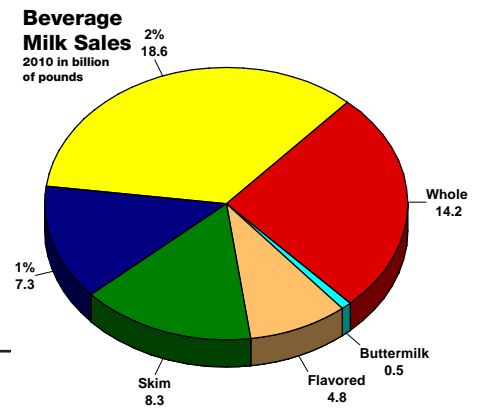




# CHEESE REPORTER

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## Value Of US Dairy Exports Jumped 45% In November; January-November Exports Reached \$4.4 Billion; Cheese Exports Set Record

Washington—The value of US dairy product exports during November was \$434.2 million, up 45 percent from November 2010, according to figures released today by USDA's Foreign Agricultural Service (FAS).

United States dairy imports during November were valued at \$271.0 million, up 20 percent from November 2010. That import value included cheese imports valued at \$115.7 million, down 3 percent from November 2010; and other dairy product imports valued at \$155.3 million, up 44 percent from November 2010.

During the first 11 months of 2011, US dairy exports were valued at \$4.4 billion, up 31 percent from the first 11 months of 2010.

To put that January-November US dairy export figure in perspective, the previous US dairy export record was \$3.789 billion, set in 2008.

United States dairy exports in 2010 were valued at \$3.71 billion.

United States dairy imports during the first 11 months of 2011 were valued at \$2.226 billion, up 15 percent from the first 11 months of 2010.

That import value included cheese imports valued at \$973.9 million, up 13 percent from a year earlier; and other dairy product imports valued at \$1.25 billion, up 17 percent from a year earlier.

Leading US dairy export destinations on a value basis during the first

• See **US Dairy Exports**, p. 20

## USDA Hikes 2012 Milk Price Forecast Due To Higher Dry Whey, NDM Prices

### Cheese Price Forecast Reduced, Butter Price Forecast Unchanged

Washington—The US Department of Agriculture (USDA), in supply-demand estimates released Thursday, raised its milk price forecasts due to higher projected dry whey and nonfat dry milk prices.

USDA's milk production forecast for 2011 is lowered by 100 million pounds, to 196.0 billion pounds, on lower expected cow numbers for the fourth quarter. But the forecast for 2012 is unchanged from last month, at a record 198.5 billion pounds.

Larger-than-expected cheese imports for 2011 and into 2012 boost fat-basis import forecasts, but the strength of cheese imports in 2012 is offset by lower expected imports of skim products, resulting in a lower 2012 skim-solids import forecast. The skim-solids exports estimate for 2011 is raised on higher-than-expected October exports.

The forecast 2012 cheese price is lowered by two cents, to \$1.6550 to \$1.7350 per pound, down from 2011's estimated average price of \$1.8246 per pound.

But forecasts for nonfat dry milk and dry whey prices are raised. USDA now expects nonfat dry milk prices this year to average \$1.3700 to \$1.4300 per pound, up one cent from last month's forecast but down from this year's estimated average of \$1.5058 per pound; and dry whey prices this year to average 60.5 to 63.5 cents per pound, up seven cents from last month's forecast and also up from 2011's estimated average of 53.25 cents per pound.

USDA's butter price forecast for 2012 is unchanged, at \$1.6050 to \$1.7150 per pound, significantly lower than the 2011 estimated average butter price of \$1.9498 per pound.

The higher dry whey price is expected to more than offset the lowered cheese price forecast, resulting in a higher forecast Class III price of \$17.10 to \$17.90 per hundred-weight, up 20 cents from last month's forecast but down from 2011's record high Class III price average of \$18.37 per hundred.

The higher forecast nonfat dry milk price and unchanged butter price forecast results in a higher Class IV price forecast of \$16.45 to \$17.35

per hundred, up 10 cents from last month but down from the 2011 Class IV average of \$19.04 per hundred.

The all milk price forecast is raised to \$18.30 to \$19.10 per hundred, up 20 cents from last month's forecast but down from the 2011 estimated all milk price of \$20.14 per hundred.

Also in USDA's supply-demand estimates released Thursday, corn production was estimated 48 million bushels higher, and corn use for 2011/12 was raised with higher exports.

The 2011/12 season-average farm price for corn was lowered 20 cents per bushel on each end of the range to \$5.70 to \$6.70 per bushel. Prices received to date have remained well below prevailing cash bids, limiting the upward potential for the season-average farm price, USDA explained.

