



International Dairy Foods Association
Milk Industry Foundation
National Cheese Institute
International Ice Cream Association

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Dairy Forum Breakfast Keynote Speech
January 18, 2010
Phoenix, Arizona
Title: "Unleashing Our Potential: Creating Certainty in Uncertain Times"

Last January, we inaugurated a new President of the United States of America with the biggest inaugural celebration ever witnessed in our nation's capital.

My husband Tip and I live just a few blocks from the U.S. Capitol Building, and I can tell you it was a truly electric day in Washington.

But after the speeches were given...after the parades ended...and after the partying stopped, it was time for President Obama to get down to the brass tacks of dealing with the many tough issues facing our nation. And I do mean tough – the worst financial crisis since the Great Depression, the war in Iraq, the growing turmoil in Afghanistan, and an ambitious agenda for policy change.

We bailed out General Motors and many banks with a major infusion of our tax dollars.

And yes, we flushed money out into the economy via some good initiatives like the first-time homebuyer's program, but also some quirky ones like "Cash-for-Clunkers." Of course, there were cynics. One wag suggested the real purpose of the Cash-for-Clunkers program was to make sure that if you lost your home, you'd still have a car to live in. Ouch!

On the other hand, a lot of people believe that these incentive programs have helped jumpstart our economy and gotten us back on the road to recovery. And we're starting to see a few promising signs that the ice is finally melting. Let's keep our fingers crossed ...and our policymakers accountable.

Of course, in 2009, we've got more czars in Washington than they ever had in Russia; some 32 czars in total. We may even have a few czarinas. And while the White House is apparently fond of czars, it's clear they don't think much of lobbyists. But we're a pretty tough-skinned lot.

Regardless, our job is to remind the Administration that communication is a two-way street; and that leadership is more about the ability to inform and educate than it is about the impulse to mandate.

We've witnessed the messy months-long, partisan work of our Congress grinding out health care reform legislation, and the process hasn't always been pretty or transparent.

There's been too much heat and smoke and not enough light on the subject. But that didn't stop the Senate from several middle-of-the-night votes just before Christmas. I guess it took this kind of theatrics to actually get the 60 votes.

In the dairy world – our dairymen have lived through a year of devastating milk prices – the result of a steep decline in the global economy. Our dairy exports dropped like a rock, and on domestic demand, we've had to cope with belt-tightening by consumers as the jobless rate vaulted past the 10 percent panic point for the first time in more than 25 years.

Vice President Joe Biden probably said it best when he quoted his grandfather recently: “When your brother-in-law's out of work, it's a recession. When you're out of work, it's a depression.”

The economic pain knew no bounds and spread from Wall Street to Main Street and across our dairy farm community. This spurred interest in government assistance, which came in many forms.

Unfortunately, this federal assistance was often – to use the old phrase – a day late and a dollar short.

But it showed us one thing very clearly: our so-called safety net programs for our dairymen don't work in today's market economy. These programs are out-of-date. They are frayed and full of holes. They just can't measure up to do the job that's needed....the job they were intended for.

This is important for all of us to acknowledge and remember. Our industry cannot just merely survive. It must manage better through the inevitable boom-and-bust cycles.

We need better solutions. We need new solutions. We need innovative solutions.

Warren Buffet once said, “Should you find yourself in a chronically leaking boat, the energy devoted to changing vessels is likely to be more productive than the energy devoted to patching leaks.”

Which brings me to the theme that underlies much of what you'll hear at this year's Dairy Forum – unleashing the potential of free enterprise in the U.S. dairy industry. The bottom line: Our industry's potential lies not in government programs, but in our customers, present and future, here and abroad.

We must discard the tired notion that government can do a better job than buyers and sellers. We must free ourselves from the policies of the past that have tied us down like Gulliver by the Lilliputians. We must overcome obstacles to innovation. And we must make sure we have the proper tools to thrive in the marketplace.

Winston Churchill observed, “Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon.”

I don't know anyone in this room who shirks from responsibility or doesn't know what it's like to do an honest day's work. You roll up your sleeves and get the work done. Many of you have built or continued to run strong family farms and businesses. Others represent some of the top talent business can buy.

