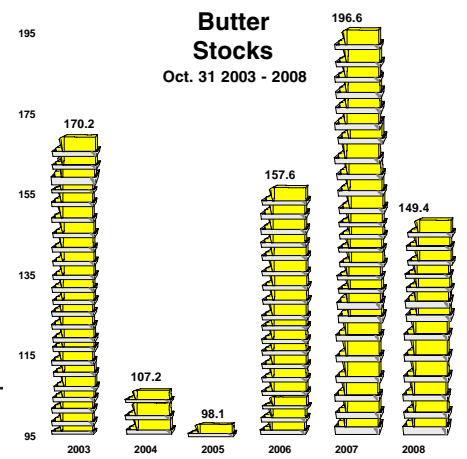




# CHEESE REPORTER

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## Economic Crisis Hampering Dairy Now, But Long-Term Outlook Solid

### Global Dairy Prices Expected To Keep Falling; EU Urged To Re-Introduce Dairy Export Subsidies

**Washington**— The international economic/credit crisis could keep world dairy markets depressed for most of 2009, but long-term factors should rouse demand by 2010, according to a “Webinar” presented last week by the US Dairy Export Council (USDEC).

The economic meltdown and credit freeze pinched demand at a time when global milk supplies were on the rebound, noted Matt McKnight, USDEC’s vice president of export ingredient marketing and industry affairs.

“First we saw consumer spending slow this year due to strong inflation. As a result inventories increased,” McKnight explained. “Then the credit freeze made it difficult for companies to finance existing stocks and to finance new purchases, so buying slowed dramatically.”

The recovery in dairy demand will depend, to some extent, on the length and depth of the global recession. But McKnight said the “struc-

tural trends are still intact: population growth, westernization and urbanization will continue to drive global dairy consumption.”

Once consumer demand picks up again, buyers will come back into the market and contract for pipeline needs, he predicted.

New Zealand, Australia, Argentina, Brazil and the European Union (EU) are all poised to increase dairy exports over the next year as production increases, according to Ted Jacoby III, vice president of cheese sales and risk management for T. C. Jacoby & Co.

When supplies get long, as they are now, New Zealand will “aggressively hit the first bid and lower prices because they have no choice; the product must move,” Jacoby explained.

The US, by contrast, has a much larger domestic market and mechanisms in place, both government and commercial, to carry inventories in times of excess, Jacoby noted. In this environment, US dairy exports could decline in 2009 “as much as 25-35 percent.”

Prepare for a “bumpy ride” in the global dairy markets in 2009, said

Deborah Perkins, managing director of Rabobank International’s Food & Agribusiness Research and Advisory group.

In the first half of 2009, global dairy prices are “likely to overshoot going down and go much lower than anyone was expecting,” Perkins said. But demand will recover as retail price inflation slows, economic stimulus packages take effect and credit becomes more available.

“Longer term, there is reason to be optimistic,” Perkins said. Low-cost producers from New Zealand, Australia and South America face constraints that will limit their ability to satisfy all of the eventual demand growth, which means the market will have to attract higher-cost supply and commodity prices will have to return to a higher trading band.

“There is a definite role for the United States to play. Not just in balancing the market but in becoming an important supplier to the market,” Perkins said.

Meanwhile, in response to a 24-percent drop in international dairy

• See **World Prices Soft**, p. 16

### Dairy Is Safest Food Category, CSPI Review Of Foodborne Illness Outbreaks Finds

**Washington**— A pound of fish and shellfish is 29 times more likely to cause illness than the safest food category, a pound of dairy foods, according to foodborne-illness data analyzed by the Center for Food Science in the Public Interest (CSPI).

After dairy, produce was found to be the second safest food category, followed by pork. CSPI’s findings are published in its annual *Outbreak Alert!* report.

This specific finding is based on the relative number of foodborne illnesses linked to outbreaks caused by various food categories, adjusted for consumption, from 1999 to 2006. Since dairy was the lowest risk food category per serving consumed, CSPI set its rate of illness as “1” in order to facilitate a comparison between categories.

Produce rated a 4, followed by pork at 8, beef at 11, eggs at 13, poultry at 15 and fish and shellfish at 29. Even when not adjusted for consumption, CSPI’s database has more seafood outbreaks, 1,140, than for any other food category, followed by produce, poultry, beef and eggs.

Foodborne illness outbreaks are primarily investigated by state and local health departments, CSPI noted. These local officials sometimes call on the federal Centers for Disease Control and Prevention (CDC) to help investigate large or multi-state outbreaks.

The CDC is also responsible for nationwide surveillance of outbreaks and for tracking new and emerging pathogens. But many, perhaps most, outbreaks “fall through the cracks” because states are not required by law to report foodborne illness outbreaks to the CDC, the report said.

