

Dignitaries, Officials Cut Ribbon On Southwest Cheese



International, national and local dignitaries, with Southwest Cheese officials, cut the ribbon officially opening one of the largest cheese plants in the world. Included in the ceremony and in the photo from the left are Irish Ambassador Noel Fahey, US Sen. Jeff Bingaman, Wayne Palla, vice chairman of the board for DFA, Maurice Keane, CEO & President of SWC; NM Governor Bill Richardson; NM Sen. Pete Domenici; NM Rep. Tom Udall; Clovis Mayor David Lansford, John Moloney, group chief executive of Glanbia plc, Michael Walsh, Mike McCloskey, chairman of SWC.

With Southwest Cheese Running Near Capacity, Leaders Eye International Market, Increased National Cheddar Consumption; Displacement of Other Cheddar Manufacturers May Occur

Clovis, NM—Commercial disappearance of American-type cheese since 2003 has grown by about 135 million pounds. So where will an additional 250 million pounds of this cheese per year go?

While those commercial disappearance numbers don't appear outstanding to some, it was enough to make an investment of \$190 million in a joint venture for Glanbia plc and the Greater Southwest Agency to capture that market.

Jeff Williams, president and CEO of Glanbia Foods USA, said there were a number of factors, including growth in the American-type sector, that his company saw that would support the investment.

Williams said he has seen the commercial disappearance in the 6 percent growth area for the first two quarters of this year. "That is extremely good growth."

"American cheese output is a 1.6 million metric ton market," said John Moloney, group managing director of Glanbia. "It's very big. It's growing at 1 to 1.4 percent per annum, in terms of commercial disappearance. Or about 32 pounds per capita consumption."

Williams said the company also looked at the growth of cheese in relation to the population growth. He said that would contribute to about a 1.2 percent growth in consumption.

Finally, Glanbia paid attention as manufacturers in other areas of the country moved out of the commodity, American-type cheese styles. The company felt that it could fill the void of that production.

"We looked at the rationalization of the other cheese processors, primarily in the Upper Midwest, that are rapidly moving into speciality cheeses because of the cost of milk and not being able to compete with Western growth," Williams said.



Moloney said those factors, if focused on, will build the base of a very competitive and sustainable business environment.

The dairy industry is changing, said Tom Camerlo, chairman of Dairy Farmers of America, which with Select Milk Producers, Zia Milk Producers and Lone Star Milk Producers makes up the Greater Southwest Agency.

"Milk production is moving from East to West. And it is also consolidating," Camerlo said. "We also need to, quite frankly, close some of the smaller plants out in the East, which we've done and build partnerships like with Glanbia out here in the West so we have some place for this milk."

Mike McCloskey, chairman of Southwest Cheese, said the New Mexico and West Texas areas will continue to grow, projecting over the next three to four years, possibly a 5 to 6 percent growth in milk output.

"New Mexico is now number seven in the country in milk production," McCloskey said. "And I think before the year ends, we'll be number six; we're going to pass Minnesota."

In the 1990's, tired of transporting milk across state lines and ultimately taking some of the value out of the

milk they were producing, the cooperatives came together to form the Greater Southwest Agency.

Today 100 percent of New Mexico milk is marketed as a single unit, McCloskey said.

"We all work together as a cooperative to maximize the returns," McCloskey said.

"This phenomenal growth that was occurring (in the late 1990's), there was a need to go out and find someone to partner with us to process this milk."

"As we developed our relationship with Glanbia and realized we were going to go ahead with this, to me it was a monumental task that lies ahead to create a cheese plant that is the largest Cheddar cheese plant in the US. That's quite the venture for dairy farmers."

McCloskey admits that to do a venture of this sort was a bit scary. "We understand the business of milking cows, we're not processors."

Initially the plant was to run about four million pounds of milk by now. That's milk that had been going to the Upper Midwest, Williams said.

"We knew once we flipped the switch we would have three million pounds of milk that was available, Williams said.

When Glanbia began looking to expand its business, the company looked for areas with good growth.

"We looked at the forecasts and we haven't been disappointed in those forecasts with output growth and terms of the quality of producers," Moloney said.

Glanbia now has US production facilities in Idaho and in New Mexico. And as Moloney put it "in terms of cheese and whey located now in two of the highest growth areas in the US."

Currently, SWC is producing at close to full capacity of 250 million pounds of cheese per year.

"We're looking at volumes of seven million pounds of milk a day" said Maurice Keane, CEO and president of Southwest Cheese.

"Production of whey is about 16 million pounds a year of very high-value whey ingredients," Keane continued.

"Clovis is an ideal location for the plant due to the fact that it is right in the center of a strong milk supply area, which naturally will also reduce transportation costs for farmers," commented McCloskey.

The new production facility is estimated to have an economic impact of \$1.2 billion annually, said Keane.

Exports

Moloney felt since 80 to 85 percent of the dairy products in Ireland are exported it gave Glanbia a different perspective when it comes to exporting to international markets. Moloney said it also fit well with the "ambition" of the US dairy industry.

"This plant has a significant international dimension. Because only about 7.5 percent of US milk is marketed overseas. We think that this plant can contribute to the develop-

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ment of exports from this region on an international basis," Moloney said.

Camerlo agreed with Moloney, saying DFA was very interested in the international market, and believes the milk in the West is very competitive.

Already, Moloney said, SWC has exported cheese and whey to Mexico, Africa, South America, Asia and European markets.

Moloney said that demand will determine how much cheese Glanbia can market overseas.

"It will be a function of demand," Moloney said. "It is strong in Asia. It will also be a function of the level of output of cheese in Australia and New Zealand. You will probably see Australia's output declining because of severe weather. Therefore we would see options for marketing cheese into Latin America, Mexico, North Africa and others."