Regardless, we're not the Wall Street crowd, expecting fancy bonuses for some wheeling and dealing while producing nothing. We represent the best and the brightest of the U.S. dairy industry.

We've all heard that somewhat overused phrase, when the going gets tough, the tough get going. Well, let's not let it get any tougher – let's get going!

That's what Tom Camerlo would have wanted. That's how Tom lived every day of his life until he lost his battle with cancer last month. Tom was one of our industry's most remarkable leaders. He chaired the National Milk Producers' Federation Board for two decades and served as DFA's chairman since 2003. Tom was always willing to reach out to others ...to extend his hand of friendship. There were many issues and occasions when Tom's leadership made a difference across the entire dairy industry. He will be sorely missed. So, today I ask you to please join me in a brief moment of silence to remember our good friend and colleague Tom Camerlo.

Thank you.

You'll also hear this morning about research that spares us the blind alleys and shows us the promising avenues to a more prosperous future for our dairy industry. You'll hear a lot about how we can best take advantage of those opportunities. You'll also hear during the next three days varying points of view on what our next steps ought to be.

But keep in mind what our 7th President, Andrew Jackson had to say. He was fond of quoting Napoleon Bonaparte when the time for discussion was over: “Take time to deliberate, but when the time for action arrives, stop thinking and go in.”

Suffice it to say, we represent an industry with great potential, so let's look ahead, not just to next year, or two years from now, but into the next decade and the next generation when we consider which programs and policies will best unleash the potential of the U.S. dairy industry...and what actions we must take when it's time to “go in.”

In my time with you this morning, I would like to talk about some of the dramatic changes coming our way from the Obama Administration and Congress. Then, I'd like to share some specific thoughts on dairy policies, programs and our market potential; and how we can unite to make sure we're in charge of our own destiny. Finally, I'll wrap up with a little discussion about product innovation and the importance of keeping our free enterprise system alive and well... and flourishing.

On the Administration and Congress, let me just say that never before has so much money been committed in government spending. After pushing through a \$787 billion stimulus package and a \$410 billion spending bill for the fiscal year that ended in September, Congress passed Mr. Obama's \$3.6 trillion budget for 2010.

This year, government spending will account for more than a quarter of the country's gross domestic product, a post-World War II high.

In fact, the Office of Management and Budget recently estimated that net federal debt will nearly double from \$5 trillion in 2007 to \$9.9 trillion by the end of 2010 – and that's without any further spending expansion – which unfortunately seems inevitable.

I was talking a few weeks ago with a *Wall Street Journal* editorial writer who is an economist, and he told me a story about when he was an economic advisor in the Reagan Administration.

President Reagan had sent the first-ever trillion dollar budget to Capitol Hill and Katie Couric was calling to do an interview with someone from the Administration. This guy, Steven Moore, was picked to represent their views in the interview. So he studied everything in the budget and thought he had all the pertinent facts down pat. He'd never gone on camera before and was nervous, so he wanted to be sure he had all the answers.

And there he was sitting in the studio with Katie Couric when she asked, "I just have one question for you. How many zeros are in a trillion?"

He froze. This was a question Steven hadn't prepared for – but after a moment he came up with the answer which he's never forgotten. It's 12 zeros – a million millions are a trillion.

It's very hard to comprehend all of this spending. And the Federal Reserve keeps printing more money to keep our economy going, creating a much weaker dollar.

Now, I'm not an economist or financial wizard, but even I can see this doesn't necessarily bode well. Consider the current rush to buy gold. Increases in gold purchases are always triggered by fears about the economy. We're still waiting for the "other shoe to drop." We're still waiting to see just how low the dollar, the euro, the pound, the ruble, the yen – you name it – can go, like some crazy monetary limbo party.

This kind of fiscal angst and hesitation hinders future planning here, and around the world – whether with your personal finances or your business. And that kind of uncertainty doesn't create new businesses or boost employment rates or encourage spending or risk.

Another challenge to getting our plans right for the next generation: the flood of new regulations, taxes and mandates that appear to be moving closer to becoming the laws of our land.

