United States Department of Agriculture Before the Secretary of Agriculture
In re: Docket No. 23-J-0067; AMS-DA-23-0031
Milk in the Northeast and Other Marketing Areas

Testimony From:
Robert Wills representing Cedar Grove Cheese,
E5904 Mill Rd, Plain, WI 53577

Regarding: Class III and Class IV Formula Factors
Proposal 8 submitted by Wisconsin Cheese Makers Association

Hello, I am Robert Wills, President of Cedar Grove Cheese in Plain, Wisconsin. Today, I want to discuss how make allowances impact farmers who sell milk to companies like Cedar Grove Cheese and why higher make allowances are beneficial for the dairy market.

Attached is a spread sheet showing the cost of production for Cheddar at Cedar Grove Cheese. The data were not included in previous compilations. Our costs, at $0.77 per pound, are on the highest end of those discussed in these hearings. To be clear, we are not advocating for our costs to be a national standard for a make allowance. We are able to recoup some of our higher costs by providing better products and services than most commodity cheddar.

Cedar Grove Cheese has been operating since 1878. For most of that time, Cheddar has been part of our repertoire. We currently purchase milk from around 30 farms. Cedar Grove Cheese was one of the first small factories to participate in the Federal Milk Market Order. We installed a Grade A receiving station and provided pooling services for several other small plants to qualify their milk. However, in the past couple of years, we had completely left the market order. This year, we have been pooling milk from less than half of our producers.

In these hearings, as in the past, academics and advocates have been discussing how to set the make allowances for the commodities used in milk pricing formulas. Typically, the appropriate value for a make allowance is viewed as one that exceeds the cost of production of processors of some percentage of the targeted product (e.g., 80% of Cheddar cheese). Companies with costs above that value will either fail, add enough value to their products and services to make up for their higher cost, or leave the market order and pay their suppliers a lower price.

Often, testimony on make allowances describes a zero-sum game. That is, some people believe that a higher make allowance – one that covers the costs of most processors – is presented as taking money away from dairy farmers.

The combination of using cost statistics to define an appropriate make allowance value and viewing make allowances as a tug-of- war between processors and farmers, creates a bias toward setting a lower increase.

This is a false tradeoff. At market prices, a market order pool only generates a certain amount of total product sales. The formulas are complicated, but ultimately the money available to pay farmers is no more than those sales less the cost of making the products. The market order make allowances do not determine either consumer purchase decisions or the cost of producing those goods. If the make allowances do not cover the cost of production, then processors must either pay less than the market order minimum price or stop producing.

I remember when make-allowances were more than adequate. We paid farmers over-order premiums. In recent years, make allowances have not been close to covering the cost of production, and many proprietary processors, like Cedar Grove Cheese, have been forced to depool some or all of their farmers' milk. As I said at the top, make allowances are generally set to cover the costs of a percentage of the total production of a target product, like Cheddar. However, when make allowances are set too low -- and when other calculations of revenue in the formulas, such as the value of dry whey, are unrealistic – then cheesemakers are forced to take our farmers' milk out of the order.

Under normal conditions, with positive pool draws, no processing company would want to depool its farmers' milk. Depooling gives up those farmers' share of money generated from class premiums, the tax on consumers of milk. In that case, the pool money goes to competing firms that are able to keep their milk in the market order. And, those competing firms get an advantage selling products and attracting farmer patrons.

In June, I made a request for a market order amendment to be included in this hearing. I pointed out the anticompetitive effect of particular federal milk marketing order rules. Rules on reblending and permitting deductions only by cooperatives enable those firms to receive pool money while paying less than the market order minimum prices. Proprietary firms, meanwhile, must pay each and every pooled farmer a higher price. Although you decided that the Market Order Administration does not have authority to correct this inequity, setting make allowances biased toward a higher level is a one way to help meet your statutory obligation to protect competition.

If make allowances are set high enough, most processors will be able to cover their production costs and pay the minimum prices. Then, all farmers associated with those processors can benefit from the value of the market order pool. As has been occurring, market competition for milk will move extra dairy product value to farmers. With adequate make allowances to cover costs, companies like Cedar Grove Cheese will be able to qualify more of their milk and their farmers will share in the pool.

