

Statement
of
Patricia D. Stroup
on behalf of
Hilmar Cheese Company, Inc.
at the
United States Department of Agriculture Emergency Hearing on
Class III and IV Price Formulas in all Federal Milk Marketing Orders
at Alexandria, Virginia, commencing January 24, 2006

My name is Patricia Stroup. I am the Director of Dairy Policy and Producer Services of Hilmar Cheese Company, Inc., whom I represent today at this hearing. In my role at Hilmar, I am responsible for milk and milk ingredients procurement from individual dairy farms, cooperatives and proprietary handlers. I have been with Hilmar Cheese since 1997. Prior to that, I held positions with Maryland and Virginia Milk Producers Cooperative in Reston, Va., and Eastern Milk Producers/Milk Marketing Inc in Syracuse, N.Y., and Cleveland, Ohio, and was a dairy producer, myself, in Pennsylvania. I hold an M.B.A. from Purdue University and an undergraduate degree with a cognate in Dairy Science from Virginia Tech. I developed this testimony in cooperation with Hilmar Cheese Company staff and present it today with authorization from the Chief Executive Officer and owners of Hilmar Cheese Company.

Hilmar Cheese Company operates a cheese and whey products facility in Hilmar, California. This plant currently processes approximately 12 million pounds of milk per day into American-style cheeses such as cheddar and Monterey Jack. In addition to our California facility, Hilmar Cheese Company will be building another American-style-cheese plant in Dalhart, Texas, with plans to begin operations in the fall of 2007. We plan for the Texas plant to eventually process 9.5 million pounds of milk per day.

As our Texas plant will fall under the purview of the Federal Milk Marketing Order system, we are keenly aware of the effect of federal order pricing on our entire company. I testify in support of Agri-Mark's proposal number one and the National Cheese Institute's position. In addition, we urge USDA to issue and implement an expedited final

decision. While we agree that there are other changes that should be made to the pricing formulas, those changes can be made through future hearings. It is critically important that manufacturing allowances be updated as soon as possible.

According to the recent CDFA cost study, the increase in cheese processing costs from the period that includes 1998 and 1999 to the period of 2004 is 4.5 percent. As Hilmar Cheese is a participant in the CDFA cost study, I am familiar with the process and believe that it is a sound one. I can verify that we saw increases similar to the average increase reported in the cost study. While our significant growth since 1998 was able to mitigate some of our increased costs on a cost per pound basis, we were still not able to overcome increases in costs with gains in efficiency. The major drivers of our cost increases from 1998 to 2005 include packaging (up 56 percent), supplies (up 11 percent), repairs and maintenance (up 113 percent), and water. All increases are on a cost per pound of cheese basis.

Hilmar Cheese Company cost increases from 2004, the period covered by the most recent CDFA manufacturing study, to 2005 have increased much more dramatically than in previous years. In this time period, our actual cheese production increased slightly, but costs per pound of cheese increased as well. In fact, Hilmar Cheese Company's cost increase from 2004 to 2005 was more than the total increase in costs from the entire period from 1998 to 2004. Major drivers of cost increases since 2004 were utilities (up 32 percent), packaging, and water expenses. Those increases were not reflected in the most recent CDFA data because that data does not cover 2005. For these reasons, we support updating the results of the cost studies using energy indices to bring the make allowance as up-to-date as possible.

Thank you for the opportunity to share Hilmar Cheese Company's position in this matter.