We saw an incredible effort in Congress to push through health care reform. Even the majority party was divided. The public, especially seniors, responded with apprehension to possible cuts in Medicare services. And the great middle class foundered with regard to what it sees as a moral imperative to extend coverage to “have-nots” while not jeopardizing the security of those who are currently satisfied with their coverage.

And the big question remains: “Who’s going to pay for it?”

Every policy shift has its winners and losers when it comes to picking up the tab. In this case, the choices are limited: taxpayers, businesses, service providers, patients with private plans, the current beneficiaries of Medicare – or some combination of the above.

Someone has to sacrifice so that others can benefit. The dilemma turns on the ways that added costs to businesses – or diminished benefits to specific constituencies – may recalibrate our current economy and health care system.

The challenge is that modification to the health care system may harm vulnerable economic sectors in ways they cannot afford.

There are businesses and industries that simply cannot weather additional costs in an increasingly competitive and regulated marketplace. Our industry is not immune to these risks. So we have a real stake in what comes out of this very political process in Washington.

Even closer to home for dairy foods companies, food safety legislation was passed in the House last summer and reported out of committee in the Senate in November. This is certain to become law in the next session of Congress – which starts this month – and will be implemented over the coming months and years. The food safety bill has bipartisan support and has received considerable input from food industry associations, including IDFA.

But, even though our food industry has an excellent food safety system already in place, the rare and infrequent recalls from the industry’s bad actors have caused devastating financial problems for many food companies...and let me emphasize, through no fault of their own.

We saw this most recently with the Peanut Corporation of America recall – which harmed many dairy businesses, especially ice cream companies and their ingredient suppliers. It's sad to say that some are still recovering from these losses. The new legislation will expand even further FDA's regulatory authority to require everyone to have food safety plans, with preventive controls and procedures in place to monitor the effectiveness and to take corrective action when needed.

These food safety procedures are nothing new to the dairy industry. We have made the case that this new legislation should not duplicate or dictate changes to our already highly-successful food safety programs. But as this legislation develops, we have many concerns that it will exceed what's actually needed. We have concerns that it will give FDA too heavy a hand in areas that are not related in real and substantial ways to improve food safety.

We have opposed, for example, giving FDA unrestricted records access and new reporting requirements that could expose proprietary information without the necessary safeguards. They don't need this keyhole to our operations.

We have also pointed out that consumer groups have tried to tarnish our food safety record by including statistics on food-borne illnesses caused by raw milk and unpasteurized dairy products. Yet, these same consumer groups are unwilling to apply the new safety requirements to the providers of these raw products. What's that old chestnut about the goose and the gander?

Is this fair? —No.

Is it logical? —No.

Can we change it? —Yes.

How? —If we work together.

As Henry Ford said, "Coming together is a beginning. Keeping together is progress. Working together is success."

We need to keep pushing Congress if we want to ensure the upcoming food safety legislation is fair. We need to oppose unnecessary new regulations and unjustified fees that will only add to your costs without benefiting the customers you serve. Jack Welch had it right when he said, "Control your own destiny or someone else will."

On another front, the discussion of diet and nutrition has largely become a dangerously simplified prescription of do's and don'ts that do little to inform and educate, but make politicians and pundits feel like they are guiding Americans to better health.

Fortunately for us, milk and dairy products are packed with nutrients, not just empty calories – yet we're often caught on the defensive as fat, sodium, or sugar become the centerpieces for these diet and nutrition policies *du jour*.

But make no mistake about it. These policies have far-ranging impact. Consider the more than \$80 billion spent by USDA annually on food stamps and nutrition assistance programs. This covers one-in-three infants born today, and more than nine million people in the WIC program.

And then, there's the ongoing discussion about putting foods into "good and bad" categories, and applying these to everything from the food pyramid to new advertising and marketing restrictions at the Federal Trade Commission.

These notions don't stop at federal programs either. States and localities are increasingly enacting new nutritional policies that affect what our kids eat, and what information we see on food labels and in restaurants.

Here's one recent example. Congress came up with the brilliant idea of putting taxes on sweetened beverages to reduce their consumption. Unfortunately for us, this included chocolate milk – a childhood staple and an American icon right up there with ice cream cones and dipping Oreos in your milk.