Lower make allowances mean the pool draw will go to some farms, but not others. Farmers will not receive equal treatment under the order, and competition for dairy products will deteriorate further.

# Cedar Grove Cheese Inc.
# Cheddar Cheese Make Cost
# For Calendar Year 2022

**CONTACT INFORMATION**


| | |
|---|---|
| Contact Person | Robert Wills |
| Company Name | Cedar Grove Cheese Inc. |
| Address | PO Box 185 |
| City, State, Zip | Plain, WI 53577 |
| Work Phone | 608 546-5284 |
| Email | bob@cedargrovecheese.com |


| | |
|---|---|
| Plant Name | Cedar Grove Cheese |
| Plant Address | E5904 Mill Rd. |
| City, State, Zip of Plant | Plain, WI 53577 |
| Ownership | Proprietary |
| Data Period | 1/1/22-12/31/22 |

**PRODUCTS AND VOLUME**

| Cheese Products | Package Size | Pounds Produced 2022 | Percentage |
|---|---|---|---|
| Cheddar Cheese - Colored Cheddar | 40 Lb block | 665,018 | 21.03% |
| Cheddar Cheese - Other Cheddar & Jack | 40 Lb block | 1,332,999 | 42.16% |
| Other Cheese | Various | 1,164,053 | 36.81% |
| Total Cheese Pounds Produced | | 3,162,070 | 100.00% |

Colored Cheddar as a % of Total Cheddar Cheese Production 33.28%

**GENERAL LEDGER AND LABOR**

| | 2022 | COLORED CHEDDAR | COST PER POUND | COMMENT |
|---|---|---|---|---|
| **Processing Labor** | | | | |
| Gross Wages - Cheese Production | 474,050.00 | 99,697.92 | 0.1499 | *Expense x 21.03% Per Products and Volume Detail Page* |
| Gross Wages - Milk Hauling | 194,387.00 | - | - | |
| Gross Wages - Lab, Intake, WT, warehouse | 379,180.00 | 79,745.72 | 0.1199 | *Expense x 21.03% Per Products and Volume Detail Page* |
| Gross Wages - Maintenance | 113,483.00 | 23,866.72 | 0.0359 | *Expense x 21.03% Per Products and Volume Detail Page* |
| Payroll Taxes and Benefits | 106,954.00 | 18,727.81 | 0.0282 | *Benefits as % of Gross Wages x* |
| Health Insurance | 187,121.00 | 32,765.17 | 0.0493 | *Health insurance as % of Gross Wages x* |
| Total | 1,161,100.00 | 203,310.36 | 0.3832 | |
| **Payroll Taxes and Benefits** | | | | |
| Employer Taxes +benefits | 106,954.00 | | | |
| Health Insurance | 187,121.00 | | | |
| Total | 294,075.00 | | | |
| Gross Wages | 1,161,100.00 | | | |
| Benefits as % of Gross Wages | 25.33% | | | |
| **Utilities** | | | | |
| Utilities - | 134,010.00 | 28,183.77 | 0.0424 | *Expense x 27.25% Per Products and Volume Detail Page* |
| Total | 134,010.00 | 28,183.77 | 0.0424 | |
| **Packaging** | | | 0.0469 | *See Packaging Detail Page* |
| **Non-Labor or Utilities Processing** | | | | |
| Ingredients | | | 0.0472 | *See Ingredients Detail Page* |
| Depreciation | 72,888.00 | 15,329.15 | 0.0231 | *Expense x 27.25% Per Products and Volume Detail Page* |
| Repairs/Maintenance - Production | 97,803.00 | 20,569.04 | 0.0309 | |
| Supplies - Production | 70,974.00 | 14,926.61 | 0.0224 | |
| Outside Services/Testing - Lab | 65,764.00 | 13,830.89 | 0.0208 | |
| Taxes - Personal Property + Real Estate | 11,876.00 | 2,497.65 | 0.0038 | |
| Trash/Refuse Removal | 108,273.00 | 22,771.00 | 0.0342 | |
| | 427,578.00 | 89,924.35 | 0.1824 | |
| **General and Administrative** | | | | |
| Gross Wages - Officer & Administrative (Excluding Marketing) | 0.00 | - | - | *Expense x 27.25% Per Products and Volume Detail Page* |
| Payroll Taxes and Benefits | - | - | - | *Gross Wages x Benefits as % of Gross Wages 27.07%* |
| Accounting and Audit | 50,073.00 | 10,530.90 | 0.0158 | *Expense x 27.25% Per Products and Volume Detail Page* |
| Dues and Subscriptions | 74,838.00 | 15,739.25 | 0.0237 | |
| Business Insurance | 61,191.00 | 12,869.14 | 0.0194 | |
| Licenses and Permits | 8,873.00 | 1,866.09 | 0.0028 | |
| Supplies - Office/IT | 114,940.00 | 24,173.14 | 0.0363 | |
| Telephone Expense | 8,455.00 | 1,778.18 | 0.0027 | |
| Total | 318,370.00 | 66,956.71 | 0.1007 | |
| **Return on Investment** | | | | |
| Annual Return on Investment | 41,486.23 | 8,725.01 | 0.0131 | *Expense x 27.25% Per Products and Volume Detail Page* |
| Estimated Market Value | 818,000.00 | | | |
| Moody's Ave Year 2022 Baa Corporate Bond Index Return % | 5.07% | | | |
| **Total Cost** | | | **0.7686** | |

