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

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Connie Tipton, President and CEO
Dairy Forum Breakfast Keynote Speech
January 24, 2011
Miami, Florida
Title: "Capturing Our Greatest Potential"

Good morning and welcome to Dairy Forum 2011. It was terrific to hear from two national leaders, last night and this morning, but now it's time to focus on dairy.

I think it's only fitting that we hold these meetings in January. After all, even though many of us have already broken a few New Year's resolutions, this is the time when the pages of the calendar are full again… and full of promise and opportunity.

Slowly, but with increasing certainty, the days grow longer. We look forward instead of backward. We begin new sessions of Congress. We think of new possibilities and potential. We dream of breaking down old barriers and boundaries, and of blazing trails into exciting new territories. Indeed, it was in January 1803 when President Jefferson set into motion the Lewis & Clark Expedition, one of the most famous and important expeditions in our nation's history.

The beginning of the year is also the time for choices…sometimes hard choices…sometimes courageous choices.

It's not the time for "could-have, should-have, would-have" or ruminating about what might have been.

The oddest of odd couples of all time, Robert Frost and Yogi Berra, each spoke about choices in their unique way – the former about the road not taken, and the latter about when coming to a fork in a road, take it.

Seriously, we have all witnessed in our own lives and those played out on the world's stage how one right chance…one right choice…one right decision for the future can irrevocably change and shape not only that person's life and trajectory, but also countless others around him or her.

Ronald Reagan comes to mind. Few people remember that Reagan was a Democrat and campaigned as a Democrat for Republican Presidential candidate Dwight Eisenhower in 1952 and '56.

Then-citizen Reagan was spokesman for General Electric. However, as he increasingly warmed to conservative political views, GE got cold feet. They finally fired him in 1962 when he called the TVA an example of big government. That very year, he decided to change his voter registration to the Republican Party. As the old chestnut goes, nothing would be the same again… for Ronald Reagan…for American politics...for our Nation… and for the world.

We too in the dairy industry have confronted many choices…some of our own making… and some that have been thrust upon us. In both cases, we have never flinched. We knew those choices would define our destiny, and that our destiny was in our hands.

Winston Churchill once said something that I believe speaks to the very spirit of this great industry and is relevant to today's conversation. Sir Winston observed, "Destiny is not a matter of chance, it is a matter of choice; it is not a thing to be waited for, it is a thing to be achieved."

When I took the reins as CEO of the International Dairy Foods Association in 2004, we were talking about a bold new vision for the U.S dairy industry… a real game changer. The industry was poised to burst forth from its domestic cocoon and become the platform for global dairy growth and innovation.

We looked at all of the foreign companies that had bought and built facilities here in the U.S. They did so because of our great dairy producers… their ability to grow… their high-quality milk and all of the infrastructure, innovation, science and technology available to them. We could help them provide new, better and more affordable products in a more sustainable fashion while, at the same time, getting better products to market faster than ever before.

A mere four years later, Tom Gallagher, who has provided strong strategic leadership for the industry at DMI, had the foresight to pull together industry players – both producer and processor leaders – into a new Innovation Center for Dairy.

Shortly thereafter, a globalization committee of that Innovation Center commissioned a comprehensive study of dairy supply and demand around the globe, including an assessment of opportunities for and threats to the U.S. dairy industry.

To me, this was one of the most exciting investments in our industry's future. Why? Because it challenged the conventional wisdom and what I like to call the 3-Ds: dangerous dairy dogma. As the scientist Stephen Jay Gould said, "Nothing is more dangerous than a dogmatic world view – nothing more constraining, more blinding to innovation, more destructive of openness to novelty."

The results of that Bain & Co. study were featured on a number of industry programs, including at last year's Dairy Forum. This comprehensive study identified a clear path forward where the U.S. dairy industry held the best advantage to capture and fulfill a portion of the worldwide demand gap that would exist over the next decade. But that report also showed that we could only grasp that opportunity by carefully streamlining our policies to better fit with markets, thereby providing incentives for growth and innovation.