This needless congressional meddling has contributed to an increasing cacophony of voices that say kids should get only skim white milk. Is there anyone in this audience who doesn't believe that many kids will simply stop drinking milk altogether? As the kids would say, "Duh."

The soft drink industry spent over \$7 million on ads and lobbying in the last quarter to counter this. Speaking up for chocolate milk, MilkPEP and DMI launched a campaign focused on the nutritional benefits to kids of offering chocolate milk. Nearly 70 percent of the milks consumed in schools today are flavored milks, and 7 percent of all milk sales are in schools.

The bottom line is that flavored milk offers the same nutrients as white milk, including a number of nutrients that kids are increasingly not getting enough of, such as calcium, vitamin D and potassium. This is science...evidence-based research... proven facts...and a perfect example of how, in the unattainable quest for an ideal, policymakers too often make the perfect the enemy of the good.

This is a critical issue and one that could very well resurface when Congress considers reauthorization of the Child Nutrition Act this year. And whether you're a dairy producer or processor, this is an important market to fight for.

Moving over to energy and the environment, the threat of cap-and-trade and what that could mean for our industry is real...too real That's why the efforts on dairy sustainability spearheaded by DMI and the Innovation Center for Dairy are so critical to the next generation of dairy producers.

At the recent global conference in Copenhagen, USDA announced a Memorandum of Understanding with the Innovation Center that will help advance many of these sustainability projects for the dairy industry.

The DMI Sustainability Option focuses on the twin goals of reducing greenhouse gas emissions and growing the dairy business by meeting unmet consumer demand. Thirty percent of U.S. consumers now buy products based on health and sustainability attributes – a segment that accounts for \$227 billion in purchasing power.

What this means is that many consumers – who see themselves as stakeholders in the environment and in social justice – are now becoming stakeholders in the dairy industry as well. They are choosing to buy dairy products that reflect “green values,” that understand the importance of “grown local” campaigns, and that incorporate the principles of health and wellness.

For dairy producers, this is not just about changing marketing “pitches,” but about changing basic processes and priorities. According to DMI, the Sustainability Initiative is designed to “increase dairy sales through innovation opportunities that promote health and wellness, and preserve natural resources.” The translation is less formal but more to the point: unless we change the way we do business, our customers are going to do less and less business with us.

Of course, our challenges don’t end on the home front. Although we had some higher expectations, the wheels of free trade have come off, at least temporarily, with this Administration and Congress.

Like a struggling football team, action on free trade agreements with Panama, Colombia and Korea slowed to a relative standstill with little sign of forward progress. They seem to be unable to get a first down, let alone put the ball in the end zone.

But other countries keep moving on bilateral agreements and this threatens us in more ways than simple competition for new markets ever could. Let me give you an example.

In the recent EU-Korea free trade agreement, Korea has agreed to the EU’s geographic indications for cheeses that we have fought so vigorously against in the multilateral trade talks. This now sets a precedent that could make our fight more difficult.

Our potential as an industry and as a country lies in developing new markets for our products. And vigorous international trade is a critical prerequisite to developing those markets. After a banner year in 2008, our exports were down in 2009, along with the global economy, but 2010 looks more promising.

USDA’s latest trade outlook for 2010 projects U.S. dairy exports up 10 percent with U.S. prices more competitive, since global prices have staged a dramatic recovery. Further, the recent decision by the EU to sharply curtail export subsidies has provided a significant

boost to global dairy prices and, hopefully, will mean the days of export subsidies are numbered. That's the good news.

The bad news is that our dairy policies still hinder our industry from achieving its full potential in global markets. The dairy product price support program, for instance, encourages investment in facilities that produce nonfat dry milk for an assured buyer – the government – rather than encouraging retooling or building new facilities that can serve markets for higher value dairy proteins with new and existing customers. We must change this...and we must change it together.

As an industry we must marshal our collective resources to address these challenges. There are many issues where we work with others, like the Grocery Manufacturers Association, and occasions where we have united with National Milk Producers Federation on food safety and nutrition issues, to have a stronger, more effective and unified voice for the industry.

Always, as issues emerge and evolve, we invite your ideas and involvement in creating the best scenarios and outcomes for this industry.

