacturing industries urgently need immediate relief from the highly injurious fixed relationship between output prices and minimum regulated milk prices that do not reflect current industry costs. The existing use of fixed out-of-date make allowances is a major problem for all dairy product manufacturers producing cheese, butter, whey, and nonfat dry milk."

Thank you for allowing me to testify on behalf of Saputo USA.