Jerry Kozak at NMPF then picked up the baton. He took this notion of great opportunity for our dairy producers and stepped out with bold ideas for the policy reforms needed to make this promise a reality for the U.S. dairy industry. And somewhat magically, these ideas were right on target with IDFA's principles for dairy policy. It looked like the stars were aligned.

But as the old joke goes, "If you want to make God laugh, tell him your future plans."
One year later, came a worldwide economic crash the likes of which we haven't seen since the Great Depression. I am reminded of what the great English statesman and philosopher Edmund Burke said of times like these, "An event has happened, upon which it is difficult to speak and impossible to be silent." And we can't be silent on what the economic meltdown meant for the U.S. dairy industry…both in the short-term and for our long-term viability.

For our U.S. dairy farms, it was indeed a Great Depression, as not only did milk prices plunge as domestic and global demand plummeted, but the costs for inputs like feed and energy remained high…a vicious one-two punch that left many reeling…bloodied…and bruised. Dairy farm earnings, as well as equity, were seriously eroded, if not devastated.

For some, this economic tsunami became a wake-up call to have the government insulate our industry from ever again experiencing a year like 2009.

It's hard to say anything is an overreaction in the face of understandable desperation. Nevertheless, it's important to maintain a laser-beam focus and remember that good policy ideas for growth and innovation in our U.S. dairy industry remain the right way to go.

As I see it, the U.S. dairy industry is at a crossroads and the questions are these: Do we stay on the same road we're on now, or do we make a turn right or left? Where do these roads lead and what are the consequences of these decisions? Because every decision is burdened with consequences…sometimes good… and sometimes bad. And we have to take responsibility for the decisions we make.

This is such an important topic for our industry that I want to focus most of my remarks this morning on what I think the direction is that will allow us to achieve our greatest potential.

Right now, if the U.S. dairy industry were laid out as a game, it would be seen as one with too many rules…too many outdated rules…and too many restrictions rather than choices. The game board would also show that we lack the right equipment to make it through the tough market hits that come at us from ever-growing global forces.

I can't help thinking of the sports expression, "Don't hate the player, hate the game."

The report by Bain & Co. made clear that our world was changing and those changes seemed to be coming at us faster each year – as if they were shot from a fire hose. But the report also focused on opportunity and how to realize our greatest potential.

I recently went to a leadership conference put on by the feed industry and was particularly impressed by the presentation made by Chris Policinski, CEO of Land O'Lakes. I think we've all admired the leadership and management talent that Chris has brought to the dairy industry.

At this conference, Chris focused on the tremendous productivity growth in the U.S. agriculture sector. Always forward-thinking, he stressed the importance of improving and maintaining that productivity. And we do so by embracing safe, proven science and technology, with the result of providing greater food accessibility and affordability as well as enhancing environmental sustainability.

He went on to speak of our obligation – based on our resources and our ability – to lead the way in meeting growing global food demand as we have in the past. Think of World War II's aftermath when we literally fed a devastated Europe. But Chris also focused on the opportunities for U.S. agriculture, agribusiness and the food industry to translate increased global food demand into long-term, profitable growth for our Ag sector.

Here are the numbers, and they are staggering. The United Nations' Food and Agriculture Organization predicts the world population will grow from 6.8 billion people worldwide to more than 9 billion by 2050. And that global food production will have to increase 70 percent to meet this higher demand.

Here are questions for us to ponder: Do we run scared because of the hardships of 2009? Do we invest our time and efforts in asking the government to decide how and when our industry expands or contracts? Or, do we instead choose a path to make sure government does not keep us from attaining our own destiny?

As the wise, old Albus Dumbledore tells Harry Potter at Hogwarts, "It is our choices, Harry, that show what we truly are…."

