

**TESTIMONY OF HILMAR WITH RESPECT TO SURVEYED COMMODITY PRODUCT
PROPOSALS 7, 8, and 9
AUGUST-SEPTEMBER 2023 FEDERAL MILK ORDER HEARINGS
DOCKET NO. 23-J-0067; AMS-DA-0031**

This testimony is submitted on behalf of Hilmar with respect to Proposals 7, 8, and 9 relating to make allowances.

My name is Wes Eveland and I am the Director of Procurement for Hilmar, whom I am representing today. I have worked for Hilmar since February 2023. My main responsibilities at Hilmar include leading the milk and non-milk buying teams, procurement strategy development, contract negotiations, market analysis, and risk management. Prior to working for Hilmar I spent 13 years in progressive procurement leadership roles at Kerry Ingredients and Beyond Meat. Over my career, I have led the procurement of a variety of different agricultural commodities, ingredients, packaging, and indirect spend categories both within the US and globally.

As for a company background, Hilmar is a cheese, and whey manufacturer with processing locations in California, Texas and soon to be Kansas. We work with dairymen in the California, Southwest and upon completion of the Kansas facility, the Central Federal Milk Marketing Orders (FMMO). Our primary product lines include natural hard American style cheeses, such as cheddar, Colby, and Monterey jack, while some of our main whey products include whey protein concentrate 80 (WPC-80), whey protein isolate (WPI), whey protein hydrolysate (WPH), and various grades of edible lactose. We package our cheese in 40lb block, barrels, and 640lb block. We employ over 1,500 people across the country and sell finished products domestically and internationally to over 50 countries around the world.

Hilmar Cheese Company was started in 1984 by a group of innovative and market orientated dairymen who wanted to maximize their return on their high-quality milk. The company was founded on the idea that dairymen should receive a competitive price for their milk and one that is driven by actual market conditions. Dairymen continue to own the company and manage its business as active corporate board members. Our Hilmar, California cheese and whey manufacturing site processes 12% of the state's milk. Our Dalhart, Texas cheese and whey manufacturing site processes 31% of the state's milk. The vast majority of milk we process is bought from independent dairymen who are not part of a co-op. This emphasis will continue with respect to the investment being made in the Dodge City Kansas manufacturing location.

Hilmar is supportive of proposals 8 and 9 as submitted by Wisconsin Cheese Makers Association and International Dairy Foods Association ("IDFA"), and against proposal 7 as submitted by the National Milk Producers Federation ("NMPF"). Further to, we support the testimony of IDFA's Mike Brown as an expert in the field and a representative of the industry. Our testimony will speak to Hilmar's own experiences with cost of production, the alignment between our costs and the Stephenson Survey and the importance that future make allowances are able to keep pace with changing costs of production. Due to the competitive environment and proprietary nature of our costs we will not speak to their specifics in this testimony. Our testimony will begin with an overview of the markets that influence Hilmar's costs.

Akin to the inflation all Americans are experiencing day to day, dairy processing costs are up markedly. The FRED Producer Price Index data shows a 39.5%₁ increase between when the current make allowance was created in 2008 and the prices in 2022. On top of general cost

pressures interest rates have increased significantly, over 276%₂ versus the 20year average. Cost and rate pressures make the hurdle to borrow and invest much more challenging for processors. These increases have impacted processors capacity and efficiency projects that provide dairymen the opportunity to expand their business there by increasing efficiencies on the farm.

Speaking to specific markets and components of cost while Hilmar has seen significant increases in many areas, I will focus on the areas of Utilities, Packaging and Labor. Beginning with utilities, when compared to the 20yr average the Henry Hub spot Natural Gas market is 45.1%₃ above the average and the cost per kilowatt-hour is 26.3%₄ above the average. Between 2008 and 2022 Corrugated Shipping Containers have increased by 76.3%₅ and Wood and Lumber Products (an input for crates and pallets) have increased by 109.6%₆. Labor is a similar inflationary story. From 2000 to 2022, the FRED Private Industry Workers Cost Index reflects a 42.5%₇ increase in wages and salaries. As with utilities and packaging, the labor market indicators align with what the Hilmar business has experienced, and the Stephenson Survey found.

All of these data points show a consistent message that whether Hilmar, those who participated in the survey or the market as a whole, there has been significant inflation that the industry has experienced that requires quick action to address on the part of USDA. Hilmar's belief is that given the scale of the required change a make allowance update needs to go through in full, albeit IDFA have proposed a phased approach to partially recognize and address concerns from NMPF. While there needs to be action to catch processors up to a now past market, there also needs to be consideration for the creation of a market influenced and regularly updating make allowance formula. An updating and data driven make allowance

formula ensures that inputs remain relevant to the then current cost scenario. If we want to keep FMMO's pricing formulas relevant, we need to keep its functioning components current and relevant as well. This means whether costs go up or down the formulas should reflect processors actual cost dynamics.

The lack of consideration for future changes and the disconnect from available data are significant reasons why Proposal 7 as submitted by NMPF is flawed. In NMPF's proposal they readily admit that they don't believe that their proposal meets the true cost of inflation impacting processors. Their reasoning for not implementing the full change is lack of confidence in IDFA's cost survey and hardship on dairymen due to the scale of the required change. As a processor with dairymen owners, Hilmar are confident in the results of the cost survey. It aligns with our own experiences, has validation, and is correlated with the Schiek study. The lack of data and procedure with NMPF's own approach provide much less comfort. Finally, it needs to be recognized that we have representative data via the Stephenson survey. Relying on the timeliness of Congress to agree a make allowance audit process via the Farm Bill is at best uncertain. While an update to the current make allowance is sensible, keeping it de-coupled from available market and data inputs is not. Simply put there is an opportunity to solve an underlying problem with how the make allowance remains relevant to processor input costs thereby ensuring that there continues to be strong and willing processing capacity for milk to find a home.

¹ <https://fred.stlouisfed.org/series/PPIACO>

² <https://www.macrotrends.net/2015/fed-funds-rate-historical-chart>

³ <https://www.eia.gov/dnav/ng/hist/rngwhhda.htm>

⁴ <https://fred.stlouisfed.org/series/APU000072610#0>

⁵ <https://fred.stlouisfed.org/series/PCU32221132221102#0>

⁶ <https://fred.stlouisfed.org/series/WPU081>

⁷ <https://fred.stlouisfed.org/series/ECIWAG>