In regard to shaping specific dairy policies and programs, however, we have the chance to be real leaders, sitting in the driver's seat, instead of simply reacting and adapting to the changes coming our way.

As *The New York Times* critic and reporter, Brooks Atkinson, once wrote: "This nation was built by men who took risks – pioneers who were not afraid of the wilderness, business men who were not afraid of failure, scientists who were not afraid of the truth, thinkers who were not afraid of progress, dreamers who were not afraid of action."

And that's a perfect segue to my good friend, Jerry Kozak, president of National Milk Producers Federation. Jerry has taken the risk of laying out a common sense, comprehensive plan for reformatting policies and programs. It deserves a very serious look by everyone in the U.S. dairy industry.

The plan includes scrapping some of the programs that don't work as farm safety nets – such as the dairy product price support program and current payments under MILC – because these don't adequately address price pressures at the farm in today's more global dairy economy.

Instead, the plan calls for a program that can help farmers when income doesn't keep pace with costs.

It also recommends eliminating the make allowances and some of the more cumbersome provisions of the federal milk marketing order program. These changes would allow the marketing order program to become a valuable source of more market information and market transparency, so farms and companies can better manage market changes. And

better risk management tools would be helpful, too. The devil is always in the details, but the ideas in Jerry's plan have real merit and merit your serious consideration.

It will take strong leadership to try to forge a way to make these bold changes – by National Milk, by IDFA, and by farms and companies across our nation that want a brighter future for the U.S. dairy industry. But make no mistake, these changes are definitely worth working for; they are definitely worth your support and your help.

Yes, these changes will affect different businesses in different ways, depending on the size, type and location of each one of you, but as they say in baseball – you can't steal second base and keep your foot on first.

Scrapping unworkable programs and policies means abandoning the status quo, taking risks, even inviting opposition, but we need to agree on an industry-wide game plan, and we need to do it now.

So, what are we playing – offense or defense? If it's defense we should consider the words of hockey great, Wayne Gretzky – “You always miss 100% of the shots you don't take.” We need to be aggressive and forward-looking, we need to be on the offense and take our shots.

The U.S. dairy industry has a chance in 2010 to re-chart its future, to build a better, stronger, more cohesive community, energized at last by genuine teamwork and breakthrough thinking.

That means confronting, not just external, but internal challenges as well – factionalism, rivalries, and the kind of “me first” choices that too often capsize that “team” advantage.

Here's the real truth-of-the-matter, offered up in the words of my favorite Green Bay Packers Coach, Vince Lombardi – “Individual commitment to a group effort – that's what makes a team work, a company work, a society work, a civilization work.”

A big idea. Ignore it at your own risk.

Another important lesson learned is that the dairy industry, producers and processors, must cater to our consumers. They are the alpha and the omega for a robust and growing dairy industry.

Fundamental to our success will be how well we compete for the consumers' palate – at home and around the globe. We need more people eating dairy and choosing dairy ingredients – and that means we'd better know what consumers are thinking and what's tickling their taste buds.

U.S. trends in the past year have moved toward more eating at home, a surge in popularity of private label products, knowing where your food comes from, more fiber and protein, back-to-the basics and healthy eating.

“Watch-outs” include the notion that if a food is processed it’s “bad,” or that all foods should be evaluated on the basis of fats, salt, sugar, or calories.

We also have dramatically changing consumer tastes – as well as a drive for policy changes – that reflect new consumer attitudes. Some of these consumer trends present genuine opportunities for dairy – things like functional foods for digestive and heart health, or the rise of Vitamin D as a “super nutrient.”

Consider this. *FoodBusinessNews* reported last month that the digestive health product segment accounted for 68% of sales of functional foods in Europe. This market share is predicted to perhaps double in the coming year – likely showing us the way to grow in these areas as well.

Or, it might be super proteins to build muscle, or milk for recovery after exercise. It also could be countering consumer concerns about unrecognizable ingredients, just as Häagen Dazs did by touting just 5 simple ingredients, or taking advantage of the popularity of antioxidants by including pomegranate or blueberry in yogurt or cheeses.