Now, I'm a realist. And as a realist, I'm well aware that the elephant in the room is price volatility. But misery loves company. Every firm in every industry faces volatility in some important aspect of their business. Ask any business executive if they would favor a government solution that would eliminate volatility with absolutely no negative side effects. The only people who would answer "no" would be those who didn't understand the question!

But the fact is there is no such government-guaranteed solution without serious side effects. Never has been…never will be. It's a mirage…and instead of palm trees and oases, there are smoke-and-mirror promises of stability.

Countries whose governments have tried to make centrally planned economies work have failed ... and failed miserably. The former Soviet Union was the poster child for central planning and the butt of endless jokes.

There's the one about the Commissar who passes a huge line of people standing in front of a store. He tells his driver to pull over and asks the people what they're waiting for. They say, "Meat! We're waiting for meat. But there's no meat." The Commissar says, "It's dreadful you should have to wait like this and I'm going to do something about it right now." He speeds away and an hour later, a truck pulls up and unloads a hundred chairs. Hmmm. Sounds a bit like government dairy policy.

In all seriousness, the famous Austrian economist and philosopher F.A. Hayek summed it up best, "The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."
Every agricultural commodity has considerable price volatility, but commodities other than dairy have programs and tools to help navigate that volatility. They aren't saddled with government programs that actually exacerbate that volatility at times like we have in the U.S. dairy industry.

And policy complications we still struggle with in the U.S. have been abandoned by countries around the world as they focus on global markets.

So, I submit to you today that the path to a prosperous future for our dairy industry lies not in creating additional government intervention in our markets. Rather, it's by replacing our existing programs with those that protect our farms without forfeiting our opportunity for the future. Let's take the road well-traveled by other commodities, but less traveled by the dairy industry.

Certainly, "The Great Depression of 2009" that hit our dairy producer community so hard should not be taps, but reveille for our entire industry. Now more than ever, we need to wake up. We need to work together to make sure we have the policies and tools necessary to manage our way through price swings and market volatility so that survival is not in question. This is not a go-it-alone proposition. We definitely need each other for individual as well as collective success. And we need more than mere promises of cooperation…we need coordinated action.

In this regard, I applaud Jerry and NMPF for developing a plan of action on dairy policy changes that they can take to Congress. I'm happy to report that IDFA members are in agreement with much of that plan, and we look forward to working together to bring about necessary changes for our collective good.

In fact, I'm quite optimistic about the future of the dairy industry. This is not cheerleading. This is the first time that we've ever been this close to finding a package of reforms that can actually work for the industry and help us achieve our collective goal of sustainable market growth.

As we look to the upcoming Farm Bill negotiations, it's clear that many ideas will be on the table for ongoing debate and discussion. But, in the end, we all know that it is the agriculture committees in Congress that will determine the final details of future dairy policy. Over 40 representatives from a variety of states serve on the House Agriculture Committee, half of whom are brand new to the committee, and about 20 senators serve on the other side of the Capitol. This group will forge agreement after months of discussion and negotiations, so let's not fool ourselves that what we go in with will come out the other end of the process.

The stakes in this political process are high, and results that will make our industry stronger are critical. That's why it's so important to begin the debate with a firm grasp of the principles that will guide us to the right results.

So, we will enter the discussion and debate on Capitol Hill with our principles for dairy policy well in mind and held high.

After all, policies may change, but principles never do. And principles provide an excellent frame of reference for evaluating the policies.

As an example, while working on policy positions for the 2008 Farm Bill, IDFA and its members agreed to a set of principles for a 21st century dairy policy, and those principles remain unchanged today. Although they were written three years ago, they are as fresh and vibrant as ever. We steadfastly continue to believe that:

- Dairy policies and programs should provide an effective dairy farm safety net based on farm income or milk margin;
- Dairy policies and programs should have a competitive orientation focused on fostering innovation and growth;
- Dairy policies and programs should be consistent with enhancing demand rather than controlling prices and supply; and
- Dairy policies and programs should be supportive of trade expansion.