In other dairy and food price news, the UN Food and Agriculture Organization's (FAO) Food Price Index in December stood at 211, down 2.4 percent, or five points,

• See **Dairy Prices**, p. 7

## Jerome Cheese Adds Flexibility To Output; Targets West Coast, Export Mozz Customers

### Move May Have Many Repercussions to Both Cheddar and Mozz Markets

Jerome, ID—Time and again, Davisco Foods International has afforded its dairy operations the flexibility to make higher-value products as a way to stay more competitive for milk.

Davisco Foods owns cheese plants in Le Sueur, MN, Jerome, ID, and Lake Norden, SD, in addition to food ingredient plants in Le Sueur and Nicollet, MN, Lake Norden, SD, and Jerome, ID.

Recently the company began the production of Mozzarella and Provolone at its Jerome Cheese facility. The plant will continue to make Cheddar there as well.

The move is intended to better serve Davisco's national and international Mozzarella cheese customers.

"We found that our Midwest customers of our Lake Norden pasta

filata Mozzarella factory are multi-regional food companies," said Jon Davis, president and chief executive officer of Davisco. "Those food companies can only competitively buy our Mozzarella and deliver it in the Midwest or points east. It's hard for us to put it on a truck and get it out to the West Coast and be competitive with other West Coast producers of Mozzarella."

Davisco Foods is also a major player on the world marketplace, both with its whey products and its cheese products.

Davis believes that the Far East, people in China, Vietnam, Korea and Thailand, will be diversifying their palates and will start eating more convenient foods like pizzas and sandwiches.

"The same situation exists," Davis said. "For us to be more competitive, we need this additional supply that is much closer to the

• See **Jerome Adds Mozz**, p. 18

## Estate Cheese Group Acquires Sonoma Creamery; Viviani, Biaggi Anchoring Sonoma Team

Sonoma, CA—Estate Cheese Group LLC (ECG) has acquired Sonoma Creamery LLC, formerly Sonoma Foods Inc., producer of the Sonoma Jack and Sonoma Cheese brands.

"Sonoma is a special brand. The outstanding family of Sonoma brand products and excellent longtime employees form the basis of a great investment for ECG," said John Crean, president and CEO of ECG and Sonoma Creamery.

"We intend to grow the company and build on Sonoma's longstanding heritage of innovation, quality and

• See **Sonoma Creamery**, p. 13



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## Jerome Adds Mozz

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ports on the West Coast.”

### Possible Ripples of a Mozz Glut

While ripples of Jerome Cheese’s announcement have yet to be felt, one might expect a heated battle in the West as a possible glut of Mozzarella hits the market there.

Davis doesn’t know if that will happen, but he said the Mozzarella market is growing and growing rapidly.

“It’s over a 3 billion pound market and if it grows at just 1 percent, and we think it will grow more than that, that’s 30 million pounds. And that’s just the domestic market,” Davis noted. “When you include the Far East, you are talking about 60 - 70 million pounds of cheese in short order.”

**“With Jerome we’re going to be able to make 225 million pounds of Mozz in a year that we can’t do today. That 225 million pounds is an opportunity for us gain other customers.”**

—Jon Davis,

Davisco Foods International

USDA figures indicate that 1.8 billion pounds of Mozzarella out of the 3.5 billion pounds manufactured nationally was made in the West region in 2010.

“We hope we’re doing it at a time to supply a market that is growing very rapidly,” Davis said. “We are sold out at Lake Norden. With Jerome we’re going to be able to

make 225 million pounds of Mozz in a year that we can’t do today. That 225 million pounds is an opportunity for us gain other customers.”

The Jerome Cheese operation has the capability of producing 225 million pounds of Mozzarella, but Davis says all of that production won’t go into Mozzarella, at least not immediately.

“We’re not going from zero to 225 million overnight,” Davis said. “If we make 75 million pounds of Mozzarella at Jerome this year, we’ll be happy.”

Lake Norden will continue to serve the buyers in the Midwest and towards the population centers out east, Davis said.

Davis said the company’s current customers are clamoring for more Mozzarella on the West Coast and knows what more product typically does to the marketplace.

“We understand that more supply gives the buyer added leverage but that’s the beauty of being flexible,” Davis said. “Jerome has added the flexibility to make either Cheddar or Mozzarella. Therefore we don’t have to buy market share by discounting prices. Instead, we will be able to produce Cheddar or Mozz based on the economic return.”

Davis absolutely wants it to be known, however, that the company relishes its Cheddar customers and will continue serving them.

“We have no desire to not serve them,” Davis said.

### Possible Ripples of a Cheddar Shortage

When a cheese company shifts large production of one cheese to another, a glut may occur. Conversely a shortage may also occur when production ceases or declines significantly.