Down the road, Moloney would like to do a certain amount of export-

ing but it is not a requirement. "I would say 5 to 10 percent would be a reasonable objective for us to sell overseas."

Collaboration

Under the 50/50 joint venture, Glanbia is responsible for day-to-day management and operation of the SWC plant and for the sales of all cheese and whey produced. The milk is supplied from the Greater Southwest Agency.

"We are proud that our world scale, state of the art facility was completed on time and to budget in October 2005, followed by a successful ramp up during 2006," said Keane. "SWC has built a strong team capable of delivering world class performance in an ever-changing marketplace."

Camerlo said that in five to 10 years the Southwest Cheese partnership will be a model for what future operations will be like. You'll look at this plant "as one of the major changes in the industry. Cooperatives working together to market their milk in a partnership with an international company like Glanbia that has markets worldwide," Camerlo said. "That's the model you're going to see more and more. Not only in this country but globally."

Williams agreed that you will see

more operations like the SWC partnership, saying the relationship between supplier and processor in the industry is like no other business.

"The investment is so huge, the risks so huge. And the farmers are getting bigger and they want to move up the value chain," Williams said. "It also allows for us processors to share some of the risks."

Rick Smith, DFA's chief executive officer said it's been exciting to see the partnership project come to fruition.

"DFA continues to grow and as we continue to grow we need to develop markets for our members' milk," Smith said.

Camerlo likes the efficiency and partnership at SWC.

"This type of operation, this partnership we have adds value to every pound of milk a dairy farmer ships," Camerlo said. "You can put your milk in a lot of places but if you put your milk in a modern plant like this the returns are phenomenal".

Globaly, Moloney thinks the partnership is needed to compete on the world's marketplace.

"As we go forward the competitive set that exists between large scale processing and large scale farmers will be one that leads to success in the years ahead," Moloney said.

Displacement

We are grateful, Smith said, that demand for cheese is growing. Smith thought much of the cheese produced at SWC will be absorbed by that demand.

"I also believe that the efficiencies that have been created down here are probably going to cause a shift on how some other companies decide to go to market," Smith said. "So you might have some smaller, less efficient commodity, American-cheese operations deciding to shift into other products. Because of the quality of product and possibly because of the lower costs produced here."

Smith said the cheese made at Southwest Cheese will not impact directly any of the DFA plants throughout the US. "The impact on the DFA plants will be like the impact on the rest of the American cheese industry," he said.

Nor will it affect any of the cheese plants that Glanbia operates, Williams said.

Williams said Glanbia is trying to streamline its cheese sales. He said the 640-pound styles produced at SWC add to the mix with offerings

to the marketplace.

"640s give us another product in our portfolio from a customer standpoint who are interested in slicing."

Production from the plant, coupled with output from its cheese plants in Idaho, brings Glanbia to the position of number one US producer of American-style Cheddar.

Williams said the cheese made at SWC complements the Idaho operations.

"What we are looking at is how we can best sell the mix of product from the customer standpoint. As energy costs go up, transportation gets to be a bigger and bigger piece of the overall cost," Williams said. "We want to make sure we are maximizing reducing the costs of transportation so we can continue to compete against the Upper Midwest. Because as those premiums (in the Midwest) for milk drop and energy costs go up our competitive advantage disappears."

With another major cheese plant scheduled a few hours away in Dalhart, TX (Hilmar Cheese), there still isn't any worries for Glanbia.

Citing McCloskey's expectation of a 5 to 6 percent growth of milk produced every year, Williams said "if you calculate what that means in terms of pounds, it's a large cheese plant probably every couple of years. At that point we'll have to compete on the marketplace but not so much for a milk supply."

What that means on the markets and the marketplace may continue to cause ripples throughout the US industry.

"We don't feel threatened, particularly on the barrel side because the barrel demand is still good and the supply is really tight," Williams said. "I would guess in the next few years there will be very little barrel production in the Upper Midwest; it will primarily be in the West."


As Smith points out, if you have an increase of cows, you're going to have an increase in milk production and that will have an affect on the markets.

"But we don't look at what's going on with the markets themselves being a function so much of this specific factory or some other factory," Smith said. "The industry and the markets adjusted as this plant came on line. In some case I believe the low cost nature of this facility will cause current manufacturers of commodity, American cheese to maybe think about going into something different."

With the plant already nearing 85 percent capacity and 54 acres of land, it is expected that SWC will expand pretty quickly. All of the cheese being produced is being sold and the projected goal of \$340 million in sales to both national and international markets is expected to be met in the near future. •

Plant Statistics

Groundbreaking: February 2004
Dimensions: Plot: 54 acres. Plant: 340,000 sq. ft; Milk Processing: 300,000 sq. ft; 35,000 sq. ft of milk processing plant suspended floor; 15,000 sq. ft in six ancillary buildings; 60 miles of stainless steel piping above ground and 742 miles of electrical cable above and below ground.
First Tanker: October 2005
Full Capacity: 2.5 billion pounds of milk annually
Daily: Seven million pounds of milk. 140 tankers
Manufactured Products: Cheddar, Monterey Jack, Colby, Pepper Jack and Mozzarella cheeses. Whey protein products
Styles: 40 and 640# Blocks; WPC 80 and WPI
Daily: 40,000 pounds of cheese every hour; 275,000 pounds of whey per day
Equipment: 15 60,000 pound CPS-Scherping HCVs; 14 CPS Wincanton block towers, 2 CPS-Scherping belts; Realcold cooling system; Millerbernd 640 conveying line. Five Filtration Engineering whey processing systems.
Employees: 200



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