Jimmy Carter once said, "We must adjust to changing times and still hold to unchanging principles." I agree with that statement and believe it to be true for our path forward on dairy policy.

And speaking of the political arena, who can believe that just two years ago we put President Obama and the Democrats in charge and now, a short two years later, that's all turned upside down? Earlier this month, 87 new Republicans were sworn in as members of the House of Representatives and 13 new Republicans in the Senate. Total new members make up 20 percent of the 112th Congress. A big change.

But the upheaval in our world isn't just political. Crises are happening all over the world – earthquakes, mudslides, floods, clouds of volcanic ash – and in Washington, D.C. last winter, we had back-to-back blizzards in February with enough snow to close the federal government for four days – well maybe that last one wasn't such a crisis.

At any rate, it's not just the dairy industry that's been reeling.

The Wall Street Journal reported in September that a staggering eight million home loans were in some state of delinquency, default or foreclosure. We've even added a new word to the lexicon of economic misery… "underwater"…and many are drowning.

About 11 million residential properties have mortgage balances that exceed the home's value – and that's predicted to go higher, possibly leaving as many as 40 percent of American homeowners with mortgages in excess of the value of their homes. I know our dairy farmers can empathize with this economic pain.

Let's face it – all is not right with the world. And while I hope … as we all do …that these major factors shaping our future can get back on track, we must focus on those things in our immediate world where we can have the greatest impact.

And we have the responsibility to carefully analyze the different turns we might make – the changes in rules that can make the difference for all of us to capture our greatest potential. But analysis must beget action. We must have the guts to move in the right direction.
Let's delve a little deeper into some of our greatest opportunities -- growing markets, a robust U.S. milk supply, and product innovation through better science and technology.

As well as our greatest threats – things like a lack of tools to manage risk, and policies or programs that could impose limitations on our industry growth.

First up: Market Growth. I've touched on this a bit, but we see it everywhere. For several years now, we've been watching China gobble up an increasing volume of U.S. dairy exports. That's the headline grabber. But greater demand for dairy is not just about the world's most populous country.

There's a love affair with dairy around the globe. To paraphrase Jimmy Buffet, it's not only changes in attitudes, changes in latitudes… but also a cheeseburger in paradise… and maybe some pizzas, tacos, subs, desserts and snacks, too.

Domino's Pizza Australia recently signed an exclusive supply deal to source cheese for its outlets in Australia and New Zealand from Leprino Foods, and that cheese will be made here in the United States and exported to Australia.

The U.S. Dairy Export Council reports U.S. cheese exports to Japan grew 117 percent to over 8,000 tons through the first seven months of 2010. A big reason for the gains is that Japanese buyers have grown more accustomed to U.S. cheeses and appreciative of their exceptional qualities.

A shade to the west, South Koreans consumed five percent more dairy products through the first six months of 2010 than they did during the same period the previous year. The U.S. Dairy Export Council reports the value of US shipments to South Korea during that time jumped 87 percent to $63.5 million.

And these trends will continue to grow as more and more foodservice chains with western-style offerings expand into more and more countries. Here are some recent eye-popping examples.

International Dairy Queen plans to add about 270 new stores in China by the end of 2011, raising its total number of Chinese units to more than 500. China represents the company's fastest-growing – and second-largest global market.

Quiznos signed a master franchise agreement with Brazil's QSR International to expand into Argentina, Chile and Ecuador. QSR already operates 99 Quiznos stores in the Caribbean, Central

America and South America. The new deal calls for 30 additional locations as part of a major Quiznos push toward overseas expansion.

Yum Brands' franchisee M2G Ltd. plans to open 30 Taco Bell stores in South Korea over the next three years and 100 over the next six. Recently, Deutsche Bank forecasted that in five years, Yum Brands will generate twice as much revenue from China as it does from the United States. I have one word…Wow.