“In the short term, if we flip a decent amount of Jerome into Mozzarella, the Cheddar market could be



High above the floor at Jerome Cheese, Mozzarella is being made on Johnson Industries International’s Italian cheesemaking equipment. Jerome Cheese added the flexibility of Mozzarella production to adapt to market conditions and to better serve the company’s national and international customers. The company could ultimately make more than 225 million pounds of Mozz.

under-supplied.”

Troy Ammann, director of cheese operations of the three cheese plants owned by Davisco, agrees that Cheddar might get a little short and ultimately affect the markets.

“You see how fast markets can swing,” Ammann said. “Cheddar certainly can be tight at times. Out of the 225 million pounds of cheese we make, if we move 100 million into Mozzarella it could have an impact, but ultimately, price matters and high prices will curb demand of both Cheddar and Mozzarella and when Mozzarella demand is soft our flexibility will allow us to switch to Cheddar.”

Davis noted that 44 million pounds of cheese was traded at the Chicago Mercantile Exchange last year.

He said the company has been relatively active over the last couple of years on the CME, both as a seller as well as a buyer.

While he has no major complaints about the CME, he is anxious

to have alternatives with the products manufactured in Jerome.

### Taking A Lesson From Whey Operations

Davis said cheese is 85 percent of the company’s revenue stream while the company’s whey operations make 15 percent.

“We’re trying to move that 85 percent up the value chain and try to be more competitive for milk with our producers. We’re very innovative on whey products, but there is only so much we can wring out. Last year, with the six million pounds of milk we brought in, we had to make Cheddar. Now we have options.”

It’s all about being flexible and trying to react to the marketplace, get a higher value for the milk they buy and synergize their export opportunities. All very similar to what the company does with its food ingredients.

“We can make whey powder to high-end WPI (whey protein isolates) and everything in between,” Davis said. “We modify that production, while honoring our contracts, in order to get the highest return.”

Before 1998, Davisco was running only 500 pound barrel and 640 pound blocks. The company added the capability to make 40 pound blocks.

“We had to over-capitalize to have that flexibility. And it’s paid for itself in spades,” Davis said. “When the block/barrel price spread is significant, we lever our flexibility and produce the highest value product, just as we do with our whey product flexibility.”

That’s the same thing now with the Mozzarella and Cheddar. We’ll know each and every month which market is a better market to be in, Mozz or Cheddar,” Davis continued. “We have had to over-capitalize to have that flexibility.”

### Conversion-Friendly Cheese Products

In addition to the stirred-curd Cheddar Jerome Cheese is making, Troy Ammann said the plant will have

• See **Jerome Adds Mozz**, p. 19

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## Jerome Adds Mozz

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the same packaging flexibility as Lake Norden with the Mozzarella and Provolone.

"It's 20 pound blocks in totes, 10 and 20 pound blocks in cases, 6 pound loaves, 8x6 pound loaves per case," Ammann said.

The company has also incorporated a new 3.5 inch diameter by 34" long round Provolone, specifically designed for cheese cutters.

"It allows the cutters to become more efficient," Ammann said. "It's for the slicing category. It's a unique product our end-users are excited by."

"We strive to do things right," Davis said. "We pride ourselves on quality and convenience, 100 percent natural dairy products, high quality cheese, fantastic service, at a competitive price. We leverage the magic of milk, so it's natural attributes resonate in the finished product, and we won't compromise producing all natural cheese."

An offshoot of Jerome's convenience and competitive pricing is the ability to offer combined loads.

"Right now we have a lot of customers buying shreds who want a half-load of Cheddar and a half-load of Mozz," Ammann said. "We couldn't supply the Mozz competitively because we have to ship it over the mountain to get it here. Now we can open a lot more doors. Now we can make it all in one plant. Nine pallets of Mozz shred? Nine pallets of Cheddar shred? Blends? Sure. It's easy."

### Idaho Milk Production

Davis remains optimistic about the milk supply in Idaho, despite the recent announcement that the yogurt manufacturer, Chobani, will be a neighbor relatively soon.

As 2011 progressed, Idaho saw a slowdown in milk cow expansion and only modest increases in milk production.

"The feed economics are the biggest driver of milk production leveling off in Idaho," Davis said. "If you analyze the economics of an Idaho dairy farm, the variable that is different today, versus 2002, is the price of feed delivered to the dairy farm. Milk prices have trended up over the last 13 years. Idaho has grown so much over the last 15 years but has slowed over the past three. It's all about the corn and the feedstuff prices and the hay prices, that's what has tempered the growth and if we don't get a change there, we'll continue to see the tempering. If we could get the feedstuffs down to 2004 levels, you'd see 6-8 percent increases."

### Plant Design

The company designed the plant to be able to shift production in order to get the best return. The company won't run any more milk initially, yet has allowed for the operation to double size.

