

FEDERAL MILK MARKETING ORDER HEARING TESTIMONY

Docket No. AO-14-A74, et al.; DA-06-01

Alexandria, VA

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My name is Rodney Carlson. I am Corporate Director of Milk Procurement for Lactalis American Group. Our corporate headquarters is located at 2376 South Park Avenue, Buffalo, NY 14220.

Two of the companies within the Group are makers and marketers of cheese. Sorrento Lactalis, Inc. produces and markets Italian cheeses while Lactalis USA, Inc. produces and markets European cheeses such as Feta, Brie and Camembert. Cheese is produced in five plants. Three of these plants purchase milk from regulated handlers and another plant is in an unregulated area but does pay producers on the basis of federal order class III prices.

Lactalis American Group supports the proposal to update the Class III and Class IV "Make Allowance". We also support the testimony of Bob Yonkers from The National Cheese Institute.

While we do not make cheddar cheese we are very aware, and we have experienced the cost increases cheese manufacturers have been subject to since the 1998 – '99 time frame used as the base for the existing Make Allowances.

For example: in the one plant that has been relatively consistent in its operation for the past seven years, we have seen a 14% increase in the average cost of producing a pound of mozzarella cheese from 1999 to 2005. This increase has happened even as we increased production in this plant by closing other plants and consolidating operations. The plant capacity was increased by over 25% during that time frame in order to decrease unit costs by taking advantage of efficiencies of a larger scale operation. We

have budgeted a 16% increase in production costs per unit in 2006 as compared to 2005.

Examples of input cost increases during the past six years include: Average natural gas costs increased 167% when comparing 1998 annual average costs to 2005 average annual costs. When comparing December 2005 natural gas costs to 1998 annual average cost, the increase is 309%. The cost for a kilowatt-hour of electricity in December 2005 was 22% higher than the average cost in 1998. Even water costs have increased by 69% since 1998. Labor costs have increased 46% even as the number of employees has been reduced. Wage rates are up 37% from 1998 to 2005 but Medical insurance costs are up by 97% during that same time period. Retirement benefit costs have risen by 259% in those same seven years.

The cost of producing a pound of whey at the Buffalo facility has increased 32% during that same period of time.

As Dr. Yonkers states in his testimony, the current situation cries out for prompt resolution. Emergency conditions do exist in the manufacturing segment of our industry. We urge the Secretary to omit a recommended decision and proceed to implement an amended (or interim) order with all due haste.

Thank you for the opportunity to address this issue.