

TESTIMONY OF GREG DRYER

My name is Greg Dryer. I am Executive Vice President of Administration and Services for Saputo Cheese USA Inc. (Saputo). My responsibilities in that position, among other things, include milk procurement for all of the Company's U.S. manufacturing facilities.

I serve on the Board of Directors of the National Cheese Institute, the American Dairy Products Institute and the Dairy Institute of California. I am a member of the Wisconsin Cheese Makers Association, the Institute of Food Technologists, and the American and Wisconsin Institutes of CPA's. The University of Wisconsin - Milwaukee awarded my undergraduate degree in 1974.

My involvement in the dairy industry began as an auditor and consultant for dairy and dairy-related companies. I have been directly employed in the industry for the past twenty-five years. For a majority of that time I have had bottom-line responsibility for entities of various sizes and structures from local and family-owned to international and publicly traded. Prior to joining Saputo I was President of Avonmore Cheese, Inc. of Monroe, Wisconsin.

Our company, Saputo, has fifteen manufacturing facilities across the United States employing approximately 2,000 people.

We buy from **three to four billion pounds** of milk annually, primarily from farmer-owned cooperative organizations. With the exception of the two plants we operate in California, the vast majority of milk we buy is regulated by the Federal Order System and extends at least to some degree to all classes of milk.

We are here to support the proposed change in FMMO regulations to update the make allowances used in all FMMO minimum class price formulas with the most recently available cost data. We have reviewed and support the Testimony of Dr. Robert Yonkers, representing the International Dairy Foods Association (IDFA) and the National Cheese Institute (NCI), one of the many organizations of which we are members.

Before I begin, I would like to thank USDA for the opportunity to express our concerns and to stress the emergency nature of the NCI petition and the need for an expedited decision.

1. Emergency Marketing Conditions

We have a number of concerns relating to FMMO minimum class price formulas, not the least of which is our inability to derive returns from our whey byproducts commensurate with those anticipated by the Class III "other solids" component factor. While this issue is specifically excluded from the subject matter of this particular hearing, it is pertinent to the emergency nature of the petition.

Dramatic increases in manufacturing costs, when coupled with the aforementioned concern among others, have placed most cheese manufacturers in an untenable position for an extended period of time. Clearly it was not the intent of Congress or USDA to create a system which would threaten the economic viability of cheese manufacturers who serve as an important outlet for farm milk. Unfortunately, that is in fact where the industry finds itself today. In

our opinion, the term “emergency” appropriately describes the gravity of the current U.S. cheese manufacturing environment.

2. Make Allowances

Saputo is a producer of an extensive array of cheeses in the United States, but not cheddar. Therefore, I am unable to testify as to its cost. I can, however, relate some information relative to our costs which may assist in understanding the magnitude of our problem. I reviewed the eight cheese plants we have operated on a somewhat consistent basis from the year ended March 31, 2000, through the nine months ended December 31, 2005. Over that period, electricity costs for those plants have risen by 96% or approximately \$0.14 per hundredweight. Natural gas costs have increased 125% or approximately \$0.12 per hundredweight. Resin-based plastic packaging costs have increased in excess of 150%. Transportation, fuel, chemicals and employee healthcare-related benefit costs have all escalated significantly. Virtually all of our major cost categories have incurred large increases during this period. Cheddar manufacturers are trapped in a system where attempts to raise prices simply result in higher milk costs. Efforts to recover cost increases from the market for other commodity-type cheeses have been difficult if not impossible, because the competitive environment is influenced by operators in non-USDA regulated areas or cooperatives not limited by minimum milk pricing regulations. We support the proposal to update make allowances with the most recently available industry cost data from both the California Department of Food and Agriculture and

USDA's Rural Business Cooperative Service. These costs should be reviewed to ensure they are all-inclusive and comparable.

3. Urgency

The increasing incidence of recent cheese business failures and plant closures substantiates the necessity of prompt action on the part of USDA. The Department is authorized to omit a "recommended decision" under these conditions. We appeal to USDA to move as expeditiously as possible to the issuance of a final decision and a final rule. It is important to recognize that even a complete implementation of proposals under consideration here will not alone be sufficient to return manufacturers to an acceptable degree of profitability. Costs have continued to climb subsequent to the cost survey data under consideration, and other factors intrinsic to the current system will continue to confront the industry with enormous challenges. Nonetheless, the decision rendered here may be an important first step on the road to recovery.

Thank you again for the opportunity to register our opinion. We wholeheartedly support the detailed Testimony and Proposal submitted by the National Cheese Institute on behalf of our industry.

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