Attributing outbreaks to specific foods is difficult for many reasons, the report continued. The majority of outbreak investigations at the local and state level do not identify both the food and the pathogen.

The outbreaks also provide researchers with very little informa-

• See **Dairy Is Safest**, p. 4

### Consumers Have Distinct Mild Cheddar Preferences; Color, Cooked/Milky, Whey And Brothy Flavors, Sour Taste Favored: Study

**Chicago**— There is wide variability in the flavor of mild Cheddar cheese and variability in consumer preferences for mild Cheddar, according to a new study.

Mild Cheddar cheeses in the study were diverse in flavor with many displaying flavors typically associated with more age.

Four distinct consumer clusters were identified. The key drivers of liking for mild Cheddar cheese were found to be: color, cooked/milky, whey and brothy flavors, and sour taste.

*Consumer Preferences for Mild Cheddar Cheese Flavors* was published in the November/December issue of the *Journal of Food Science*, which is published by the Institute of Food Technologists.

Authors of the study were S. L. Drake and M. A. Drake of the

• See **Mild Cheddar Flavors**, p. 15

### Iowa’s Green Meadows Starts Making Cheese, Announces Plan To Double Output

#### Partnerships, Opportunities Take Green Meadows To 160 Million Pounds of Cheese

**Hull, IA**— With the first vat of cheese still curing in on-site coolers, and the whey facility not quite operational, Iowa’s new Green Meadows Foods (GMF), has set its sights on doubling its cheese and whey production, company officials said here last week.

The new cheese plant, which made its first vat of cheese on November 4, will have startup capacity of 80 million pounds of cheese a year. The plant will process 2.5 million pounds of milk per day.

Green Meadows officials have already announced plans to add another 2.5 million pounds of milk a day and double its cheese output to 160 million pounds of cheese a year.

“We plan on doubling our production by the end of 2010,” said Tim Czowski, general manager of GMF. “With the help of our cheese

buyer, Masters Gallery Foods, our future plans for growth are readily achievable.”

Shep Ysselstein is the owner and founder of GMF. He, with his wife, Natalie, also run a 7,000-head dairy farm nearby.

Ysselstein said he began exploring the possibility of a cheese facility after recognizing the need for additional processing options in the region.

Ysselstein’s dairy along with some local producers will provide approximately 20 percent of the milk processed at GMF.

The rest of the milk will be drawn from Land O’Lakes in a 100-mile area that includes Iowa, Minnesota, South Dakota and Nebraska.

A study titled *Economic Contribution of Green Meadows Cheese Manufacturing Plant To The NW Iowa Economy* (see page 7), documents the economic impact of the facility to the region at \$437 million annually.

• See **Green Meadows**, p. 8

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## Green Meadow

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The report also noted that the facility would need the milk of 80,000 cows to operate both phases of the cheese plant.

Ysselstein said he believed finding the milk wouldn't be a problem.

"The region, from Sioux Falls down to Sioux City, is on the radar of members of the dairy industry across the country because of its prime location for growth," Ysselstein said.

**... closures, growth of cheese sales, freight costs, feed availability and the need for domestic production... makes it sensible, even necessary, for Masters Gallery Foods' growth."**

—Jeff Giffin, Masters Gallery Foods

He said the I-29 corridor is an excellent area and very conducive to grow milk production. The area's farmers have an abundant supply of "cost-friendly" animal feed.

"We believe there is a tremendous room for growth here. And it's going to come."

### Building a Team

The Ysselstein family has been in the dairy industry for many years. But by his own admission, Shep Ysselstein had no experience in the cheese industry at all.

"Shep has a talent for looking into

the future," Czmowski said. "He has an incredible ability to look past an obstacle."

Czmowski said Ysselstein took a weakness and made it a strength.

"He stepped in and found out who and what the industry is. He compiled a staff and built a team of people that the industry recognized."

That staff included Czmowski, who has over 25 years in the dairy industry working in such organizations as Land O'Lakes, Valley Queen, and Tetra Pak CPS.

"Not only does Tim have the experience, capabilities and management skills we were looking for," Ysselstein said, "but people just like him and want to work with him."

One of those people was Daryl Larson, who is the company's director of operations. A veteran of the industry with 33-plus years of experience at DFA, Leprino, and for 24 years at Land O'Lakes, Larson and Czmowski first worked together over 20 years ago at the LOL plant in Pine Island, MN.

In addition, the company hired Shaun Hooth, formerly of Valley Queen, to be the company's cheese plant manger; and Vern Landeen, most recently with Protient, as whey plant manager.

What started as a weakness ended with a combined total of over 200 years of experience in 12 positions at Green Meadows Foods.

### LOL, Masters Gallery Partnerships

Another area of familiarity with the new management team that helped the company was in its cheese sales and milk supply.