Dairy foods also are turning out to be an excellent carrier of fiber, both soluble and some insoluble fiber, ingredients now in the marketplace. The importance of fiber to overall health is well documented, yet more than 9 out of 10 American adults and children do not get enough fiber, according to a USDA study.

But products like Wells’ Dairy’s new line of frozen yogurt novelties are touted as being a good source of fiber, as well as containing probiotics that “may help support immune and digestive health.” The fiber in Dannon’s Activia is another good example.

Formulating with ingredients that boost fiber levels on the Nutrition Facts can be an effective marketing tool. Now that consumers are reading fiber contents on product labels, make sure your fiber content label doesn’t read zero or you could be zeroed off the shopper’s grocery list.

We’re also going green in more and more ways. Recyclable and minimal packaging is of growing importance, as is buying fresh and local. There’s more focus on animal health and practices on the farm, whether it’s to reduce methane or improve cow efficiency and cow health.

Here’s another one to think about. Population shifts, including the rapid growth of minority populations, have contributed to the globalization of foods in the United States, and this includes the introduction of creative savory sensations.

Consumers are exploring what’s new, focusing on ethnic, global and unique foods. They are seeking extreme bursts of flavor and flavor combinations that are not typically sweet. This interest in savory is fueled by a well-traveled generation that has been influenced by Asian, Caribbean and Middle-Eastern cuisines, as well as the impact of the growing Hispanic population with its array of peppers.

Savory dairy foods today are generally hotter and more complex than in the past. The opportunities are infinite, and dairies should be seeking out savory flavor combinations from abroad in order to make them domestically available.

There are dairy companies out in front in all these areas, but we need more of this innovation. We can't afford to go mentally stale. We must always be on the lookout for the next game-changing product.

Companies must also be increasingly looking to new markets and new consumers and developing products that fit their different lifestyles and tastes. It's not just a matter of finding and developing these markets – we must become reliable suppliers, and, again, that will mean policies and programs that enable companies to better manage price fluctuations. “Skate to the puck” – another Gretzkyism.

Earlier I mentioned unleashing the potential of free enterprise. Ask yourselves, are you pulling that wagon of free enterprise, or have you been getting a free ride?

If it's the latter, it's time to get out of the wagon and get involved in markets, in policies, and, yes, in politics. It is our responsibility to do the right things for the future of our families...our businesses...and our industry.

We should take the lead shown by the U.S. Chamber of Commerce, which recently launched a multi-year, multi-million dollar campaign to promote free enterprise. I think this comes at just the right time. I would urge all businesses to sign up as partners in this campaign. There's information on our website and it doesn't cost anything.

I'm sure, like me, you want to make sure your kids and grandkids have opportunities similar to those we have enjoyed, and perhaps even greater opportunities.

Never forget all of the good fortune we have as Americans. We live in a democratic country – with a small “d” – with all of the rights and freedoms bestowed upon us by our Constitution. We can make this country and this industry what we want it to be – but we have to do it together.

In this season of football playoffs, it's hard to resist, again, the insights of Vince Lombardi. His advice almost sounds simple...too simple. But Lombardi knew that you start from the bottom up, with players who may join for individual gain, but who stay because they've become a critical part of a winning team.

Lombardi said, “The measure of *who we are* is *what we do* with *what we have*” – practical advice for lobbyists and industries aiming to influence legislation.

He also said, “The only place success comes before work is in the dictionary” – a simple truth we need to take away with us from this meeting.

So, how do we unleash our full potential?

Get involved in what's going on with government and the dizzying policy changes being proposed, whether it's on health care, food safety, climate change or the dairy programs and policies that we must address to realize our full potential as an industry.

Recognize the strength that comes from being on the same team and working together. And innovate to create a more dynamic industry with, ideas, products, ingredients and packaging that will meet consumer needs around the globe.

We have no choice but to move forward, not automatically, because there is no other direction open to us, but deliberately, because we have chosen to take on the tough challenges ahead.

We have no choice but to confront the current policy climate, and to demonstrate our resolve by moving forward with what we have. And we have no choice but to work together, because as Lombardi points out, it's the only way we can progress...the only way we can win... the only way we can realize the kind of success we all know is possible... the success that is within our grasp.

Thank you and enjoy the Dairy Forum.

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