We don't only have to look overseas to see growth in dairy consumption. Today, every American consumes about 33 pounds of cheese per year, an increase of over 18 pounds since 1975 when we consumed less than 15 pounds. Another example, U.S. per-capita yogurt consumption has increased more than fivefold since 1980 to about 13 pounds today; but that's nowhere near the levels in many European countries, like France where per-capita consumption of yogurt is nearly three times greater at over 38 pounds.

The U.S. dairy industry has a proven track record of growing our milk supply to meet that market growth. USDA estimates that U.S. farm milk production was 192.8 billion pounds last year, exactly 50 percent greater than in 1980. And where has that growth occurred? In states such as New Mexico, where 2010 saw more than 12 times the milk produced there in 1980. And look at Idaho, known more for its potatoes, where milk production increased 500 percent over that same time period.

And why? Our industry has had the confidence to invest in that growth without fear that our government would close the door and not allow milk production to grow to meet the demand to reward those investments.

Our member companies are also looking in new directions for product innovations, packaging and marketing and welcome ideas and partnerships with industry suppliers. And the International Dairy Show in Atlanta this September is a great place to find those new ideas and partners.

U.S. consumers are attracted to foods from other countries, like Greek, Lebanese and Swiss yogurts. Specialty cheeses, domestic and imported, are booming. Pepsi and Danone have announced growth strategies that include the dairy industry. Danone recently bought Unimilk, the second largest dairy and juice company in Russia, and Pepsi followed suit with the purchase of Wimm Bill Dann, the largest dairy and juice company in Russia.

These companies have launched their "good for you" food initiatives in developing countries because the demand is strong and government control of prices is minimal. And we desperately need to make sure we have a developing dairy industry here in the U.S!

A lot of U.S. companies "get it." For those counting their daily salt content, Sargento has launched six varieties of cheese with 25 percent less sodium than in its traditional cheeses.

And Blue Bell launched an all-natural Strawberry Fruit Bar made with 45 percent real strawberries. It contains 50 percent of the daily recommended allowance of vitamin C and is only 70 calories. You've got to love that combination.

Dreyer’s Grand Ice Cream also offers a Fruit Bar brand, with acai and pomegranate as popular flavors. On-pack messaging highlights the product’s antioxidant properties, along with the fruit and vitamin C content.

I could go on with examples of probiotics, products with added fiber and Omega 3s, as well as great new packaging ideas and equipment improvements that save energy, lengthen shelf life and preserve food longer.

It’s obvious that all of these product innovations – whether through new science and technology, or from paying close attention to market trends – improve the sales and marketing opportunities for dairy products and enhance profitability for the industry.

On the other hand, let’s examine the threats. Listen to this sober assessment.

"It’s the volatility in prices – and margins – we have under the current system that has the greatest negative impact on farmers."

That's a quote from Jerry Kozak, late last year in Cheese Market News – and I agree with him.

I agree that milk prices are volatile, and that’s been extremely tough on everyone in our industry, especially producers. But I don’t agree on what we should do about it.

Government controls may sound tempting … the siren song promising to take away risk that eventually leaves you dashed upon the rocks. The reality is that market factors are pretty darn hard to control and politicians steering those controls are even more unpredictable.

It’s a simple fact that we are more susceptible to global market conditions now that our industry has become a bigger player in global markets. Dairy prices have taken on greater variability similar to the experience of other commodities that have grown in international trade. All of our U.S. commodity markets are volatile – and many are more volatile than dairy – yet they have policies and programs to provide an ability to manage through the volatility. But what is the difference?

We’ve talked about this before. In dairy, we actually have programs that stand in the way of engaging in conventional price risk management practices, such as forward contracting. Imagine if you can, the grains or livestock groups asking for mandatory government supply regulation because they want price volatility to go away. It just wouldn’t happen.

