Testimony of Darin Hanson

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My name is Darin Hanson. This testimony is presented to refute Proposal 6: Adding Mozzarella Cheese to the Class III Protein Price calculation as proposed by California Dairy Campaign (CDC). This testimony is presented on behalf of Foremost Farms USA (Foremost), where I am Senior Vice President of Supply Chain and Risk Management. I have been employed in the dairy industry for 20 years in various dairy supply chain roles, including dairy product procurement/sales, member relations management, and risk management. Prior to working for Foremost, I was employed by Land O' Lakes and General Mills. During this time, I've accumulated significant knowledge about how dairy prices are calculated and how dairy products are marketed, especially cheese products.

Foremost is a large dairy cooperative headquartered in Middleton, Wisconsin. Our 850 members produce 6.2 billion pounds of milk annually and are located in Wisconsin, Michigan, Iowa, Minnesota, Indiana, Ohio, and Illinois. The cooperative has all sizes of dairy farming operations, ranging from less than 50 cows to more than 10,000 cows. Foremost is a large manufacturer of cheese, producing 500 million pounds annually. Of that volume, 350 million pounds is soft Italian styles of cheese, making Foremost one of the top manufacturers of soft Italian style of cheese in the US. Foremost has eight plants in its dairy manufacturing network. This includes three Italian cheese manufacturing plants, two cheddar type manufacturing plants, and one butter manufacturing plant, all located in Wisconsin. In addition, there are two milk separation facilities in Michigan and Wisconsin. Foremost processes two-thirds of its member milk in its own plants and markets the remaining one-third of its milk to other raw milk processors. Foremost sells cheese in various bulk sizes to converters, foodservice, and retail customers where the cheese is incorporated into their finished products.

National Milk Producers Federation (NMPF) opposes the inclusion of Mozzarella cheese into the Class III protein calculation and urges the USDA to only utilize one commodity prices series to represent each of the four dairy prices (cheese, butter, NFDM, and whey) used in FMMO pricing to ensure an orderly transfer of product value from finished product back into the milk price. The Class III protein calculation is designed to convert cheese and butter prices to a value of protein for 40-pound yellow cheddar blocks. Further, the Make Allowance and the Van Slyke yield formula is designed to represent cheddar cheese production. In the current calculation of protein, 500-pound barrels are converted to 38% moisture and three cents added to create a 40-pound block equivalent.

There are numerous obstacles related to Mozzarella vs cheddar cheese production that prohibit Mozzarella's effective inclusion into the Class III protein calculation. First, mozzarella cheese has numerous official composition requirements, according to the USDA Agricultural Marketing Service, creating a complex industry portfolio of Mozzarella products to be included in the federal survey. Mozzarella can be regular, low moisture, part skim, low moisture & part skim and Lite. There are also a wide range of specific customer formulations in between that can include, low salt or low browning, etc. A standardized process to convert all these forms of Mozzarella to a 40-pound block equivalent would be complex and cumbersome.

Second, there's a wide range of packaging sizes and forms for Mozzarella. These can range from 20-pound block, 6-pound block, long styles, IQF, cheese sticks, cubes, unpackaged blocks in totes, and numerous other forms. All of these have different packaging cost profiles that are not easily converted back to a cheddar block equivalent.

Third, manufacturing processes differ between Mozzarella and cheddar cheese production, impacting operating costs necessary to produce Mozzarella vs cheddar. Typical Mozzarella production processes use a cooking step where the curd is heated to around 140 degrees to melt and stretch the cheese to

give Mozzarella its iconic texture. The cheese is then formed and sent to a brine tank/flume to be cooled and salted. These processes are not part of the cheddar cheese manufacturing process, rendering the Class III cheddar cheese make allowance inappropriate to represent Mozzarella manufacturing.

Fourth, many Mozzarella manufacturers use semi-processed dairy raw materials in the production process to reduce the butterfat content to achieve the desired product composition. These raw materials include evaporated skim milk, RO skim milk, UF skim milk, and NFDM. These have an impact on the cost of the finished product and can impact the price of the product sold to the customer. Inclusion of a mozzarella price series in the Class III protein calculation would distort the protein value because these cost factors would likely be included in the price calculation.

Fifth, a spot market for Mozzarella does not exist in the US. In my experience, the Mozzarella industry is priced mostly based on the CME block market index. Including Mozzarella pricing into the protein price calculation will not enhance price discovery since Mozzarella prices will move with the block cheddar market.

Sixth, CDC has not addressed how lower butterfat levels in Mozzarella cheese types will be resolved in the Class III protein price calculation that incorporates the Van Slyke model for cheddar cheese. For cheddar cheese, the protein value is inversely related to the value of butterfat. High butter markets reduce the value of protein. In the Class III price calculation for full fat cheddar, adding the butterfat price back in at 3.5% almost entirely offsets the negative impact of butterfat price on the cost of protein. This makes butter price impacts minimal to Class III pricing for cheddar cheese. For Mozzarella, the lower butterfat content will result in a situation where high butter markets will lower the value of the product because the lower protein prices will not be offset with a significant enough volume of butterfat. It will lead to a situation where high butter markets will significantly reduce Class III prices and low butter

prices will positively impact Class III prices. A complete redesign of the protein calculation would need to be done to accommodate reduced levels of butterfat in Mozzarella cheese.

NMPF strongly recommends not including Mozzarella products into the calculation of Class III protein. Mozzarella is dissimilar to cheddar in multiple fundamental ways and introducing these variables into the protein calculation would be complex, time-consuming to develop the model, and difficult to administer. Mozzarella has significant variations in composition and packaging forms/sizes. The mozzarella manufacturing footprint is significantly different than block cheddar, both from a manufacturing process perspective and dairy ingredients used in the formulation, rendering the cheese make allowance irrelevant. Since there isn't a spot market for Mozzarella and moves with the cheddar block market, including Mozzarella into the protein calculation does not enhance price discovery. There are too many complex variables in question for the USDA to consider including Mozzarella in the Class III protein calculation.