**INGREDIENTS**

| VAT SUMMARY | |
|---|---|
| Lbs Milk Pounds per Vat | 22,000 |
| Lbs of Cheese | 2,310 |
| Yield per CWT | 10.50% |

**STARTER INGREDIENTS**

| | Cost | Cost Unit | Units Used Per Tank | Cost Per Pound |
|---|---|---|---|---|
| Starter Powder | $ - | Pound | 0 | $ - |
| Starter Cultures | $ 18.92 | Can | 4 | $ 0.0328 |
| | | | | |
| Vats Made Per Starter Tank | 1.00 | | | |

**CHEDDAR INGREDIENTS**

| | Cost | Cost Unit | Units Used Per Vat | Cost Per Pound |
|---|---|---|---|---|
| Rennett | $ 0.37 | Ounce | 22 | $ 0.0036 |
| Salt | $ 0.35 | Pound | 55 | $ 0.0083 |
| Annatto | $ 5.87 | Quart | 1 | $ 0.0025 |
| Calcium Chloride | $ 0.60 | Quart | 0.4 | $ 0.0001 |
| TC Culture | $ 29.76 | Can | 0 | $ - |

| | |
|---|---|
| Ingredient Cost Per Pound Cheese | $ 0.0472 |

**PACKAGING**

| | |
|---|---|
| Average Cheese Weight Per 40 Lb Block | 42.00 |
| Number Of Blocks Per Pallet | 54 |

| | | **Unit Packaging Cost** |
|---|---|---|
| Cost per 40 Lb. Box | $ | 0.5834 |
| Cost per Bag | $ | 0.4866 |
| Cost per Liner (Wood & Cardboard Average) | $ | 0.6196 |
| Cost per Label | $ | 0.0147 |
| Cost per Pallet | $ | 14.2500 |

| | | |
|---|---|---|
| 40lb Packaging Cost Per Pound of Cheese | $ | 0.0469 |

**Table 1. Plant Costs for Cheddar Cheese Processing**

**Plant Costs for Cheddar Cheese Processing, 2022.**

| | Product Pounds | Processing Labor | Utilities | Packaging | Non-Labor or Utilities Processing | General and Administrative | Return on Investment | Total Cost |
|---|---|---|---|---|---|---|---|---|
| **Cedar Grove Cheese** | 665,018 | 0.3832 | 0.0424 | 0.0469 | 0.1824 | 0.1007 | 0.0131 | 0.7686 |
| | | 50% | 6% | 6% | 24% | 13% | 2% | 100% |