Milk producers currently have some risk management tools available to them and great strides have been made in facilitating access to them, but more needs to be done…a lot more. USDA currently offers a Dairy Livestock Gross margin program which provides protection for producers against declines in their margins.

But the program is hardly utilized. Why? The answer is pretty simple. It’s complex and costly compared to the benefits it provides. That’s why IDFA supports a new, improved margin insurance program to replace programs that no longer work, like the dairy price support program.

The sooner we can get margin insurance protection for our dairy farmers, the more stable our industry will be.

Outside of USDA's risk management programs, the futures and options markets at the Chicago Mercantile Exchange Group have come a long way since their inception in 1993. The volume of traded contracts has increased significantly and there’s also a small but growing private sector marketplace in over-the-counter instruments for managing dairy risk.

Most dairy producers, regardless of size, can also manage risk by forward contracting milk with their cooperative or proprietary plant in much the same way grain producers can forward price corn, soybeans or wheat with a local elevator.

Yet with all these different tools available, comparatively few dairy producers are hedging their risks compared to producers of other agricultural commodities. So there is more to the equation…more questions behind the numbers… and they have to do with our underlying milk pricing policies.

Congress held numerous dairy hearings over the past two years to look at the issue of price volatility and market experts went on the record stating that our antiquated Federal Milk Marketing Order pricing system is holding back producers from using modern, market-based risk management tools.

That is why IDFA advocates simplifying the federal orders into a two class system. This is not a call for wholesale deregulation mind you. While we have agreement in principle with NMPF on this, we haven’t yet been able to close the deal.

We need to all rally behind a simplified pricing system that we know will allow traditional futures and options markets to thrive and foster the greater use of forward contracting. But the idea of trying to reduce volatility on a macro, market-wide level through supply limitations is heading in the wrong direction.

Okay, it’s time to do a rack-up… and to me it’s very clear. We are at a crossroads, and I challenge each of you to think critically before signing onto any "package deal” as the debate is just beginning to unfold. And remember, the final decisions are in the hands of politicians, not industry.

Ask yourself this question: “For each individual new policy or government program you're asked to endorse, will it increase or decrease a producer’s ability to manage risk and grow our markets?”

And, before you cling to any old policies…the old beaten path that may lead to nowhere…ask yourself whether the underlying policies are contributing to our ability to manage risk, or just holding us back from reaching our full potential?

We have an opportunity as an industry to change the game, to move from an industry focused on protection and limitations to an industry focused on growth, affordability and profitability. Again, as Churchill said, the choices we make and the chances we take determine our destiny.

So, as we begin to make the case for and against policy proposals being debated for the future of U.S. dairy, IDFA and its members will continue to push for changes that are based squarely on our principles.

The process will span the next 18 to 24 months, and we expect that there will be many competing ideas. As FDR said, "There are many ways of going forward but only one way of standing still." But it has been said that whenever two good people argue over principles, they are both right. And certainly, there are members of Congress and others who hold different principles than those IDFA has articulated.

But out of this months-long discussion and debate, new dairy policies will emerge. There certainly will be areas of compromise as the final deals are struck, but our entire industry will have to live according to the new law. As I mentioned earlier, the stakes don't get much higher than that.

I hope while we're all here at the Dairy Forum we can learn and share ideas on the many issues that face us.

Let me close this morning by saying we look forward to a cooperative approach to developing the policies that will allow the U.S. dairy industry to achieve its greatest potential. But more important than getting along is getting it right. That is the most important goal for us all.

As I think of the decision we face… of which path to follow to reach our greatest potential…I can't help but coming full circle to Robert Frost's poem, "The Road Not Taken" which begins:

> "Two roads diverged in a yellow wood"
>
> But which is most well known for its ending:
>
> "I shall be telling this with a sigh
> Somewhere ages and ages hence:
> Two roads diverged in a wood, and I –
> I took the one less traveled by,
> And that has made all the difference."

Thank you for joining us at the Dairy Forum…and always remember …when you come to a fork in the road…take it.