Past working relationships with Czmowski and Larson were enough for Ray Cherry of Land O'Lakes to sign a long-term agreement to provide Green Meadows with milk.

"We have a longstanding relationship with many members of Green Meadows management team and a high level of trust and understanding," Cherry said. "That's one of the reasons we started talking about doing business together."

And before even a pound of cheese was made, GMF had sold all of its cheese production to Masters Gallery Foods in Plymouth, WI.

Jeff Giffin, president of Masters Gallery Foods, said that anytime you enter a business venture, especially one so large in scale, you're sure to have doubts. However, it didn't take too long for him to realize Ysselstein's intentions paralleled Masters Gallery's business plan.

"Shep's vision of the future dovetailed with our vision," Giffin said. "Over the months we developed the plan, our confidence in him grew. Shep and Masters Gallery Foods were in unison."

With agreements for milk and the purchase of the cheese in place, GMF could relax and focus on the engineering and construction of the cheese plant.

"Those being in place allowed us to take the plunge and make the



Cutting the Ribbon:  
(From Left to Right) Tim Czmowski, Shep Ysselstein, Natalie Ysselstein and Daryl Larson cut the ribbon during grand opening ceremonies before a large contingent of media, as well as perhaps the entire city of Hull, IA

decisions we made to increase the plant's size," Czmowski said.

Czmowski said the original plan for the dairy operation was really about one-fifth of what it really ended up being.

"The master plan for the plant was there, but we filled in the details along the way as the project progressed," Czmowski said. "The plant got bigger as opportunities came."

### Bullish On Cheese

GMF and Masters Gallery Foods have very optimistic viewpoints for the cheese industry.

"Dairy products deliver value to the consumer from a price, nutritional, taste and fun standpoint," Giffin said. "The avenues cheese enters the marketplace (foodservice, retail, snack, etc.), are diversified, and all growing. We see further growth for our industry and think the future is bright."

Green Meadows will produce 11 different varieties of cheese for its customer, Masters Gallery. Half of the production will be in American varieties, while the other half will be made into hard Italian varieties.

Giffin said the need for the cheese produced by GMF was created from "well-publicized closures of several American-style cheese plants" that had been supplying the company.

"We have worked very hard to have our domestic cheese suppliers understand that our intention is that this new cheese supply will not affect our current cheese suppliers," Giffin said.

"We are not 'robbing Peter to pay Paul.' Overall, closures, growth of cheese sales, freight costs, feed availability and the need for domestic production for imported cheeses, makes it sensible, even necessary, for Masters Gallery Foods' growth as well as industry growth in general," Giffin said.

### Plant Built For Flexibility

"We've built this cheese plant for quality and flexibility of the variety," Czmowski said. "We don't need to focus on one thing. If the demand is high on one cheese, we can go down that path."

Larson says that flexibility and the way the plant was designed to create

efficiencies will be the true test for success.

"A cheese plant that is properly set up to the kind of efficiencies that we're going to have, with the right product mix will be successful," Larson said. "We'll be as efficient as any plant in the country. And we'll have a product mix that affords us some extra premiums both on the cheese side and on the whey side."

Green Meadows hasn't committed to any style or variety for phase 2 of the cheese operation. Masters Gallery is committed to buying all of the phase 1 production.

"We look forward to growing our relationship with Masters Gallery on phase 2 production," Czmowski said.

**"We'll be as efficient as any plant in the country. And we'll have a product mix that affords us some extra premiums both on the cheese side and on the whey side."**

—Daryl Larson

"The interior of phase 2 cheese plant is wide open," Czmowski said. "Obviously we're focused on getting phase 1 running. We are about 75 percent of the way on phase 2 for whey plant design and capacity. But for right now, with phase 2, we'll let demand and our partners dictate where we'll go."

Czmowski believes Green Meadows will displace some of the imported cheese from other countries with the company's production. "Half of our cheese production is actually displacing imports from other countries," he said.

Giffin agrees. "The domestic industry was not able to supply some of the cheese types we will be making at Green Meadows Foods," Giffin said. "We saw an opportunity to produce imported-type varieties domestically."

Giffin says Masters Gallery is cognizant of freight costs, which, they

• See **Green Meadows**, p. 9



### At A Glance

#### Annual Production:

**Phase 1:** 80 million pounds of cheese  
47 million pounds of whey

**Phase 2:** 160 million pounds of cheese  
94 million pounds of whey

#### Milk Processed Per Day:

**Phase 1** 2.5 million pounds

**Phase 2:** 5 million pounds

#### Cheese Produced:

Aged and Mild Cheddar, Monterey Jack, Colby, Colby Jack, Pepper Jack, Reduced Fat; Parmesan, Romano and Asiago

**Equipment:** 8 60,000 pound Tetra Pak CPS cheese vats; Millerbernd Process Design 640 cheese conveying line; Relco drying equipment; CFR filtration equipment

**Size:** Nearly 200,000 square feet.

#### Employees:

**Phase 1** 85 **Phase 2:** 130

#### Economic Impact To Region:

**Phase 1** \$437 million annually

**Phase 2:** \$848 million annually



**Green Meadows**

Continued from p. 8

feel, long term are a risk to all businesses.