Davisco converted three cheese coolers and part of its original barrel room into 50,000 square feet of Mozzarella cheese processing area, Ammann explained. The converted space became a cooker/stretcher and molder room, brine room, packaging room, and mechanical utility space.

Jerome added a new 60,000 square foot cheese cooler to replace the cooler space it consumed with Mozzarella processing along with adding some extra cheese storage capacity.

"With the addition of the Mozz line, we're considerably closer to being able to double the throughput of the facility," Ammann said. "Within this project we allowed the square footage necessary to add upstream equipment (pasteurizer through cheese belt) that it would take to run the Cheddar line and Mozz line in tandem."

### Davisco Foods International

Davisco Foods is a family-owned international cheese and food ingredient company headquartered in Le Sueur, MN.

It had its beginnings in 1943 when Stanley Davis purchased the St. Peter Creamery. Davisco is managed by Stanley's son Mark Davis, current chairman of the board, and his four sons, Mitch, Marty, Matt and Jon, who was named president and CEO of the company, this week.

The company processes over 4 billion pounds of milk and makes nearly 400 million pounds of cheese a year.

Being located near a bigger milk shed, as well as efficiencies created by a larger plant, allows Jerome Cheese the flexibility to react to the marketplace and shift production year in and year out.


The Le Sueur operation manufactures 65 million pounds of cheese out of 830 million pounds of milk. Besides Cheddar varieties, Le Sueur makes Monterey Jack, Parmesan, Romano, Asiago, Muenster, Gouda and Brick in 40 pound blocks.

Le Sueur is the company's oldest cheese plant but Jon Davis said he is very happy with the production there and believes those products there will continue to grow.

"We're content with the product mix at Le Sueur with a lot of the hard Italian cheeses," Davis said. "We feel very confident that our strategic partner, Arthur Schuman, is well positioned to continue to grow that category."

Lake Norden, SD, is the company's newest cheese plant; ground was broken for the plant in 2002. The plant's throughput is nearly 1.18 billion pounds of milk. Some 120 million pounds of Mozzarella and Provolone are made there every year in various packaging styles.

With Lake Norden and the flexibility at the Jerome plant, Davisco's Mozz production could exceed well over 300 million pounds someday.

"We may make more Mozzarella than Cheddar by 2013. But you never know, we might be making more Cheddar than Mozz in 2014." 

## In Move To Increase Efficiency, Tillamook To Move Some Cheese Packaging Operations To Two Co-Packers

**Tillamook, OR**—The Tillamook County Creamery Association (TCCA) announced last Friday that it will move some of its packaging operations to two co-packers to cut, wrap and distribute Tillamook cheese.

In recent years, the Tillamook brand has grown not only in the Pacific Northwest, but also nationally, TCCA noted. However, as the Tillamook brand continues to grow, it becomes more challenging to efficiently service its customers located outside of the Northwest region. Over the past year, TCCA analyzed the logistics and supply chain costs surrounding the transportation of its cheese.

TCCA determined that its current model was very inefficient due to the number of miles it moved its cheese before it arrives at a customer and the high transportation costs associated with each mile.

"Because our distribution network was in Tillamook, we would literally make cheese at our factory in Boardman, OR, then ship the cheese back to the Tillamook factory to age, then ship the cheese to a facility in Mountain Home, Idaho, to be shredded and sliced, then ship the cheese back to the Tillamook factory to be warehoused and distributed to our customers, and then in some cases the cheese would be shipped back to Idaho to our customers there," said Harold Strunk, TCCA president and chief executive officer.

"So you can understand the inefficiencies this process was creating,"

he pointed out. Boardman is about 235 miles east of Tillamook and about 300 miles northwest of Mountain Home; Tillamook is about 500 miles from Mountain Home.

TCCA is moving some of its packaging operations to two new co-packers that have facilities that are more centrally located to its growing customer base.

**"So you can understand the inefficiencies this process was creating,"**

Harold Strunk,  
TCCA

This move will improve operational efficiencies, reduce the time to market and the associated costs, making TCCA more sustainable as a farmer-owned cooperative. As a result of this decision, TCCA announced last week to its farmer-owners and employees a reduction of packaging positions at its Tillamook facility beginning next month.

TCCA is estimating a reduction of 50 packaging operator positions. This does not necessarily mean that 50 individuals will be directly impacted; through normal attrition and retirements, the number of people directly impacted may be less than 50.

"Sending a portion of our cheese to be packaged in another facility was a hard decision to make, knowing the impact it will have on our employees, their families and the entire Tillamook community, but we must continue to pursue growth that will make our company strong to sustain the livelihood of Tillamook farmer-owner families," Strunk commented.

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