Czmowski feels cheese demand will continue to grow.

Czmowski also said Green Meadows has seen a great deal of interest in the company's whey products that he says are unique and highly functional.

"The combination of cheese demand and our whey products puts us on the cutting edge for a new plant start-up. We are confident that high-quality products will always sell."

Czmowski told a grand opening crowd of people who filled the massive four-bay milk receiving area, that an announcement was soon pending on an agreement where all of the whey products produced has been sold and would be marketed by an industry partner.

**Growth In Midwest Dairy Industry**

Both Czmowski and Land O' Lakes milk procurement manager Steve Sneer painted a picture of the Upper Midwest dairy industry as previously being a mature industry.

**"The combination of cheese demand and our whey products puts us on the cutting edge for a new plant start-up. We are confident that high-quality products will always sell."**

—Tim Czmowski

"Those of us working in the dairy industry realized that about six years ago the Midwest dairy industry was really in trouble," Sneer said.

He said that plant expansions and milk growth were going up in other states that included California, Idaho, New Mexico and recently Texas.

"We weren't seeing that here in the Midwest," Sneer said. "There wasn't any money put into infrastructure. We had aging production plants that weren't efficient and milk production was declining at an alarming rate."

Sneer said it looked like the Midwest industry was just going to wither away. "But then we got pretty involved" with our state leaders and a lot of other people in the industry and we've turn this around.

"Today the I-29 corridor is seeing an incredible increase in milk supply. We're seeing a lot of expansion of dairy farms and a lot of new dairy farms coming into the region," Sneer said. "The only problem now is we're running out of processing capacity. Green Meadows opens the door for us to continue the expansion of the dairy industry here in this region."

Dennis Kasuboski of Masters Gallery Foods said he has cheese

**A LOOK INSIDE GREEN MEADOWS**



Daryl Larson said the equipment suppliers and contractors were some of the best he's ever worked with in his 33 years in the industry.

1) CFR built the filtration equipment that will produce 94 million pounds of WPC 80 and other functional whey products. 2) Millerbernd Process Systems' 640-pound conveying and handling system will allow Green Meadows to make 640's. GMF also has towers for 40-pound blocks. 3) 8-60,000 Tetra Pak CPS vats will make 80 million pounds of American and Italian type cheese.

buyers that were very happy to have cheese made in the Midwest.

"This (Green Meadows) is a big shot to the Upper Midwest," Kasuboski said. "All of the customers that I went to to sell the product were really excited about the ability to buy cheese out of the Upper Midwest."

He said that bodes well for the company and the region.

Masters Gallery currently buys in excess of 200 million pounds of cheese a year, according to Kasuboski. The company will add another 80 million pounds from Green Meadows this year.

**Plant Design And Vendor Contributions Recognized**

Larson said when he decided to join Green Meadows and when he was told the start-up date was November, he was concerned about getting it done on that timeline.

The plant was built in 11 months. Larson said that couldn't have been done if not for the incredible effort and the cooperation shown by other vendors.

"I've built a lot of parts of plants," Larson said. "This is the first one from the ground up, but I've never seen a group of vendors who have worked together like these guys."

Because the size of the operation grew so drastically, it was imperative that the vendors were flexible.

"At times we were changing

things on the fly," Larson said. "With a different group of vendors, I doubt that would have been possible."

Larson describes the plant: "Obviously it is state-of-the-art equipment and it provides for a lot of flexibility. We can use a stir curd machine or DMC. The whey plant is as state-of-the-art as there is. A great product mix to start with and a lot opportunity to grow into higher end whey products."

The focus is shifting from design and start-up to making cheese and whey. You get the feeling it was never work for these people at Green Meadows. Czmowski and

Larson have been friends for over 20 years.

Czmowski and Larson both have reiterated again and again about the "incredible teamwork with a unified goal" everyone involved provided.

"It's been a lot of fun. We've accomplished what we set out to do. We're still working through the completion of phase 1 and we're planning the design for phase 2, but we're seeing the light at the end of the tunnel," Larson said. "This won't ever be work for us. We'll run it as a business, of course, but we're really enjoying ourselves as well." r

**Congratulations**

 **Green Meadows Foods**

**On your Grand Opening Celebration and successful completion of phase 1 of your cheese and whey operation.**

**Masters Gallery Foods is proud to be your cheese marketer.**

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